United States has become both more and less equal. Legal barriers have been removed for minorities and women, but inequalities and barriers persist, especially for African Americans and Latina/os.

Because many economic, social, and political changes have happened since the 1970s, citizens and experts debate causes of

- Growing gaps between top 1%/5% and everyone else.
- Growing gaps between upper 20% and remaining 80%.

Today:

- Start with 80/20 gaps; then turn to 1/99 gaps.
- Discuss possible effects from labor force changes, elite norms, organizations and union decline.
- Conclude with overview of possible government effects.
U.S. Workers Have Become More Productive, but the Gains Have not Gone to Most Families


The highest-earning 20% of families made more than half of all U.S. income in 2018

Share of U.S. aggregate household income, by income quintile

Note: Figures may not add to 100% due to rounding.
Even within the top fifth, income has become highly concentrated at the top. The share of before-tax income flowing to highest-income households has increased significantly over the years. The top 1% and top 0.5% share have grown from 6.3% and 9.0% in 1970 to 21.5% and 17.2% in 2015, respectively. This trend is evident in the chart provided. Source: Emmanuel Saez, based on IRS data.
Americans in general point to many different causes for economic inequalities.
How the class sees the main drivers of 80/20 inequalities. Discuss why in breakouts – and have someone ready to report.

- Decline of labor unions.
- Changes in norms and values for elites.
- Expansion of financial sector and rewards for corporate elites.
- Automation of routine jobs.
- Shift from manufacturing to service jobs.
- International trade and outsourcing.
- Increased demand for highly skilledcollege-credentialed workers.
- Changes in gender roles in work and families.
- Increased non-European immigration.
- Racial differences in legal status and economic fortunes.
Figure 5. College Degree Wage Premium and Advanced Degree Wage Premium, Relative to a High School Education or Less

% Difference (Median Higher Education vs. Median High School or Less Education)

- Advanced Degree: 129.5%
- Bachelor's Degree: 77.3%
- Median Higher Education: 123.3%
- Median High School or Less Education: 78.7%


Notes: Sample comprises nonfarm wage and salary workers who are 25-64 years old and provide sufficient information to compute an hourly wage. Periods of recession are shaded in gray. Dollar amounts are adjusted for inflation using the CPI-U.
FAMILY INCOME AND COLLEGE DEGREE ATTAINMENT BY AGE 24

Source: Mettler, Degrees of Inequality, Fig. 1.2 from Mortenson.
“Since 1960... previously well-paid manual and clerical jobs have been computerized or offshored to other countries, while jobs calling for human ingenuity to solve unstructured problems proliferate.”

For U.S. kids, strong link between parents’ marital status and likelihood of living in poverty

% of children living with ... | % of children living in poverty
---|---
87% | 10%
62% |
26% | 31%
9% | 21%

Note: Based on children under 18. Data regarding cohabitation are not available prior to 1990; in earlier years, cohabiting parents are included in “one parent.” Poverty is measured using the Supplemental Poverty Measure (SPM) and not the Official Poverty Measure.

Impact of selected trends on 80/20.

- **Racial differences:** despite demise of legal segregation, gaps in pay have remained fairly constant; lower-income AfAms and Latinos have suffered, side effects of incarceration hit minorities hardest.

- **Immigration increases** may slightly depress wages at the stop, boost top.

- **Changes in gender roles in work and families:** women’s wage work boosts family incomes, puts stress on caregiving; top 20% families usually have two high earners and more resources for children.

- **Increased demand for highly skilled/college-credentialed workers:** Boosts incomes of higher educated, women’s wages, helps top 20% families. College access has stalled for bottom half of income ladder.

- **Trade and outsourcing:** May contribute to wage stagnation for bottom 80%.

- **Shift from manufacturing to service, automation of routine work:** May contribute to wage stagnation for bottom 80%.

- **Changes in values and norms for elites:** Meritocratic justifications for higher-educated professionals and managers.

- **Union decline:** lower wages for men at bottom and middle.
Racial differences in legal status and economic fortunes.

Increased non-European immigration.

Changes in gender roles in work and families.

Increased demand for highly skilled/college-credentialed workers.

International trade and outsourcing.

Shift from manufacturing to service jobs.

Automation of routine jobs.

Expansion of financial sector and rewards for corporate elites.

Decline of labor unions.

How the class sees the main drivers of 1/99 inequalities
Expansion of financial sector and rewards for corporate elites: rapid increase in CEO pay and rewards to investors compared to wage and salaried workers.

Changes in values and norms for elites: Meritocracy for professionals. Excess, ostentation, and focus on making more and more now OK for the very rich.

Union decline: Helps explain overall income decline, especially for men – and helps corporate elite and investors capture economic gains.
CEOs make 312 times more than typical workers
CEO-to-worker compensation ratio, 1965–2017

Notes: CEO average annual compensation is measured for CEOs at the top 350 U.S. firms ranked by sales. Two measures are computed, differing in the treatment of stock options: One uses “options realized,” and the other uses the value of “options granted.” Both series also include salary, bonus, restricted stock awards, and long-term incentive payouts for CEOs. Projected value for 2018 is based on the percent change in CEO pay in the samples available in June 2017 and in June 2018 (labeled first-half [FH] data) applied to the full-year 2017 value. Projections for compensation based on options granted and options realized are calculated separately. “Typical worker” compensation is the average annual compensation of the workers in the key industry of the firms in the sample.

Source: Authors’ analysis of data from Compustat’s ExecuComp database, the Bureau of Labor Statistics’ Current Employment Statistics data series, and the Bureau of Economic Analysis NIPA tables


<table>
<thead>
<tr>
<th>CEO 1970s</th>
<th>CEO 2011</th>
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<tbody>
<tr>
<td>$1M salary (in 2011 dollars)</td>
<td>$10 million salary</td>
</tr>
<tr>
<td>Office on second floor of milk distribution center</td>
<td>Office occupies top nine floors of 41-story Dallas tower</td>
</tr>
<tr>
<td>4 bedroom suburban home in Chicago suburb</td>
<td>$6M home in Dallas; 64 acres near Vail, Colorado</td>
</tr>
<tr>
<td>Member of country club</td>
<td>Four golf club memberships</td>
</tr>
<tr>
<td>Cadillac from the company</td>
<td>Challenger 604 Jet for his personal and business use</td>
</tr>
<tr>
<td>Sometimes turned down raises, because making too much was bad for morale</td>
<td></td>
</tr>
</tbody>
</table>

“With Executive Pay, Rich Pull Away from the Rest of America”
Union Membership on the Decline
Number of U.S. Union Members, 1983-2019

Share of Americans in Unions Nearly Halved
Percent of U.S. Employees Who are Unionized, 1983-2019

Source: Bureau of Labor Statistics Data

Bloomberg Law
union density

Source: LBO News from Doug Henwood.
FIGURE 3
Union Membership Rate, By Race/Ethnicity, 1989-2019
(percent of employees)

Most occupations have seen a decline in union membership since 2000

Change in union members’ share of workers, by job category, 2000-2017


PEW RESEARCH CENTER
The State Of The Unions
Union membership rates by U.S. state in 2018

- Highest rates
  - Hawaii: 23.1%
  - New York: 22.3%
  - Washington: 19.8%

- Lowest rates
  - Utah: 4.1%
  - North Carolina: 2.7%
  - South Carolina: 2.7%

Source: Bureau of Labor Statistics
UNIONS AND INEQUALITY OVER THE TWENTIETH CENTURY
Henry S. Farber, Daniel Herbst, Ilyana Kuzimenko, and Suirsh Naidu
NBER Working Paper 24587, May 2018

- Data from Gallup polls from 1936 to the present, using questions on membership, beliefs, education, income.

- When union density was higher, more low-skilled workers were in unions (especially men).

- When less educated became more unionized after World War II, income inequalities decreased.

- Why? Unions bargain for better wages and benefits.

- Unions may indirectly boost pay for nonunionized.

  - Companies may defensively raise wages to forestall more unionization

  - Public beliefs and politics may be influenced by unions
UNION DECLINE AND RISING WAGE INEQUALITY
By Bruce Western and Jake Rosenfeld

• From 1973 to 2007, wage inequality in the private sector of the U.S. economy increased by 40%.
• From 1973 to 2007, union enrollment for men fell from 35% unionized to 8%, and for women fell from 16% unionized to 4%.
• Educational attainment increased at the same time.
• How are deunionizing and educational trends related?
  – The gap between those with college and those without accounts for about one-third of the increased wage inequality for men, and two-fifths for women.
  – Declining unionization was associated with about one-third of the increased wage inequality for men, and about one fifth of increased inequality for women.
  – For male workers, in short, the impact of unionization decline equaled the impact of the college gap.
  – Union decline powerfully affected wage inequality among nonunion workers in once-highly unionized regions and industries. As unions declined, worker leverage suffered and prevailing wage norms deteriorated for everyone.

HOW GOVERNMENT ACTIONS – AND INACTIONS -- MATTER

• Tax collections and tax breaks
  -- income taxes – declining top rates and revenue share
  -- capitals gains taxed less than earned income
  -- tax credits and tax breaks

• Social expenditures
  -- Social Security, Medicare – boost the elderly
  -- Medicaid, ObamaCare – help lower and middle income groups (but not in all states)
  -- States have cut college subsidies; fed gov’t shifted toward encouraging loans.
  -- Repeated cuts in benefits for very poor

• Rules for market economy
  -- minimum wage, unemployment insurance
  -- financial and business regulations; union rules
Average effective tax rates of the 400 wealthiest families and the bottom 50 percent of U.S. households
A MILLIONAIRE’S TAX RATE, NOW AND THEN

- 1913: 1.6% Federal income tax starts
- 1929: 13.4% Post-crash tax
- 1945: 66.4% Top tax rates peak
- 1965: 55.3% LBJ tax cut takes effect
- 1982: 47.7% Reagan tax cuts
- 2000: 36.4% Before Bush tax cuts
- 2010: 32.4% Bush tax cuts in effect

Effective tax rate for head of household earning equivalent of $1 million of non-investment income in 2010 dollars. Source: The Tax Foundation
2009 TAX CUTS VS. 2017 TAX CUTS

SOURCE: ALEX ROWELL/CAP ECONOMY (TAX POLICY CENTER DATA)
Federal Minimum Wage, 1938-2014

Shown in nominal (not adjusted for inflation) dollars and 2014 (inflation-adjusted) dollars

Note: Wage rates adjusted for inflation using implicit price deflator for personal consumption expenditures. Sources: Bureau of Labor Statistics, Bureau of Economic Analysis, Pew Research Center analysis

PEW RESEARCH CENTER
Government rules can encourage or hamper unionization. Following enactment of WI 2011 Act 10 anti-union laws...

U.S. state right-to-work laws as of 2016.

Years indicated on the map are the first year RTW was in place in each state. Note that Indiana had RTW in place from 1957 to 1965 before passing RTW again in 2012. In 2017, after our study period, Kentucky and Missouri both passed RTW laws.

ANTI-UNION LAWS CHANGE POLITICS, TOO


- Look at enactments of right to work laws 1980 to 2016 in neighboring states – and the impact on Democratic vote shares and organized labor contributions to Democrats.

- Right-to-work laws reduce Democratic Party presidential vote shares by 3.5% and also affect state legislative control and shares in Congressional and gubernatorial elections.

- How does it work? Union contributions to Democrats go down.

- Voters are less likely to be contacted to vote.

- So what? Fewer working class candidates in state legislatures, and state policies shift in a more conservative direction.
Some agreement on reasons for reducing economic inequality among those who see it as a top priority

Among those who say that reducing economic inequality should be a top priority for the federal government, % saying each of the following is a major reason why it should be a priority

- Limits people’s opportunities: 87%
- Gives the wealthy too much political influence and access: 86%
- Has a harmful effect on economic growth: 71%
- Goes against the country’s values: 55%

Source: Survey of U.S. adults conducted Sept. 16-29, 2019. “Most Americans Say There Is Too Much Economic Inequality in the U.S., but Fewer Than Half Call It a Top Priority”

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