Mohamed El-Erian worries that an "extreme deterioration of income and wealth equality" within the United States is seriously threatening the American Dream.

"Don't underestimate that income and wealth inequality is worsening day in and day out, and at some point that translates into inequality of opportunity," said El-Erian. The former CEO and co-chief investment officer of PIMCO now serves as chief economic advisor at Allianz and chair of President Barack Obama's Global Development Council.

El-Erian spoke about the state of the U.S. and global economy during a "fireside chat" with Jill Schlesinger of CBS News at the LinkedIn FinanceConnect event in New York on Thursday.

"We can all disagree on whether income and wealth inequality is too high or not, but most of us would agree that we don't want the American Dream of starting out with relatively equal opportunity to go out the window," he told the audience gathered. "And we are getting very close to the point where people will not start with equal opportunities."

El-Erian threw out some statistics to illustrate how wide the wealth gap has become.

"The numbers are horrific," he said. Adding, "100% of the income growth of the last few years has accrued to the top 5% of earners. The half-percent top wealth owners in this country have tripled their share of wealth in the last 20 years. The numbers are unambiguous."

Reports by the Census Bureau have also shown that since the recession ended in 2009, income gains have accrued almost entirely to the top earners.
What's wrong with inequality, El-Erian said, is that it undermines the economy.

"When you have a fundamental increase in inequality you separate the wallet and the will to spend," he said. "Those that are getting the income - the rich - spend less of that income. They have the wallet to spend, but not the will. Those that would be spending a lot more of the income, they have the will, they don't have the ability because they're not getting the income."

There's less money put back into the economy then, and El-Erian said growth becomes "too low to sustain corporate investment, employment, everything else."

Another downside, El-Erian added, is that the more unequal the wealth is the less money people on the lower end have to invest in education. He added that the statistics show that more people with bachelor's degrees are hired.

(In 2014, El-Erian took home a $230 million year-end bonus from PIMCO in 2013, Bloomberg reported in November.)

Schlesinger asked El-Erian how the wealth divide could be fixed.

El-Erian responded with a list of suggestions in a range from least controversial to most controversial.

"The least controversial is cleaning up the tax system," he said. "It's full of exemptions that have been shown to be anti-growth and they tend to favor the well-connected, the well-off, etc."

The next least controversial solution, according to El-Erian, is to get rid of the carried interest tax provision.

"Certain activities in the hedge fund world and the private equity world are taxed at a much lower rate and there really is no good reason for that," he said.

Slightly more controversial solutions would be increasing the minimum wage and changing inheritance tax.

"And then you get to the really controversial stuff: the subsidies we get for mortgages," he added. "Does it make sense for them to be given to so many people? And then you start talking about the income taxes."

Regardless of how controversial any of these potential solutions could be, El-Erian isn't confident any of them will ever happen.
"I think if we had a functioning political system we could get a few things done, but right now even the least controversial is a non-starter because no one wants to be seen cooperating with the other side," he said.

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