

Inequality hurts us all

Why we should care about inequality

Inequality is rising in the US

- **Inequality of incomes and wealth has increased sharply in the United States in the past 30 years** to levels not seen since before the First World War - the age of the “robber barons”.
- **This marks a big change** from the period after World War II, when real median incomes grew broadly in line with productivity in the economy as a whole.
- Since the 1970s, however, **real median incomes have been flat or even fallen** – despite a continued rise in productivity. **But the incomes of the top 20 percent of households have risen by half, and those of the top 1 percent have doubled.**
- In 2012, the top 10 percent received 50 percent of all incomes in the United States. **Thus the fruits of economic growth have no longer been shared.**
- **The pay of top CEOs has risen sharply** from [30] times median pay in the 1970s to [130] times now, although research shows that CEOs’ pay is not well related to their companies’ performance

Low wages mean many families cannot afford a basic standard of living

- **The minimum wage does not provide families with enough on which to live.** For example, a cook for the Senate dining room earning \$12 an hour and working two jobs still relies on food stamps to feed his children!
- A living household income for a family of four (2 adults and 2 children) varies from about \$55,000 a year in northern US states to \$45,000 in southern states.
- In metropolitan areas, such as New York or Washington DC, the living household income is closer to \$65,000 - \$70,000 – equal to about **\$20 an hour** if each adult works 35 hours a week. This is **twice the current minimum wage**.

Inequality of wealth is also rising

- **Inequality of wealth is even greater than inequality of incomes.** The wealthiest 5 percent of US households hold more than 60 percent of total wealth.
- **The bottom 50 percent of households less than 1 percent of all wealth.**
- Congress has increased the Federal inheritance tax exemption sharply from \$600,000 in 1997 to \$5 million currently, and the rate has been cut from 55 percent to 40 percent. Thus, **the wealthy can pass substantial assets to their heirs.**

Inequality limits social mobility

- **Inequality passes between generations.** A child born to a poor family in the US is less likely to earn a middle class income let alone top salary than a child born in a more equal country.
- **More than 40 percent of American children born to families in the lowest fifth of earners are likely to stay there,** compared to only about a quarter in Scandinavian countries.

Inequality is not inevitable

- **Isn't inequality part of economic life?** Some inequality, of course, reflects differences in talent and effort.
- But the inequalities in the United States are **more extreme than for 100 years, and the US is more unequal than any other advanced economy.**
- **Thus, US inequality is neither inevitable historically, nor compared to other countries.**

Inequality damages us all

- **Inequality corrodes society.** Unequal societies suffer greater social problems.
- **Continental European countries and Japan typically have greater equality of incomes and wealth than the US and better social outcomes.**
- **More equal US states**, such as Wisconsin, New Hampshire and Utah **have better social outcomes than unequal states**, like Mississippi, Alabama and Louisiana.
- Relatively equal countries and US states tend to have **higher life expectancy, lower infant mortality, less obesity, lower teenage pregnancy, higher educational attainment, fewer homicides and lower prison populations.**
- **People living in more equal societies tend to trust each other more.** Women tend to have higher status.
- Relatively equal countries are **also more generous with their aid** to poorer countries.

Why is the US more unequal?

- **Is globalization to blame?** Countries with lower wage costs, of course, compete with US firms – but the US as a large continental economy is less exposed to foreign trade than any other advanced country. Europe and Japan which are more open to trade, have coped with globalization without sacrificing equality.
- **Is technology to blame?** New methods cause changes in work patterns, but Japan, Germany and Korea have all installed more industrial robots per 10,000 workers than the US while maintaining a high degree of equality.

Is government to blame?

- **Does red tape cause inequality?** The US is a relatively lightly regulated economy, ranked 7th in the World Bank's annual survey of the Ease of Doing Business in almost 200 countries. Most European countries have tighter regulations but also more equality.
- **Some regulations help equality** by encouraging safe working practices and, say, banning the employment of children. But others may increase inequality through **weakening workers' rights**.
- **US taxes are generally lower than in other advanced countries.** The top marginal Federal income tax rate fell from 90 percent under President Eisenhower in the 1950s to [36]percent under President Bush in the early-2000s. This places a smaller burden on taxpayers but also limits public resources for education, health and infrastructure.

Why have top salaries soared?

- Lawrence Fink, CEO of BlackRock, the largest fund manager in the world, worries that with **linking pay to short term stock prices encourages managers to boost prices through buybacks rather than investing** their companies' profits in new products or training workers.
- **Remuneration committees**, often selected by managers themselves, **have failed to rein in CEOs' pay.**
- **Fund managers**, in turn, **have neglected to safeguard the interests of households whose savings in pension schemes and insurance policies they manage.**

Why has wealth risen so much?

- **Returns to capital have exceeded GDP growth** and returns to labor. This has resulted in high dividends and capital gains
- **High income groups and those already wealthy have been unable to spend their large incomes.** Their savings have added cumulatively to their wealth.
- As long as capital remains relatively scarce and labor abundant across the world (as rural workers leave the land), **these trends seem set to continue.**

It's the politics, stupid!

- **Pro-business lobbyists from the 1970s have sought to influence government tax and regulatory policies.**
- **The Powell Memorandum**, written by corporate lawyer Lewis Powell in 1971 – just before he was named to the Supreme Court – **stimulated business to lobby for deregulation.**
- **Successive congresses have curbed unions and consumer activism.** They have also eased bankruptcy rules which have allowed managers to restructure companies and abrogate employee contracts and pension obligations.

Follow the money!

- **Spending on lobbying politicians by corporations and rich individuals has soared.** Total lobby spending has doubled from \$1.6 billion in 2000 to \$3.2 billion in 2014.
- The Supreme Court's 2010 decision in **the Citizens United case reversed almost 100 years of limiting money in politics.** (The Tillman Act of 1907 had limited corporate political funding, and the Taft-Hartley Act of 1947 had limited union funding)
- Now, **rich individuals, corporations or groups can provide unlimited funding for political action committees.**
- **Top spenders** include the US Chamber of Commerce, realtors, health insurers, cable operators, industrial giants such as Boeing, GE and pharmaceuticals, as well as the Koch Brothers.
- **Politicians facing frequent re-election campaigns cannot ignore this tide of money,** which is often used for negative adverts.

Gridlock rules – not OK

- An **increasingly partisan Congress** has become less able to address issues of interest to the broader electorate, like inequality.
- Roughly **90 percent of incumbent members of Congress have been re-elected in recent years.**
- Incumbents benefit from receiving more than 80 percent of funding and getting two-thirds of the votes cast. **Few congressional districts, therefore, are genuinely contested.**
- Incumbents' advantages, combined with "gerrymandering" or redistricting along narrow party lines means **members of congress have to pander to narrow interest groups** rather than appeal to the broader electorate.
- **This hampers consensus in Washington** and encourages gridlock.

A square deal for workers

- **All workers should be given a living wage.** A square day's work should enable a family to enjoy a square meal every evening.
- **Company earnings should be shared fairly between workers and managers.** Including workers' representatives on company boards could help.
- If remuneration committees do not address the issue of unduly high CEO pay, then **Congress may need to legislate to limit CEO pay** as a multiple of median earnings
- **Companies paying their workers a living wage should be publicly honored.**

A square deal for savers

- **Fund managers should be given a fiduciary duty** to protect the interests of the households whose savings they manage. This should include vigorous oversight of all forms of management compensation.
- **Companies' matching contributions to employees' pension schemes should be adequate** to secure a reasonable pension in retirement.

Promoting prosperity and opportunity for all

- Ensure access to education equal to the best international standards for all US children.
- Reform to tax code to improve fairness and generate resources for public projects to benefit all – infrastructure and research

Ending gridlock with a Congress ready to seek consensus

- A Congress with members ready to **seek consensus is essential to address the inequality**
- **Reform campaign finance** to limit the influence of money in politics.
- **Charge an independent Federal election commission with setting congressional district boundaries** to reduce gerrymandering.
- **Synchronize presidential and congressional elections** to reduce the need for members to raise funds and increase the turnout in congressional elections.
- **Rebalance the Senate to reflect the changing pattern of populations** across the US.

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