

## [US ELECTION ANALYSIS NO. 4](#)

### **INEQUALITY AND OPPORTUNITY: THE RETURN OF A NEGLECTED DEBATE**

The fourth, and final report of the CEP US Election Analyses brings back into the arena of policy debate the issues of inequality and opportunity.

#### **Inequality and opportunity: key points**

- US income and wage inequality have risen dramatically since the 1970s. The share of the top 1% (those with incomes over \$400,000) was as high in 2007 as at its historical peak in 1928. Income and wage differentials between the richest 10% and the poorest 10% have also risen in tandem.
- The US has the highest income inequality of all rich countries. The only OECD countries with a higher 'Gini coefficient' of inequality are Chile, Mexico and Turkey.
- Workers in the middle of the earnings distribution have fallen behind those at the top of the distribution over a period of 40 years. Those in the bottom 10% fell behind the middle until the mid-1990s.
- Median real hourly wages have risen by 20% since 1972, whereas productivity has risen by 85%. The difference in the growth of wages and productivity is mainly due to the rise in wage inequality and an increase in non-wage (especially healthcare) costs. But since 2000, profits have risen as a share of GDP as the growth of total labour compensation has lagged behind productivity.
- Social mobility over people's lifetimes has not increased to make up for the rise in inequality. In fact, social mobility between generations is worse in the US than in most countries where it is measured.
- President Obama wants to allow the Bush tax cuts to elapse for households on incomes over \$250,000 (which would mean, for example, that the highest federal tax rate would rise from 35% to 39.6%). Increased inequality justifies higher tax rates on the rich but this only deals with the symptoms and not the causes of inequality.
- A major cause of increased inequality is that technology has raised the demand for skilled workers faster than the education system has delivered a bigger supply of skilled workers.
- Both presidential candidates want to increase trade protection against China. This would have little effect on inequality, but it would damage growth.
- The Republican candidate, Governor Mitt Romney, opposes tax increases on the rich, arguing that the disincentive effects are severe. He focuses on educational reforms to weaken teachers' unions and introduce more charter schools.