The change in US income inequality over the past 50 years is one of the most extensively studied topics in economics. While it is evident that income and wealth inequality has increased rapidly in the United States over time, the causes remain largely an academic debate. Not limited to the US, however, inequalities have increased in nearly all regions around the globe over the preceding decades. The fact that inequality levels are so different among countries, even when those countries share similar levels of development and economic profiles, highlights the important role that national policies and institutions play in shaping inequality. According to the World Inequality Database, in 2019 income inequality was the highest in the MENA region and lowest in Europe, with the top 10% of earners accounting for 55.8% and 35.4% of the total national income, respectively (Appendix C). One century ago, income inequality was actually lower in the United States than in Europe, with approximately 40% of total income going to the top decile of the population, compared to 45-50% in Europe.

In the mid-1900's, the 'rising-tide hypothesis' grew to prominence suggesting that economic growth would bring increasing wealth and economic prosperity to every section of society. In fact, for a short period of time in the 1950s and 1960s, this proved to have some merit within industrialised economies as they experienced an overall advancement amongst all social classes with the lower income classes rising the most (Appendix A). In short, this hypothesis posited that regressive economic policies that favoured the upper classes would trickle-down and benefit everyone beneath. Since then, equality of incomes and equality of opportunity has been overarchingly reversed and we are now experiencing ever-increasing inequalities and disparities of unprecedented magnitude.

According to Prof. Stiglitz, the richest 1% in the United States have experienced a 169% increase in their average real income between 1980 to 2014, skyrocketing their share of national income from 10% to 21%. As we move up the ladder, we see a more drastic rise, with the top 0.1% experiencing a 281% increase in average real income, with an increase in their share of national income from 3.4% to 10.3% over this period. What's even more alarming, is that the median household income grew by only 0.7% between 1989 and 2014. However, as Prof. Stiglitz notes, this small increase is largely made worse by the fact that hours worked have increased, displaying an extreme divergence of wages and productivity (Appendix E). Moreover, the 2010s made clear that the race between education and technology has seen technological advancement outpace education, thereby leading to a greater rise in the demand for skills. As the concentration of massive tech companies came to fruition most prominently in the United States, leading to a rapid accumulation of wealth amongst top executives of these companies, the rise in inequality seems to be more heavily pronounced in comparison to Europe.

As the first months of 2020 progressed, the virus spread to nations around the globe, leaving a devastating wake of public health challenges and looming economic turbulence. As hospitals and healthcare resources became increasingly overloaded, the Federal Reserve engaged in intersectoral action for the first time at scale, with significant government stimulus measures taken to equip the world's health system for the months ahead. As governments and health authorities collaborated to enforce adequate restrictions to ensure safety precautions and healthcare resources were allocated to those most impacted by the virus, the health disparities that prevailed prior to the emergence of the coronavirus became deeply exposed and exacerbated, thereby displaying the extensive socioeconomic and health inequalities that has disproportionately affected the underserved individuals in our society. This highlights the imperative need for significant structural changes to address the social and economic determinants of health that are disproportionately apparent within these community groups. Additionally, the release of the Covid-19 vaccine presents an entirely new set of global inequality risks between nations in 2021. Currently, nearly all OECD countries have procured more vaccination doses than their population needs. This unequal vaccine distribution will potentially allow advanced economies to experience an economic recovery more quickly, leaving poorer countries much farther behind.

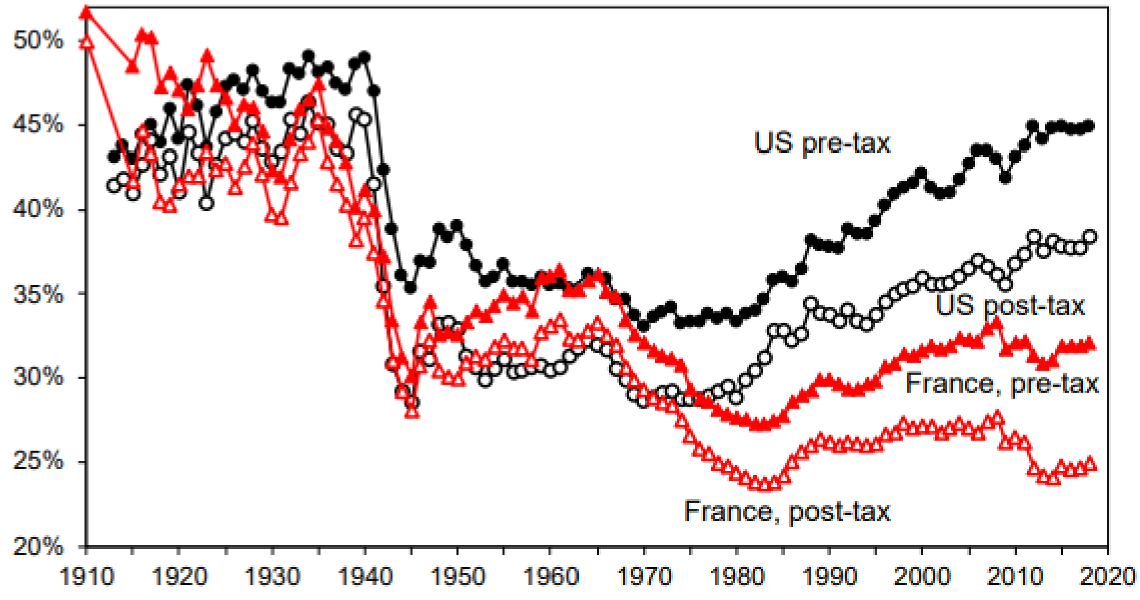
Of particular interest during the economic recovery from this crisis, and from preceding crises, is the impact that fiscal and monetary policies have on inequality in the aftermath of the crisis, and furthermore, how the current accommodative monetary policy stance across several advanced economies negatively affects income and wealth distribution. This draws in the impact of technological progress, globalization, demographics, and the structure of the labour market, as well as any reforms to existing policy frameworks that impact the inequalities and disparities that persist thereafter. There is extensive literature on the impact that expansionary monetary policy has on inequality, with the majority of economists concluding that if monetary policy serves to boost employment, inequality will in fact be reduced over the medium-term. On the other hand, Prof. Stiglitz also notes that "in the first three years of the so-called recovery from the Great Recession, fully 91% of the gains in income went to the top 1%. By 2014, the rest of the income distribution had experienced a bit more of a boost, but even accounting for that, 58% of the gains in total income have gone to the top 1% since 2009. (During that period, the income of the bottom 99% has grown by just 4%)". Referring back to the idea of "trickle-down economics", the Federal Reserve posited that quantitative easing would spur growth by raising stock market prices, which would generate higher wealth for the very rich, who would then spend some of that, which in turn would benefit the rest. While the real effects that the Fed's rationalization of quantitative easing practices may be debated, it appears as though this is still an indirect mechanism for growth and that the Fed may have better targeted the rest of the economy through policies that would have helped homeowners, lending to small-to-medium-sized businesses, and implementing reforms around the credit channels, to name a few. Recalling the actions that the Federal Reserve took beginning in March 2020, we find many similarities to the Great Recession but to a greater magnitude and speed. Rates were cut to near-zero, a quantitative easing program of unprecedented size was announced, several facilities were opened to stabilise a tumultuous economy, bank capital requirements were loosened, and the primary credit rate was cut by 150bps to encourage banks to use the discount window. This, combined with extensive use of forward guidance, allowed the markets to recover within an exceptionally short time horizon. "Small business" lending programs, while an improvement over the Great Recession, still appeared to be targeting comparatively medium-to-large sized businesses, and therefore did not adequately provide a direct safety net for small-business owners and their surrounding ecosystem. Therefore, this unequivocally benefits those who own financial securities and assets, placing much of the regained capital, and more, back into the hands of the top earnings while Main Street continues to struggle and real unemployment hovers around 10%.

Inequality does not follow a strictly deterministic process. There are powerful forces pushing alternately in the direction of rising or shrinking inequality and the institutions and policies that societies have chosen to adopt over the past several decades has allowed inequality to spiral upwards. After decades of research and conclusive findings from the academic community surrounding the inequalities that have persistently grown larger over time, it is time for Congress and policymakers to open their ears and make decisions that will not only close these disparities, but resultantly strengthen the long-term prospects for economic growth in the process.

**While this primer has focused exclusively on inequality, we look forward to having Prof. Stiglitz cover a wider range of topics as they relate to the economic outlook for the United States and global economy. Many of these additional focus areas have been covered, to some extent, in previous webinar primers in the series*.

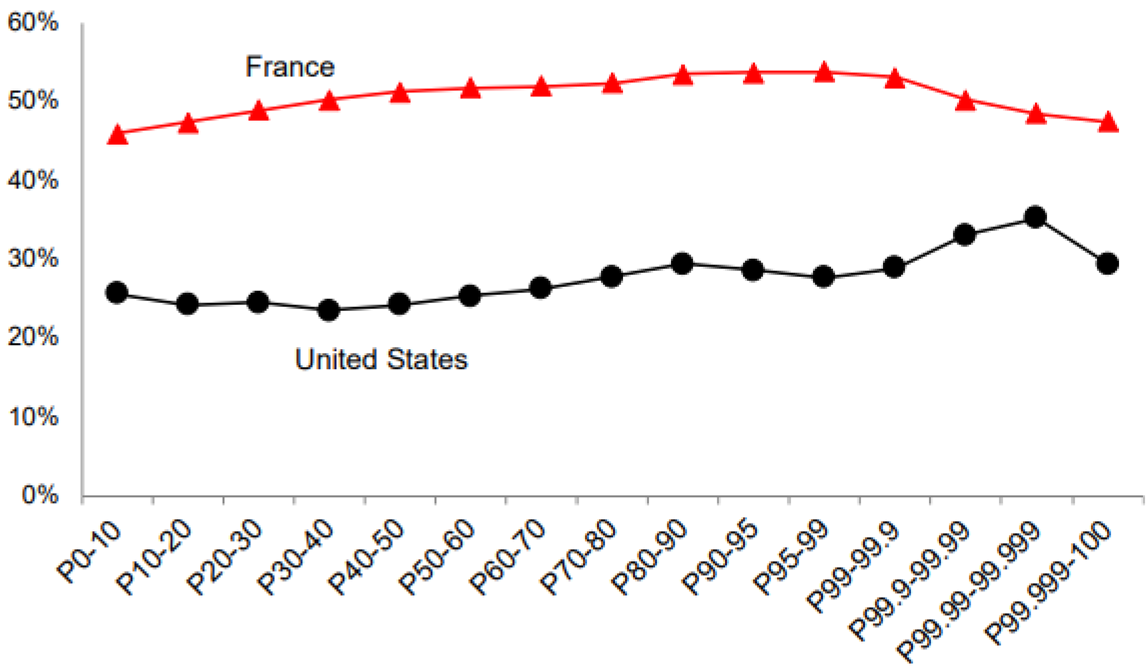
Appendix

Appendix A – Top 10% income shares in the United States and France, 1910 - 2018



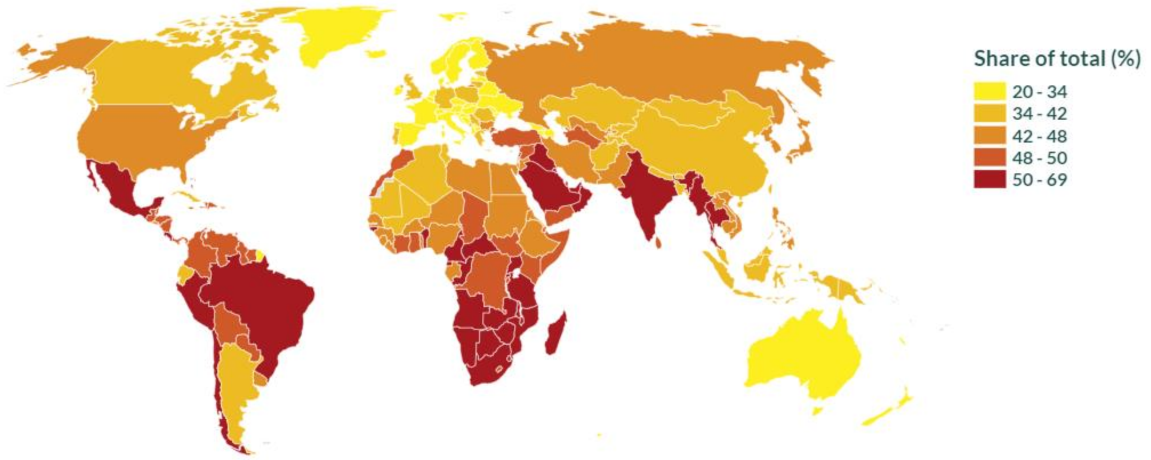
Source: Piketty, Saez, and Zucman (2018)

Appendix B – Average tax rates by income group in 2018



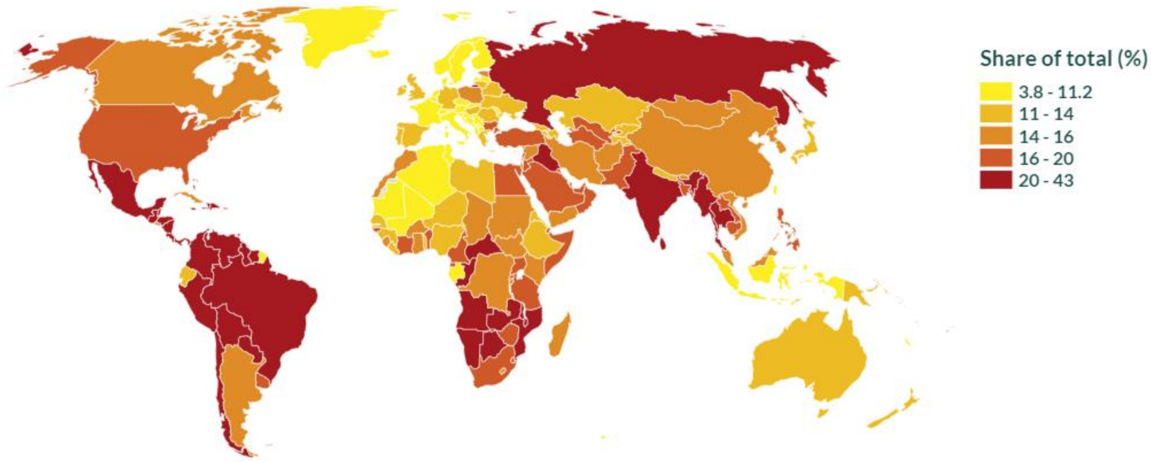
Source: Piketty, Saez, and Zucman (2018)

Appendix C – Top 10% National Income Share by Country - 2019



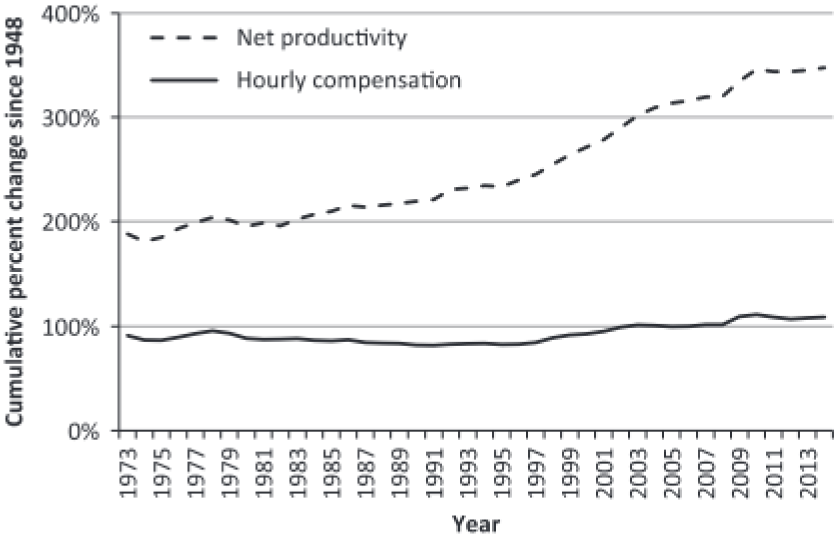
Source: World Inequality Database

Appendix D – Top 1% National Income Share by Country - 2019



Source: World Inequality Database

Appendix E – Net Productivity vs. Hourly Compensation



Source: J. E. Stiglitz (2016)

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