For the vast majority of people in the United States, economic growth has become little more than a statistical sideshow, largely disconnected from their paychecks. This is starkly illustrated in the figure below, which shows how income growth has become more inequitably distributed with virtually every subsequent economic expansion during the postwar period.

In the 1949–53 expansion, the overwhelming majority of the income growth went to the overwhelming majority of the people—the bottom 90 percent of the income distribution. After that, the bottom 90 percent’s share of income gains gradually shrunk, decade by decade. This trend accelerated in the 1980s, to the point that the richest 10 percent began receiving the majority of the income growth. And from 2009 through 2012, while the economy was recovering from one of the biggest economic downturns in recent memory, 116 percent of the income growth went to the top 10 percent (with the top 1 percent alone taking home 95 percent of the income gains); this absurd result is possible because the bottom 90 percent actually saw their incomes fall, on average, during this growth period.

For those who are unmoved by considerations of fairness, we have reason to believe that income inequality is a key contributor to financial instability in the United States. In the absence of income growth, households in the bottom 90 percent have been forced to rely more and more on debt to finance their consumption, and the resulting rise of the household debt-to-income ratio played a key role in the 2008 financial crisis. The severity of income inequality in the United States is simply unsustainable.

Broadly speaking, there are two ways of improving the income distribution through policy. One is to work within existing structures and reallocate income through various income redistribution schemes after income has been earned. The other is to change the very way income is earned from the outset. On the latter front, we could make substantial progress by reorienting the way we conduct our economic stabilization policies.

Our conventional economic recovery tools—whether monetary or fiscal, supply-side tax cuts, demand-side pump priming, or bailouts for the financial sector—share a similar approach: they aim primarily to boost investment and growth, with employment a mere byproduct of the process. And while there are differences between the redistributive effects of these policies, their “growth first” approach means they all operate through the prevailing economic structure, underwriting the very processes that create greater income inequality.

Attempts to raise investment by boosting firms’ profits or induce lending by improving bank balance sheets are examples of “top-down” policies that only generate employment as an aftereffect. They also favor capital over labor and the incomes of high-wage workers over those of low-wage workers. By reproducing the prevailing employment behavior of the private sector, these stimulus policies tend to help the more employable, higher-skill workers first, with no guarantee that the demand will trickle down far enough to create enough job opportunities for all individuals willing and able to work, irrespective of their skill and education levels. Jobless recoveries have become the norm.

In a weak economy, fiscal stimulus policies are still preferable to the folly of austerity—but the conventional tools are not the only options. Instead of trying to produce a certain rate of growth and investment, with whatever effects they might have on employment and the income distribution, a “bottom-up” approach would flip these objectives. This would be a model of fiscal stabilization that aims directly at the unemployed. By directly funding employment opportunities for all who are ready and willing to work—offering jobs in the public, nonprofit, or social entrepreneurial sectors—this bottom-up approach to fiscal policy can ensure full employment during expansions and contractions, and would improve incomes at the bottom of the income distribution faster than incomes at the top. To improve the distribution of income we must repair the income-generating mechanism for the vast majority of Americans. That means tight full employment, stable and decent pay, and incomes rising in lockstep with productivity. Changing the safety net to provide an employment opportunity to those who want one at a living wage on an ongoing basis is one key part of a comprehensive strategy.

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