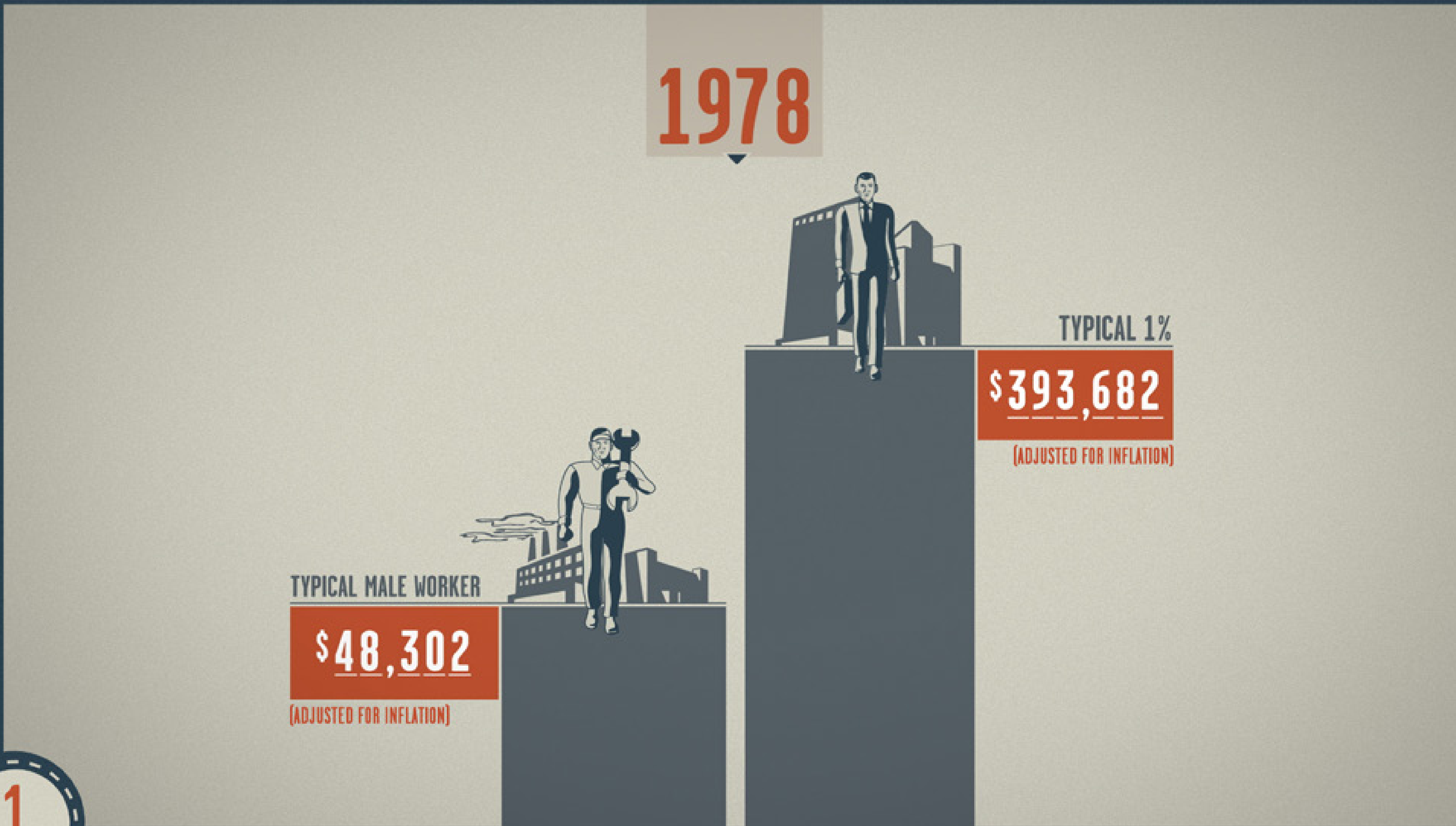
THIS IS A GRAPHICAL LOOK AT ECONOMIC INEQUALITY IN TERMS OF 3 QUESTIONS:

PART 1 What is happening in terms of the distribution of income and wealth?

PART 2 Why?

PART 3 Is that a problem?

One way of looking at measuring inequality is to look at the earnings of people at the top vs. the typical worker in the middle.



1

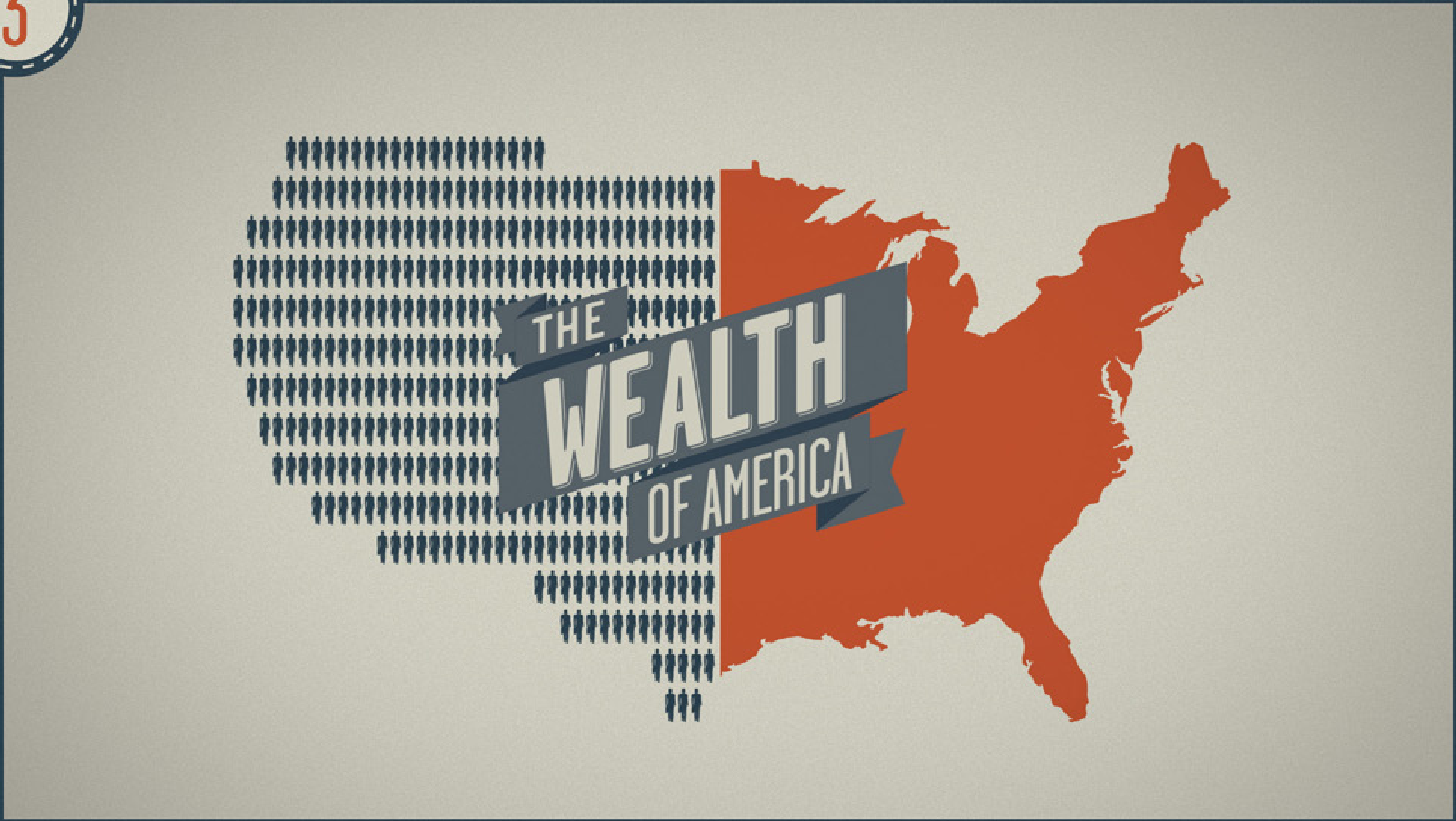
Compare 1978 to 2010. This was the top 1% vs. the typical worker in 1978.

2

And here is the top 1% vs. the typical worker in 2010.

3

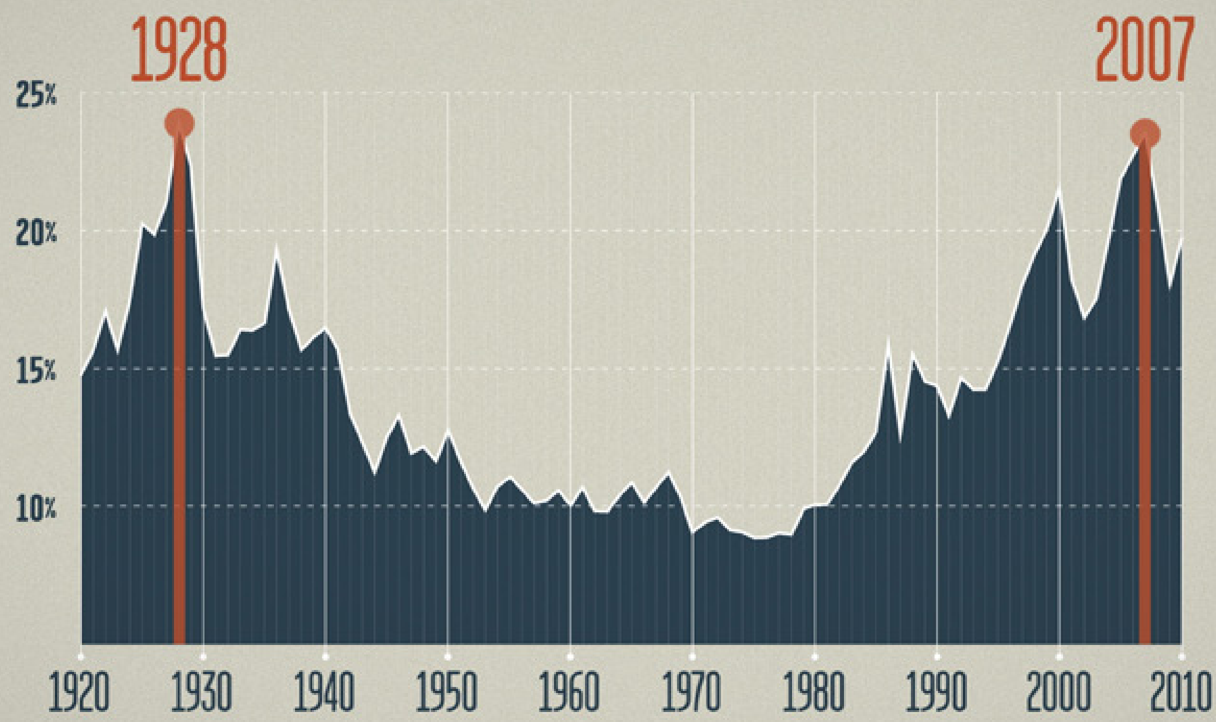
Today, the top 400 richest people have more wealth than the bottom 150 million Americans put together.



TOP 1% INCOME SHARE

Emmanuel Saez and Thomas Piketty were the first to look at the top 1%. Before that, we only had broad "quintile" data – what the top 20% was doing vs. the bottom 20% – which was as specific as data got through the census.

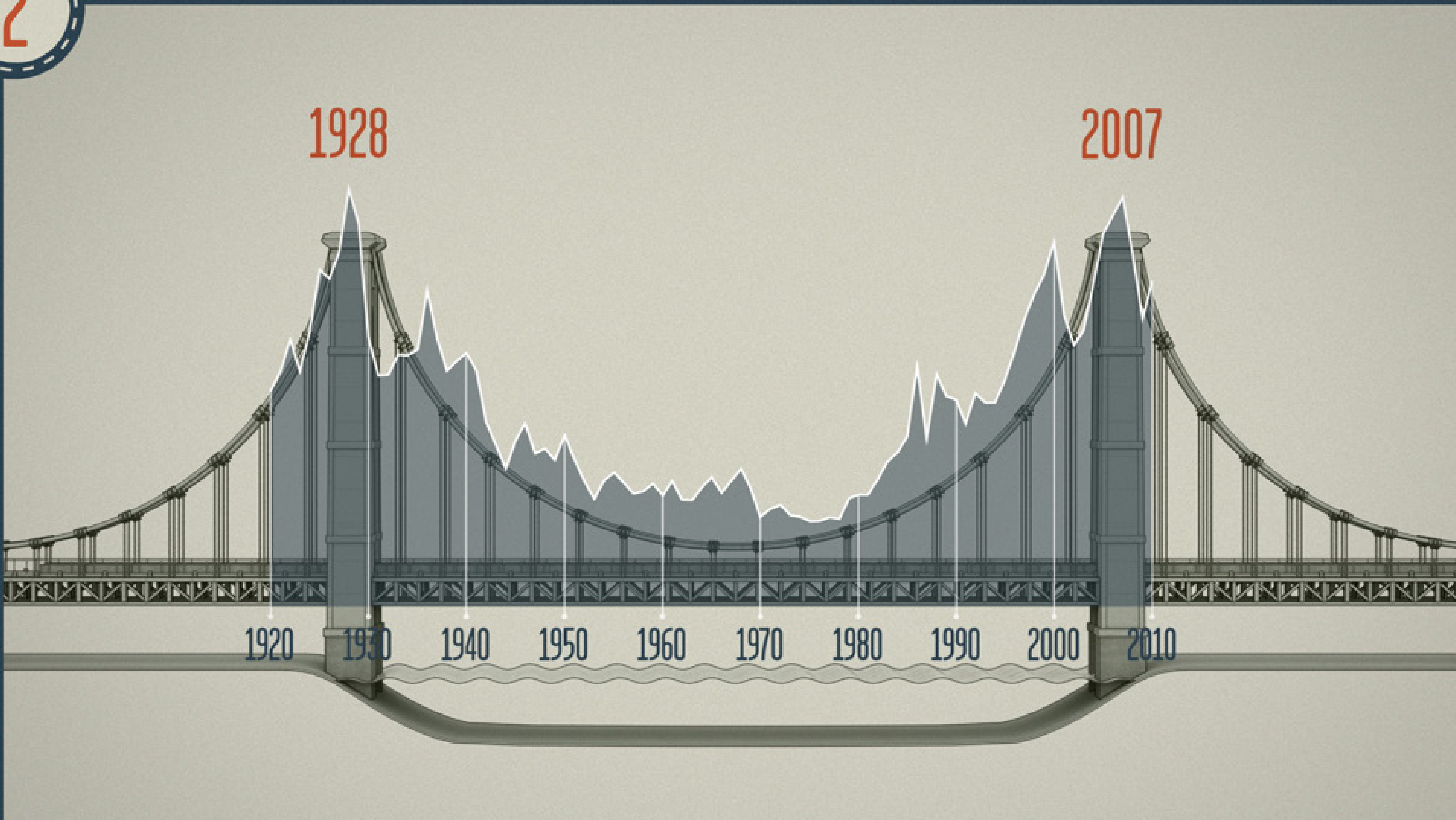
Saez and Piketty researched a different source of data – income tax. The US income tax was instituted in 1913, so using that data, Saez and Piketty could track income data for the top 1% compared to everyone else for the first time.



1

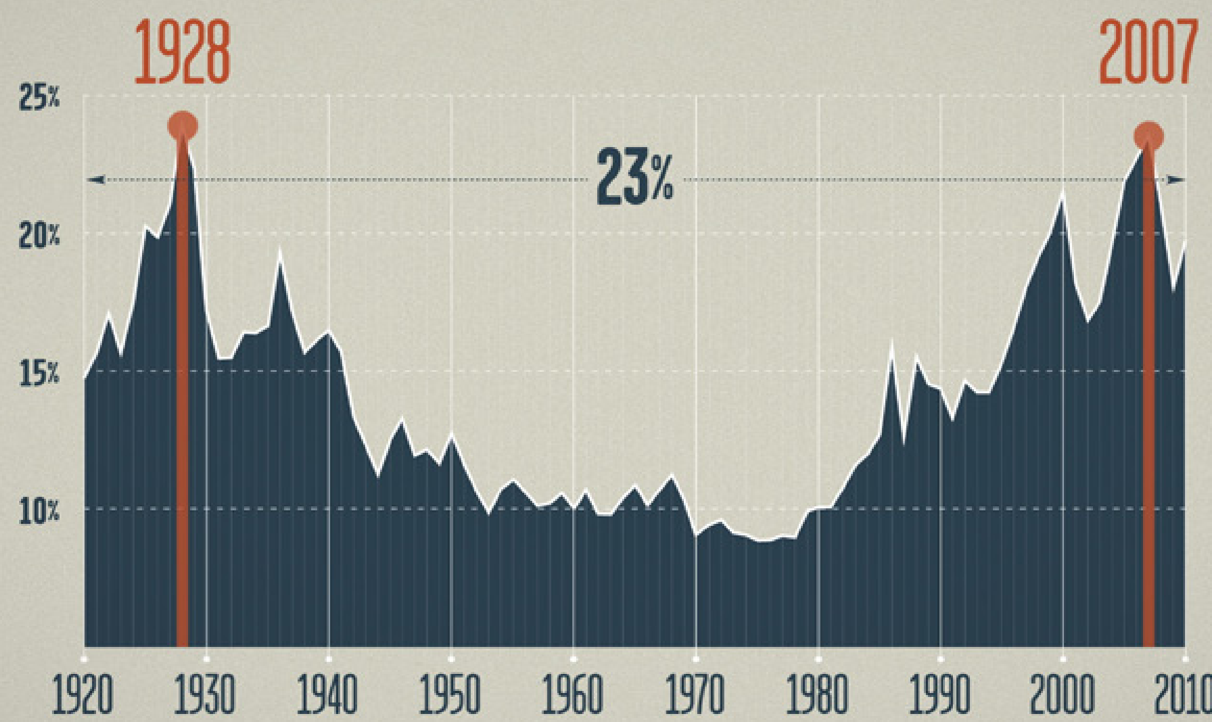
Here's what that income distribution looked like.

2



It looked like a suspension bridge.

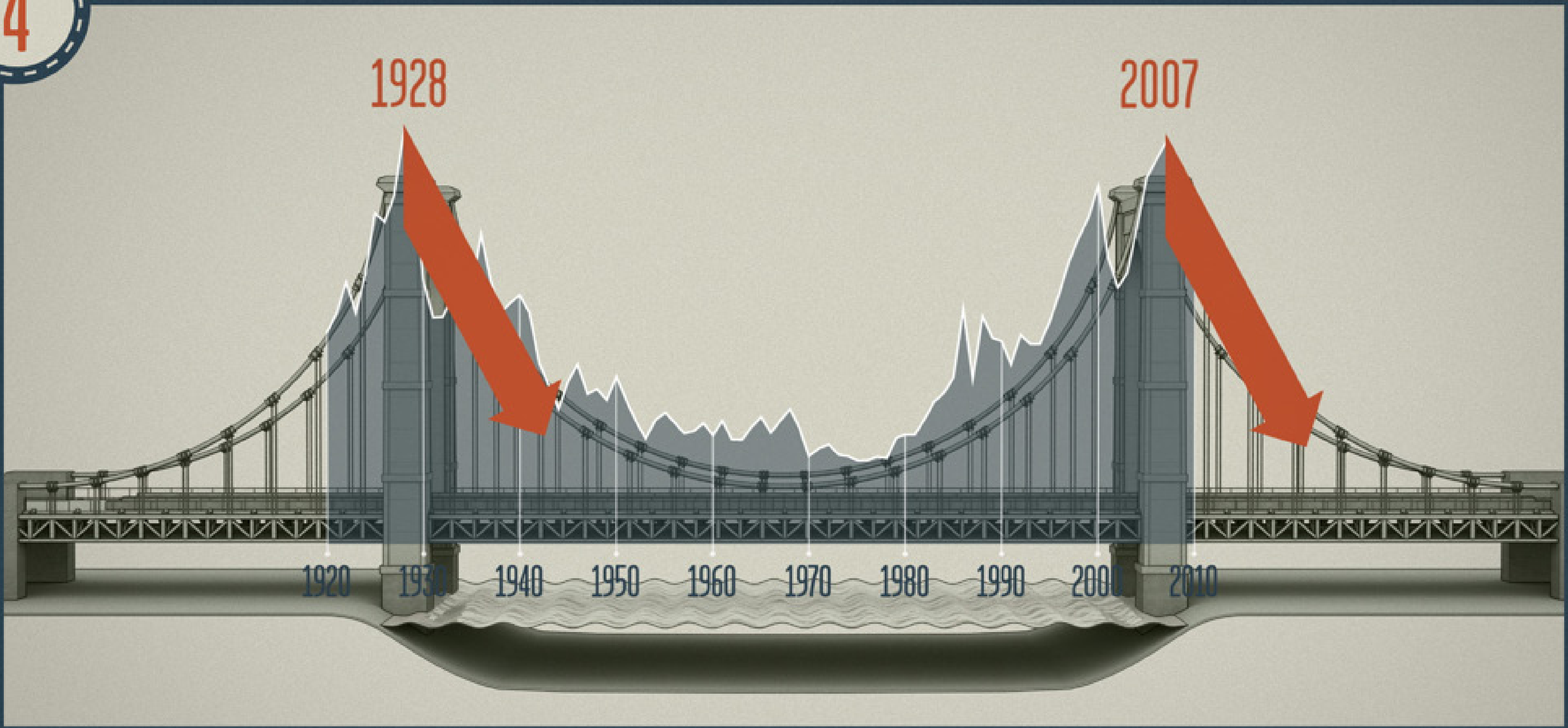
3



For the first time, we could see that the two peak years of income inequality were 1928 and 2007.
In both of those years the top 1% took home over 23% of income.

4

What happened after 1928? The Great Crash. What happened after 2007? Another crash.



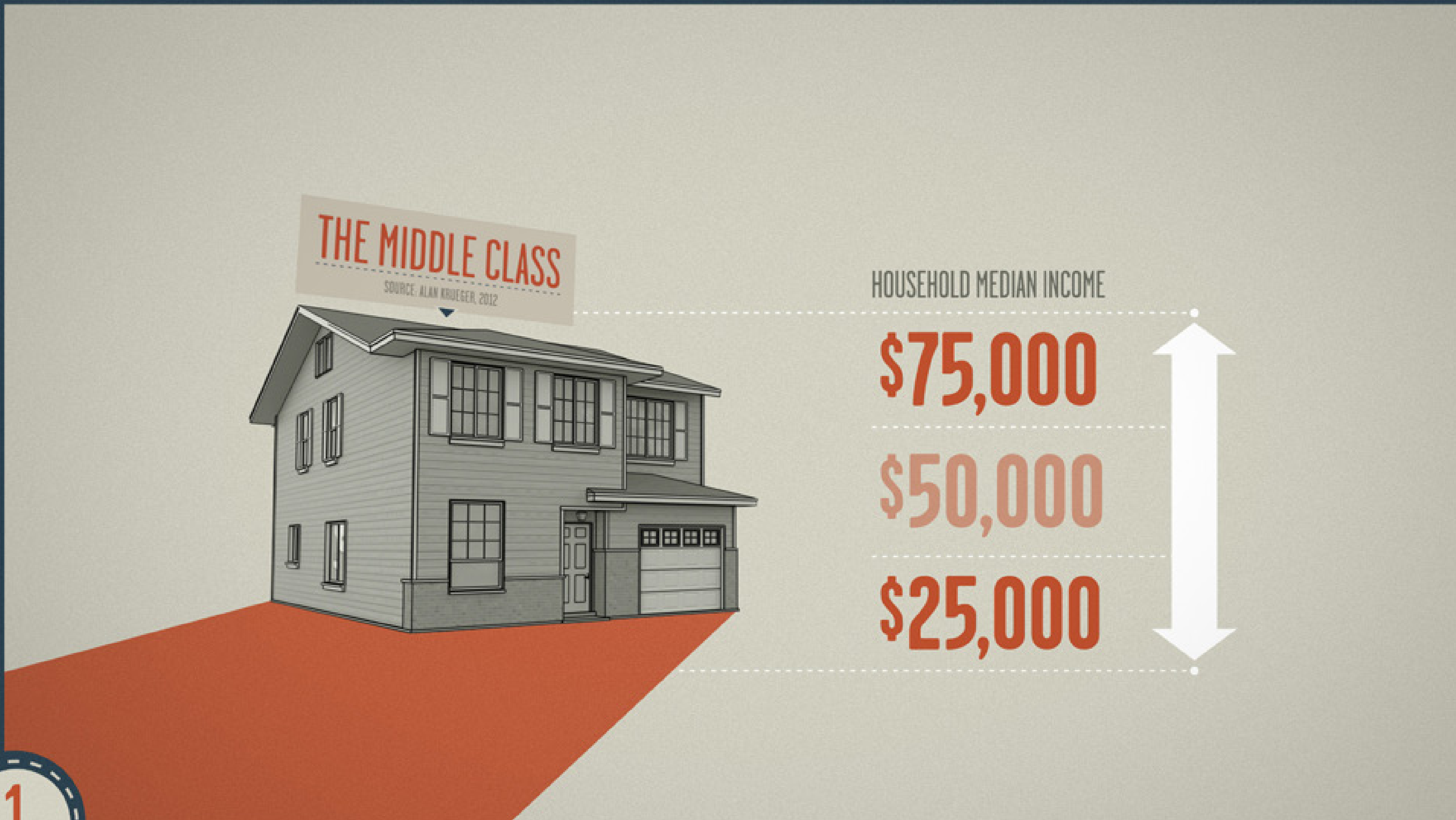
What were the parallels that led to the crashes? 3 things:

1. As income concentrated in fewer hands, the financial sector ballooned in both eras.

2. In both eras, capital looked to a limited number of assets: housing, gold, speculative instruments, etc. — and this created a speculative bubble.

3. Finally, the middle class in both periods saw their incomes stagnate. They went into debt to maintain their living standards, creating a debt bubble. That debt bubble eventually burst.

WHAT IS THE MIDDLE CLASS TODAY?

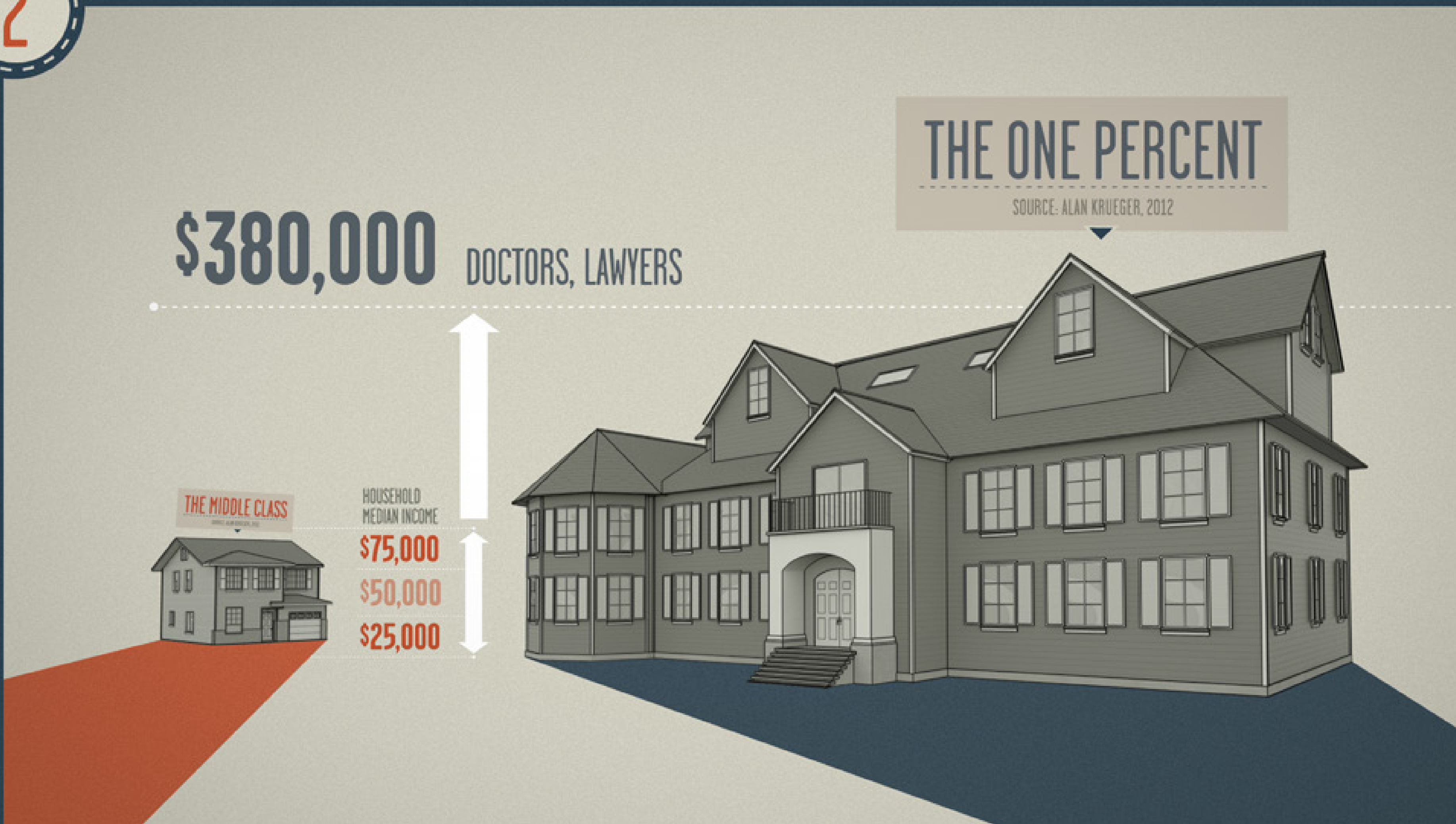


1

There is no official definition of the middle class. But you can say that the MEDIAN salary in the US is around $50,000. Fifty percent above and fifty percent below the median income can be thought of as middle class.

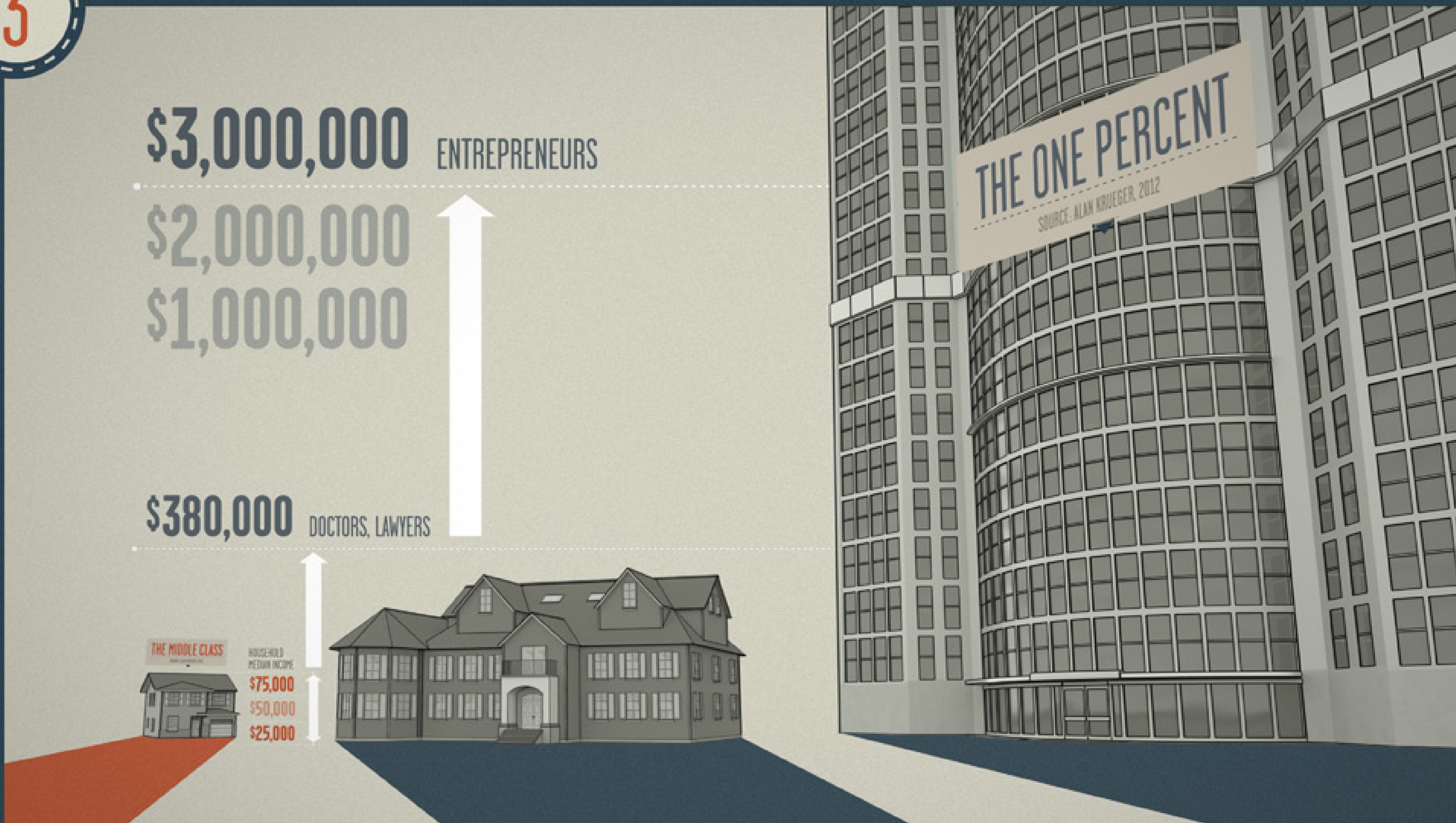
2

WHAT IS THE 1%?



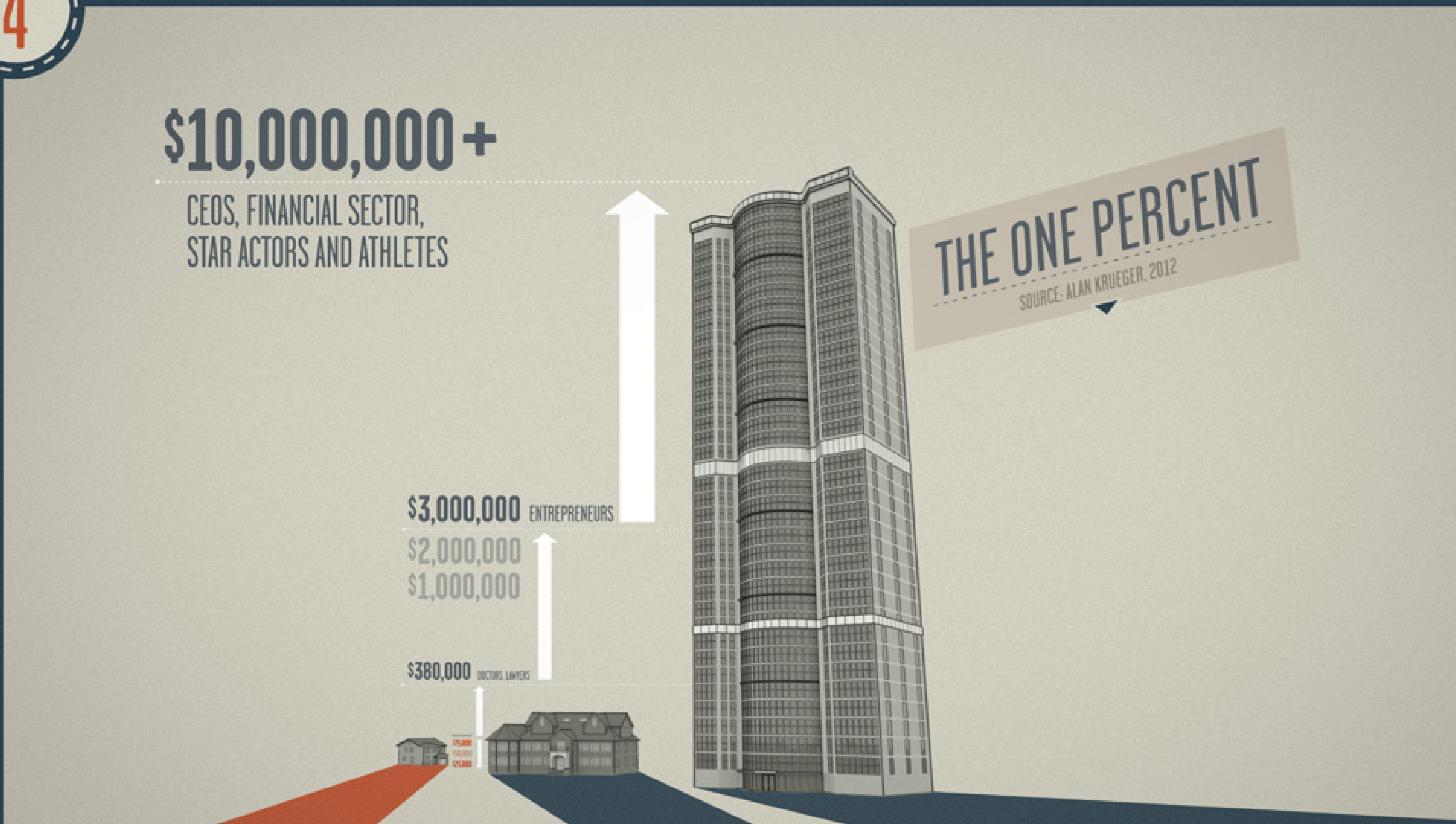
In 2012, the bottom of the top 1% was $380,000.

3

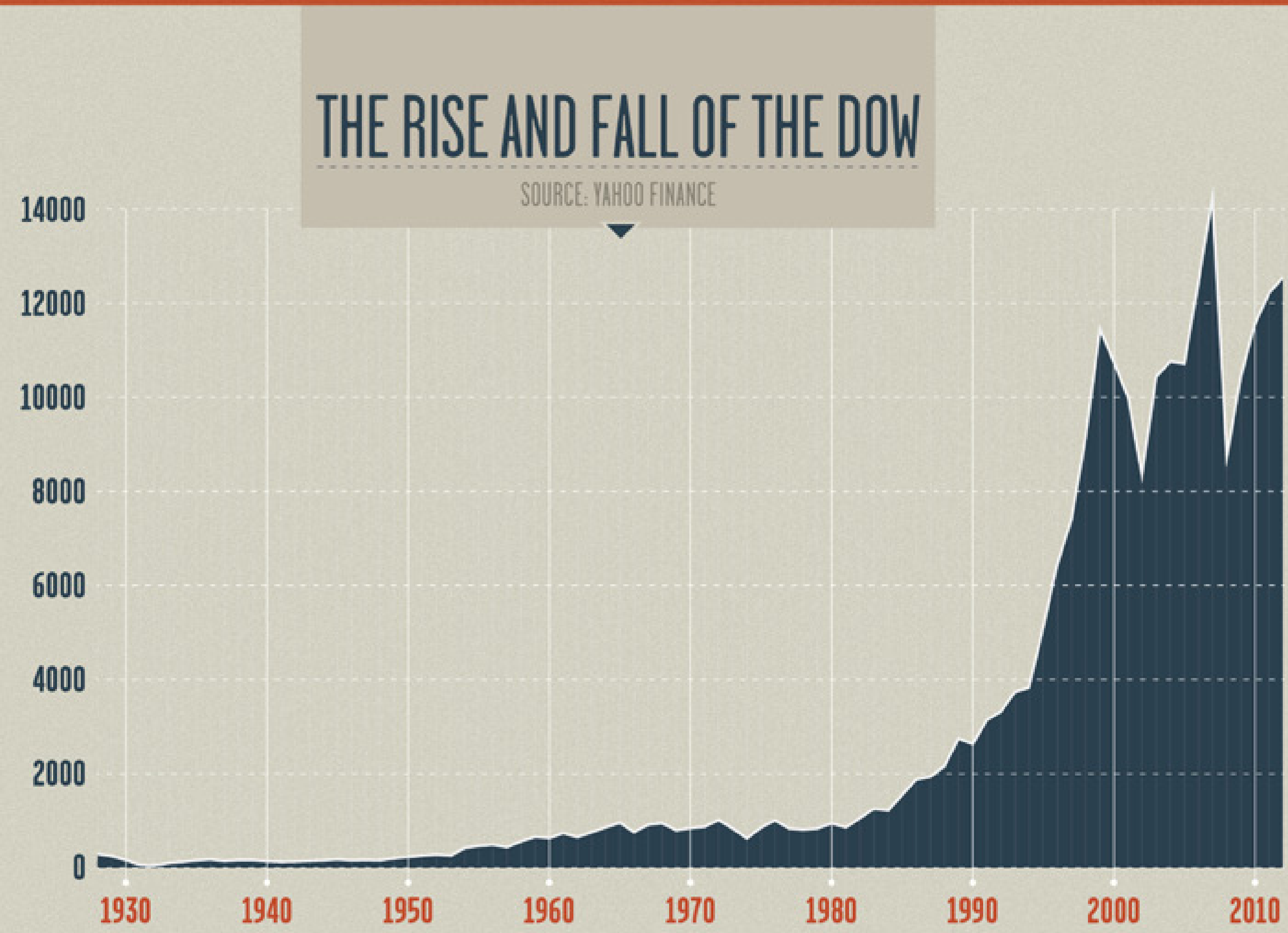


But it went up from there.

4


$10,000,000+
CEOS, FINANCIAL SECTOR,
STAR ACTORS AND ATHLETES
THE ONE PERCENT
SOURCE: ALAN KRUEGER, 2012
$3,000,000 ENTREPRENEURS
$2,000,000
$1,000,000
$380,000 DOCTORS, LAWYERS

HERE IS THE PUZZLE

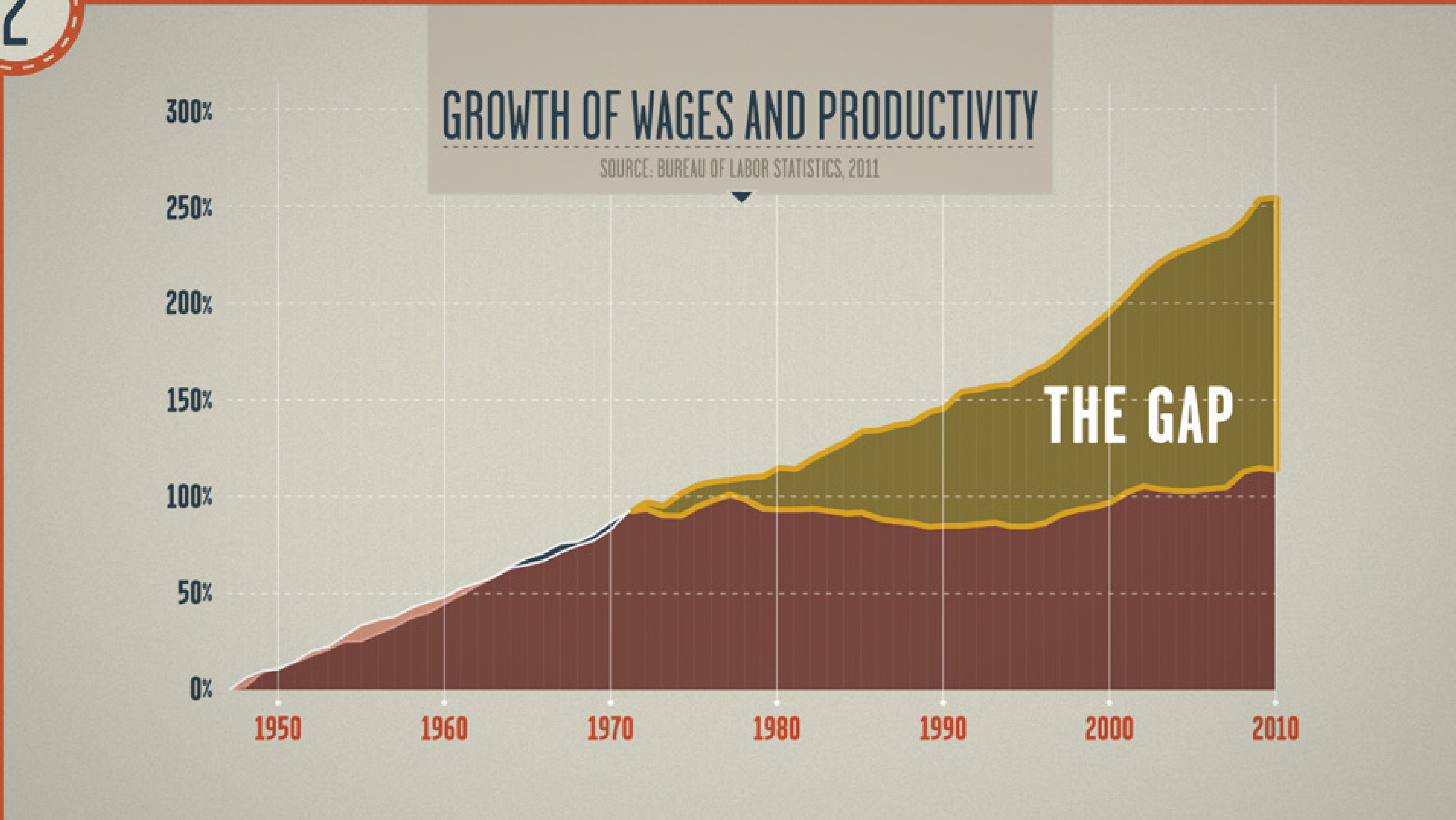


1

GDP has been growing. Take a look at GDP from 1929 -2011.

2

But if you look at the average hourly earnings of production workers, here is what you find:

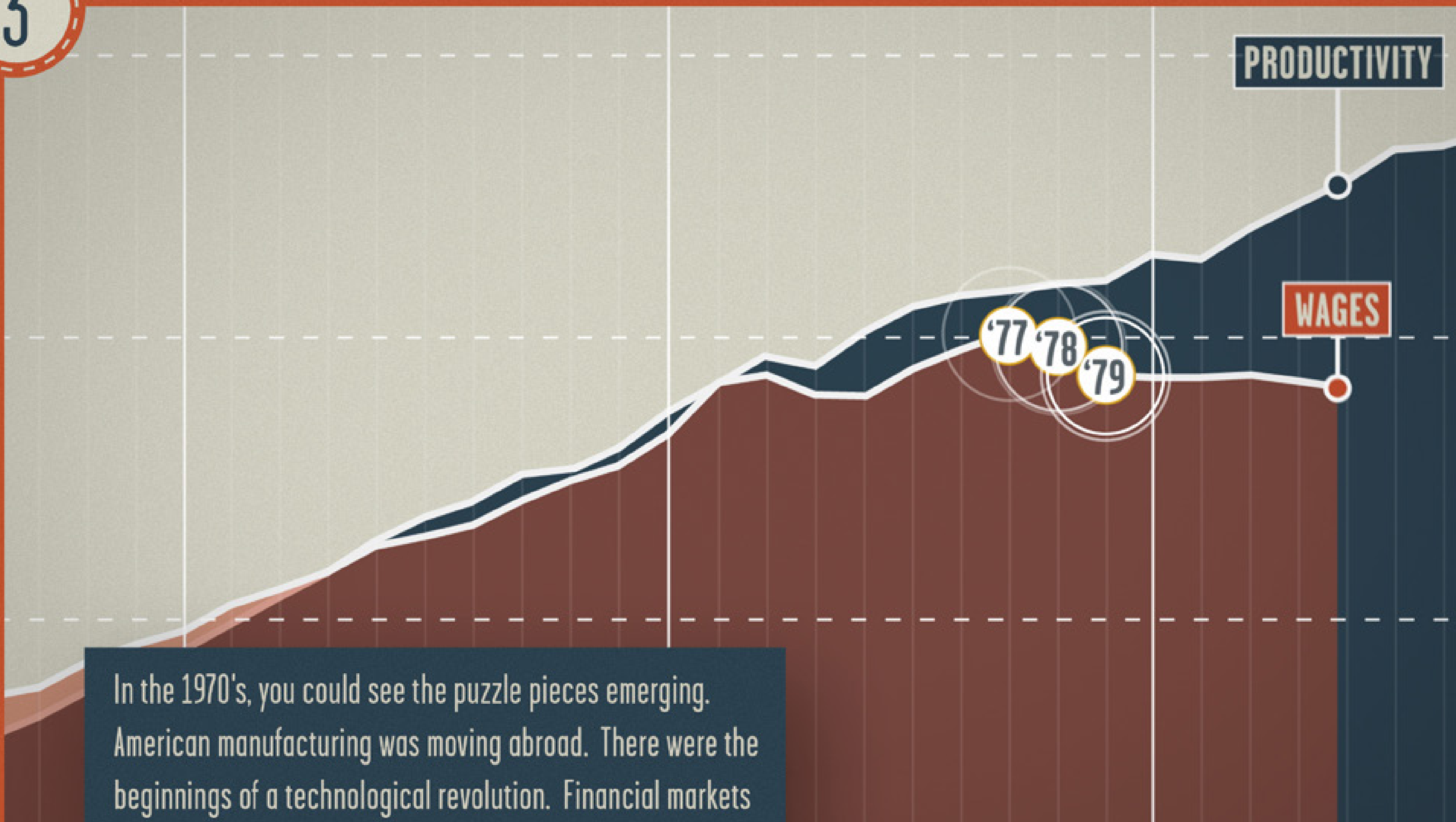


Wages track GDP until the 1970's, and then something happens. Look at THE GAP.

PART 2: WHY HAS INEQUALITY BEEN WIDENING?

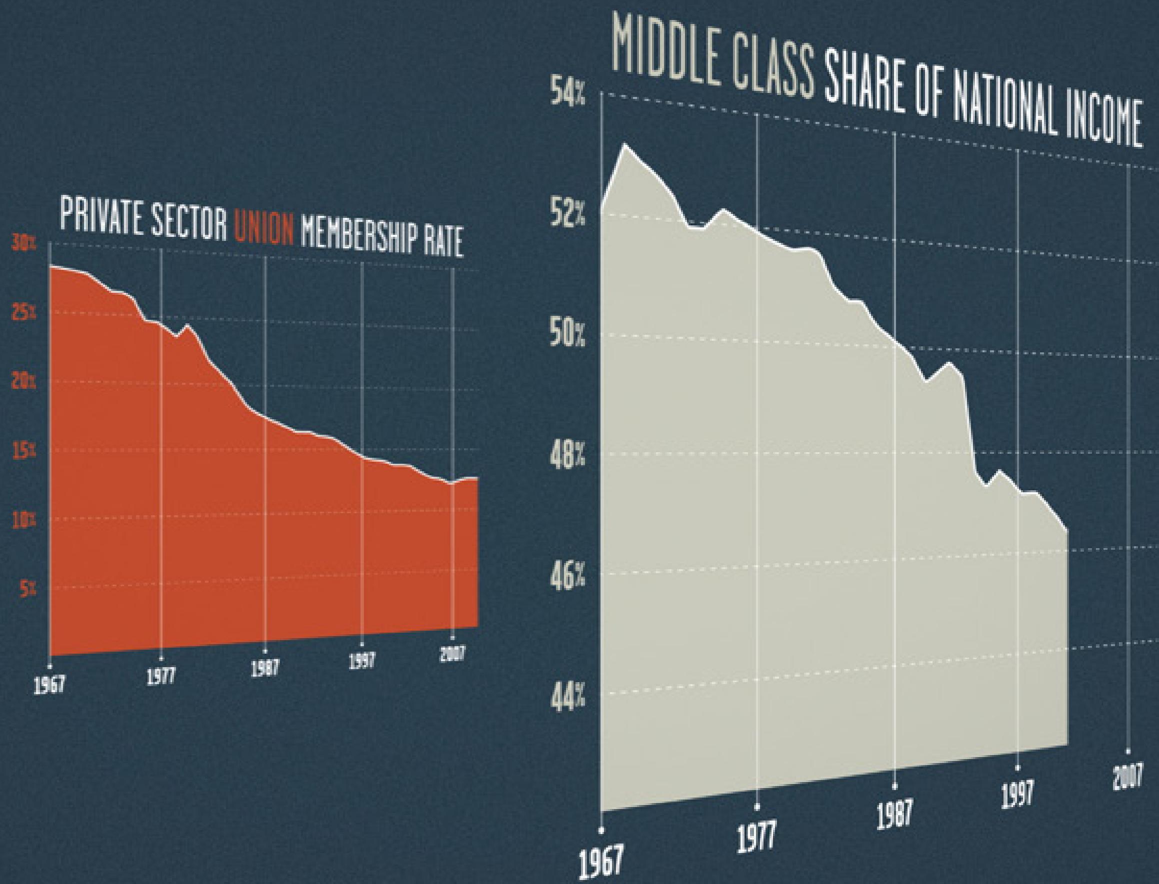
3

So what did happen in the late 1970s?



In the 1970's, you could see the puzzle pieces emerging. American manufacturing was moving abroad. There were the beginnings of a technological revolution. Financial markets were becoming more powerful. There was a move to deregulate. But it wasn't clear where all this would lead.

Another piece of the puzzle was that labor unions were declining.

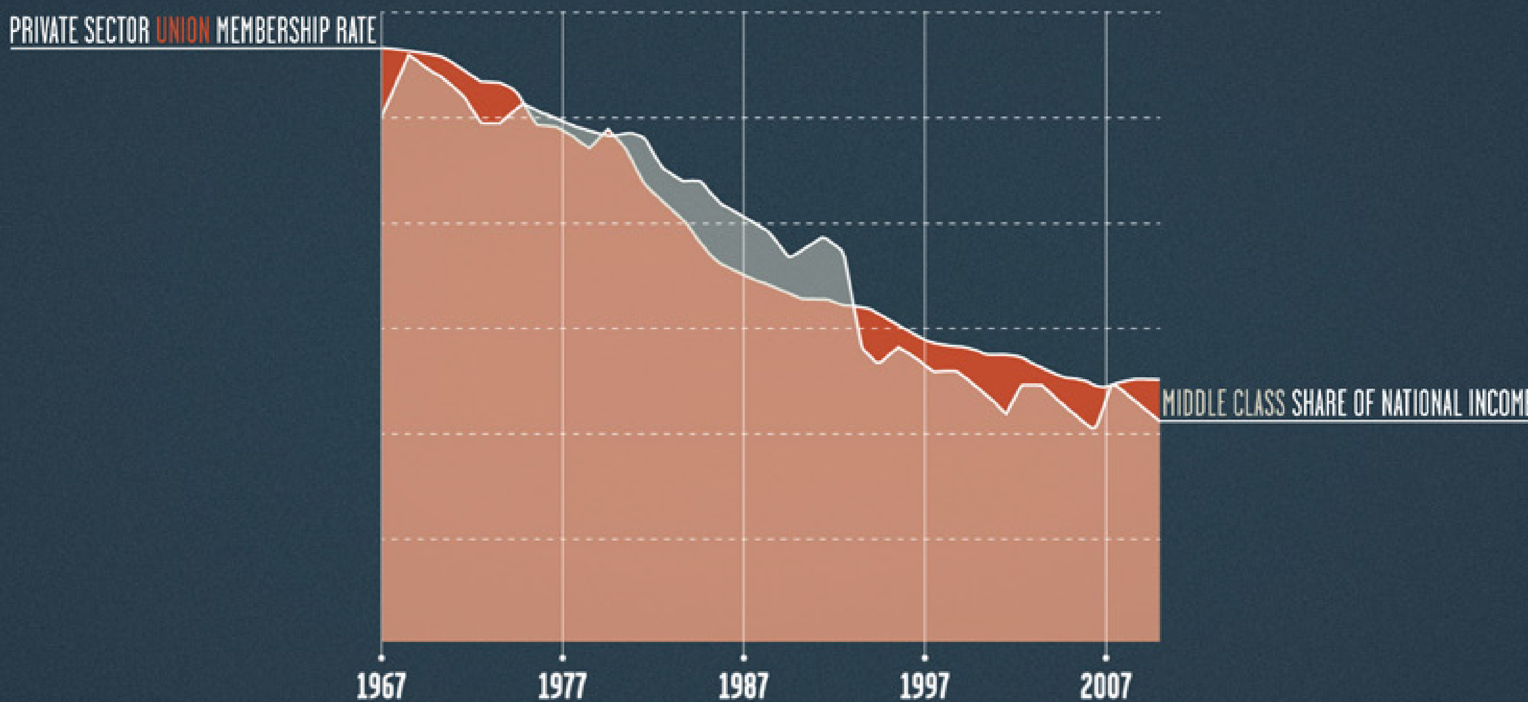


1

And that decline matched almost exactly the decline of the middle class' share of national income.

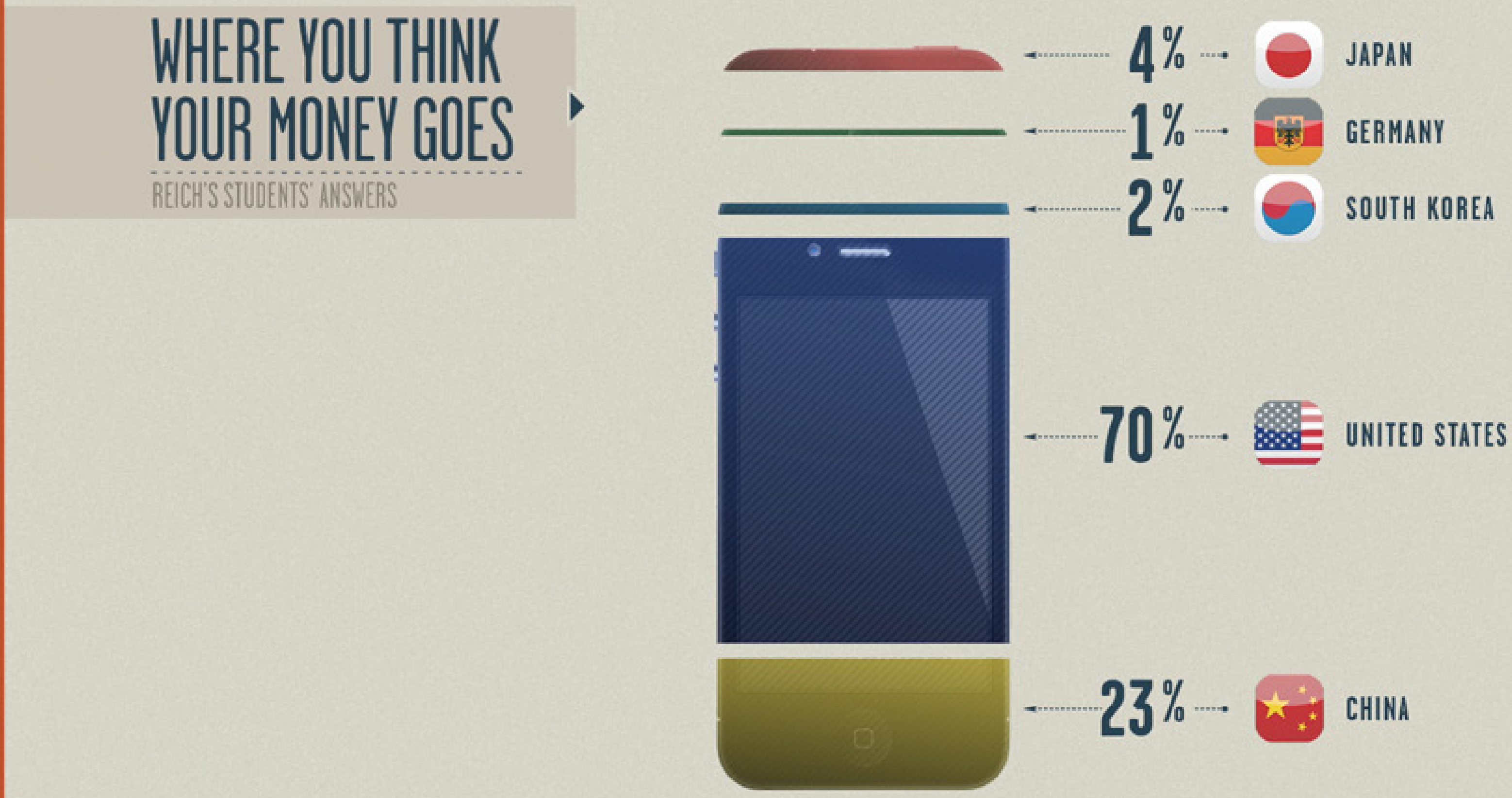
2

But that is just one piece. It isn't the big picture. Unions are important, but we can't just bring back unions and fix the problem.



PART 2: WHY HAS INEQUALITY BEEN WIDENING?

The Big Picture is two interrelated things changed the structure of the economy: Globalization and technological change.



1

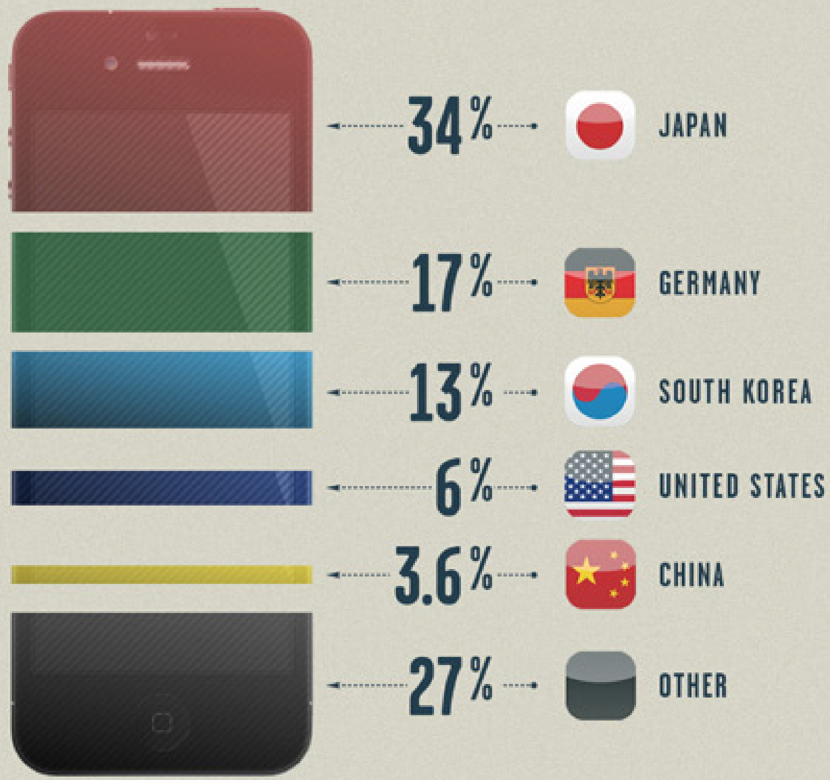
Question: Where do your dollars go when you buy an iPhone in terms of making it? Here's what people we asked said.

2

Here's where your dollars actually go to make it:

WHERE YOUR MONEY ACTUALLY GOES

SOURCE: WALL STREET JOURNAL



iPhones are assembled in China, but from pieces that come from everywhere.
This illustrates how globalization and technology have changed how things get made.

PART 2: WHY HAS INEQUALITY BEEN WIDENING?

Contrary to popular mythology, globalization and technology haven't reduced the number of jobs available to Americans, these transformations have reduced their pay.

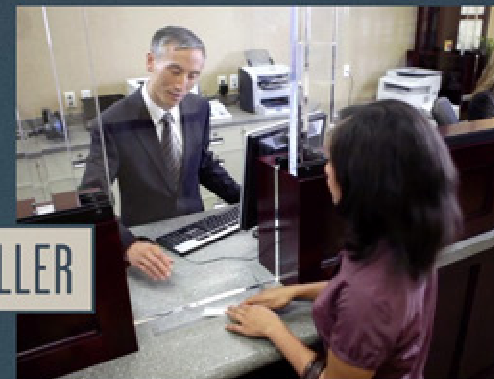
These changes have had negative consequences to upward mobility. Many Americans would be inclined to tolerate income inequality if it meant that with hard work the American Dream could still be yours.

BANK TELLER

1970s

$27,920
(ADJUSTED FOR INFLATION) PER YEAR

2010



$24,100
PER YEAR

MEAT PACKER

1970s

$40,599
(ADJUSTED FOR INFLATION) PER YEAR

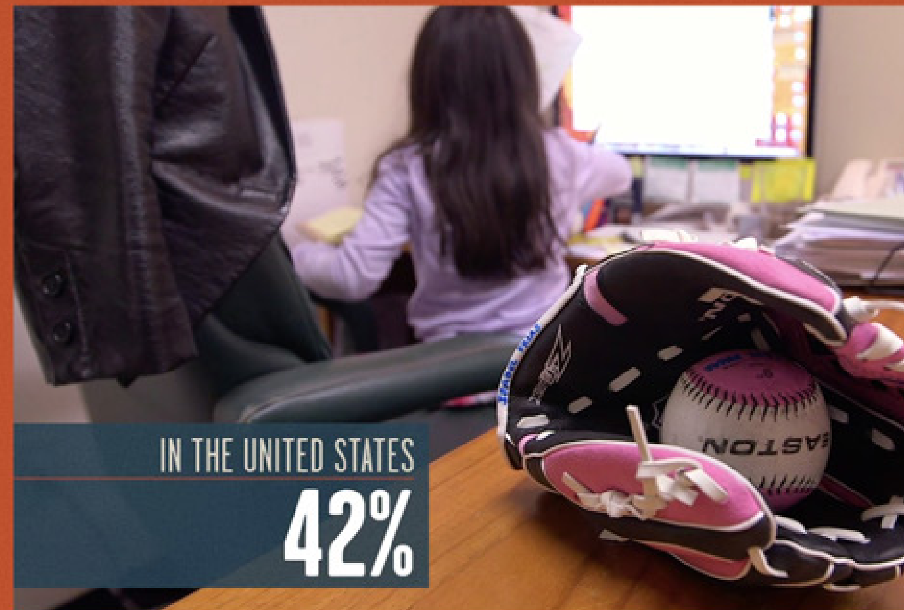
2010

$24,190
PER YEAR

From the film **INEQUALITY FOR ALL**

Today, the U.S. doesn't have nearly as much upward mobility as other Western Nations.

% OF KIDS BORN INTO POVERTY WHO WILL STAY IN POVERTY

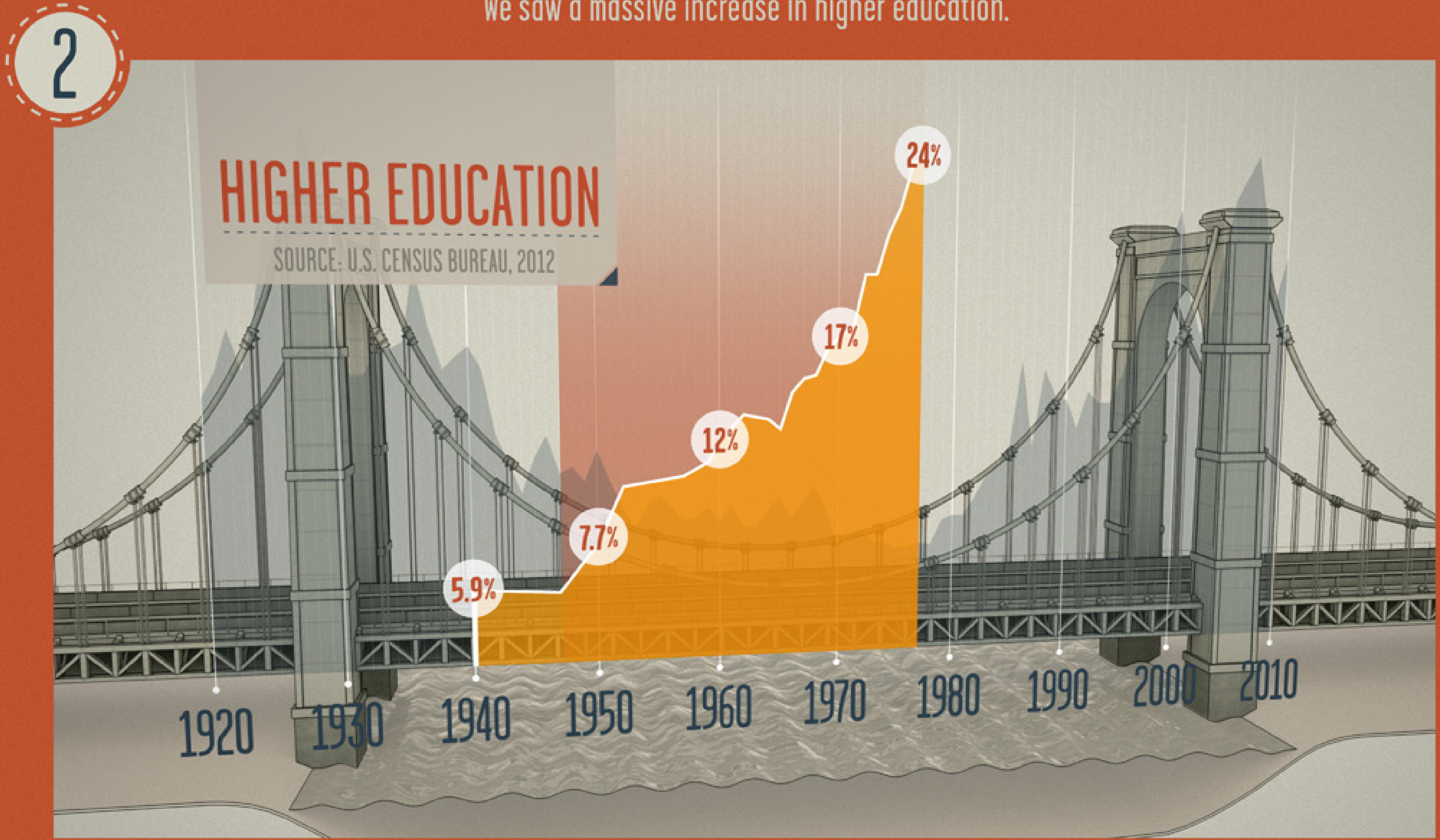


WHO DID IT BETTER?

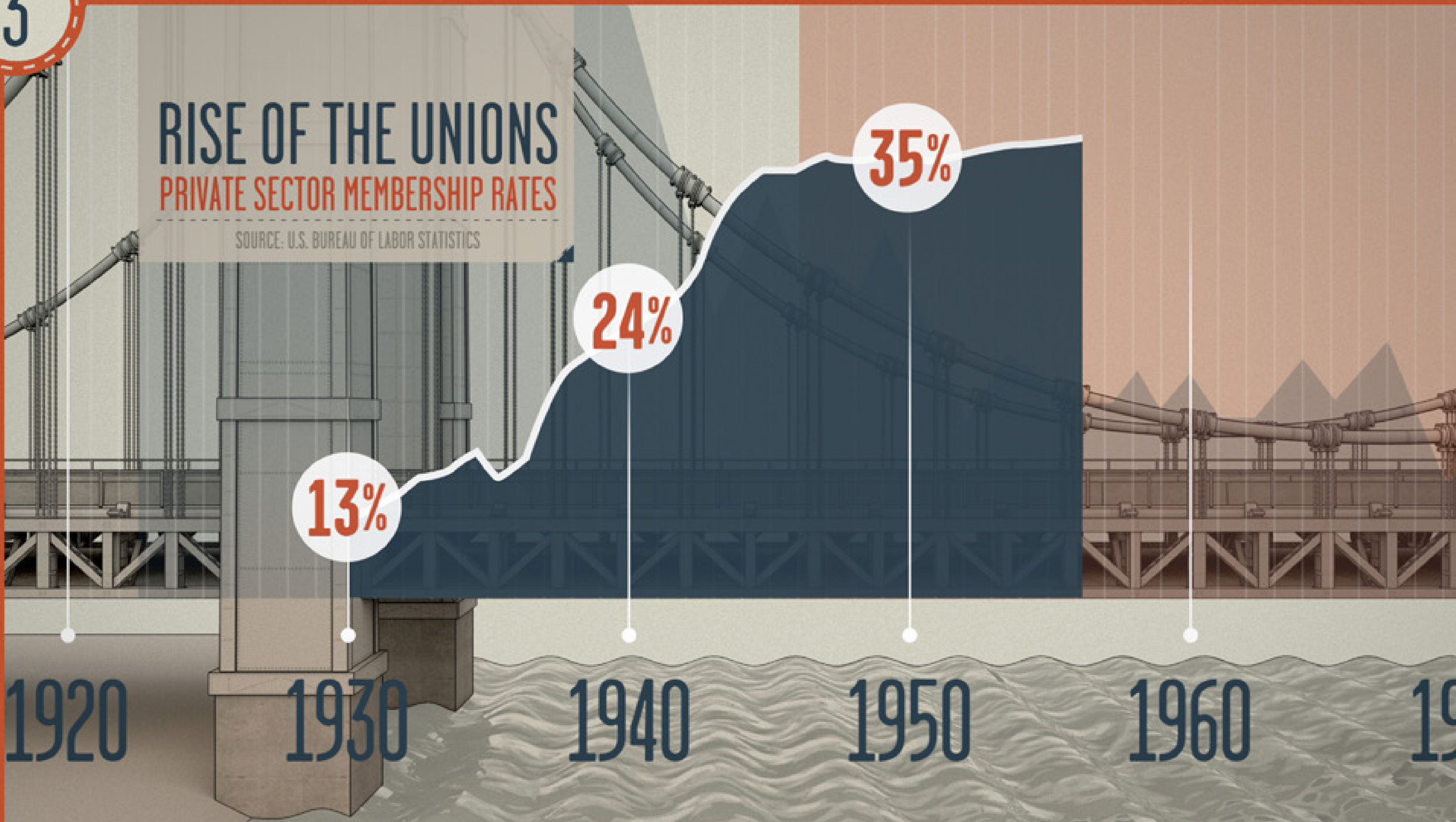
1

How about the U.S.? More specifically, how about the U.S. in the three decades after WWII? You can call the three decades after WWII The Great Prosperity. Not only did the economy boom — it was perhaps the largest economic expansion in history — and we also had very low economic inequality.

We saw a massive increase in higher education.



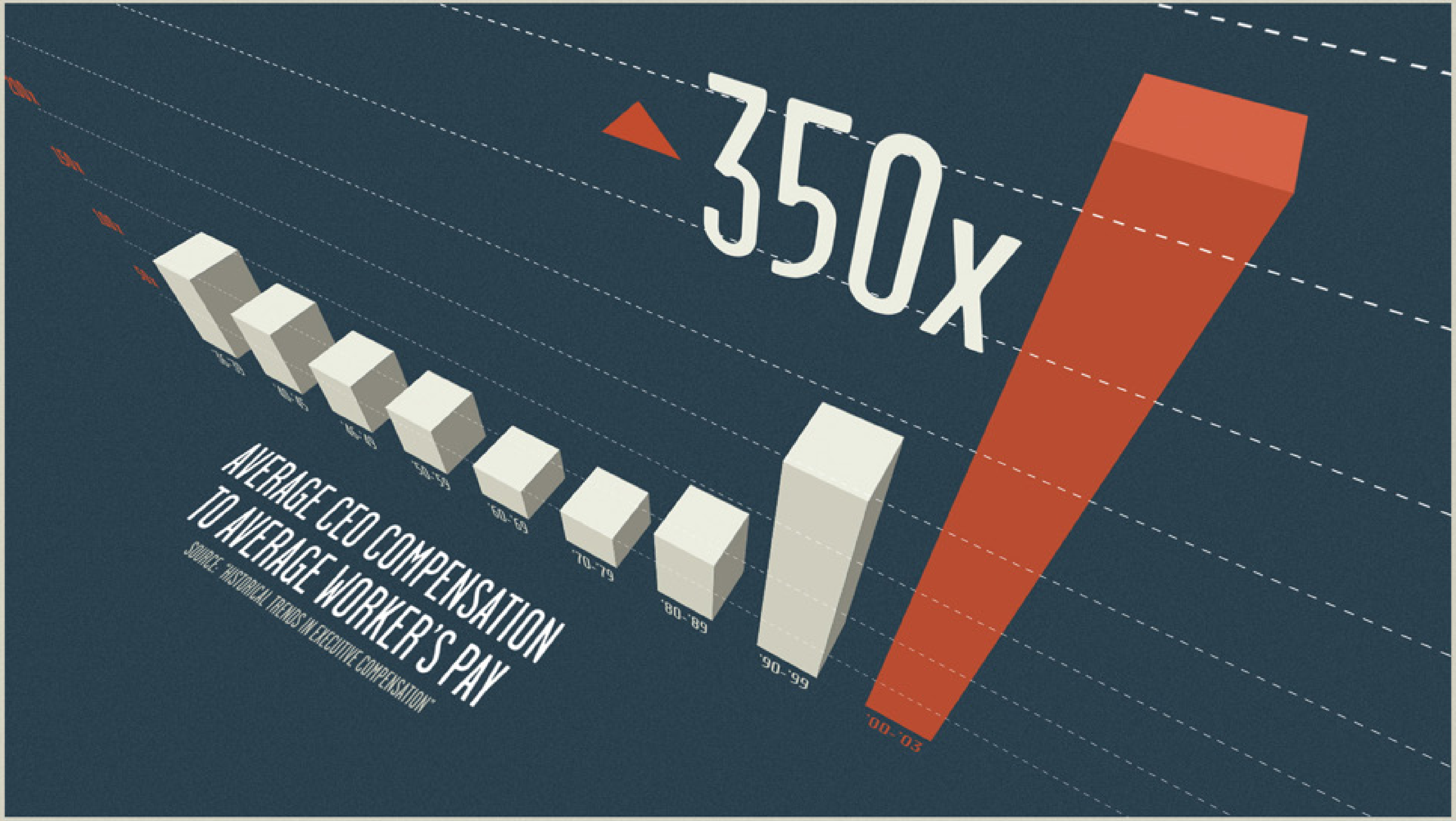
3



And union membership grew until over 1/3 of non-government work force was in unions.
This was a large enough share of the overall workforce that all workers benefited.

This created the largest middle class the world had ever seen,
and that middle class was part of a virtuous cycle where prosperity created more prosperity.

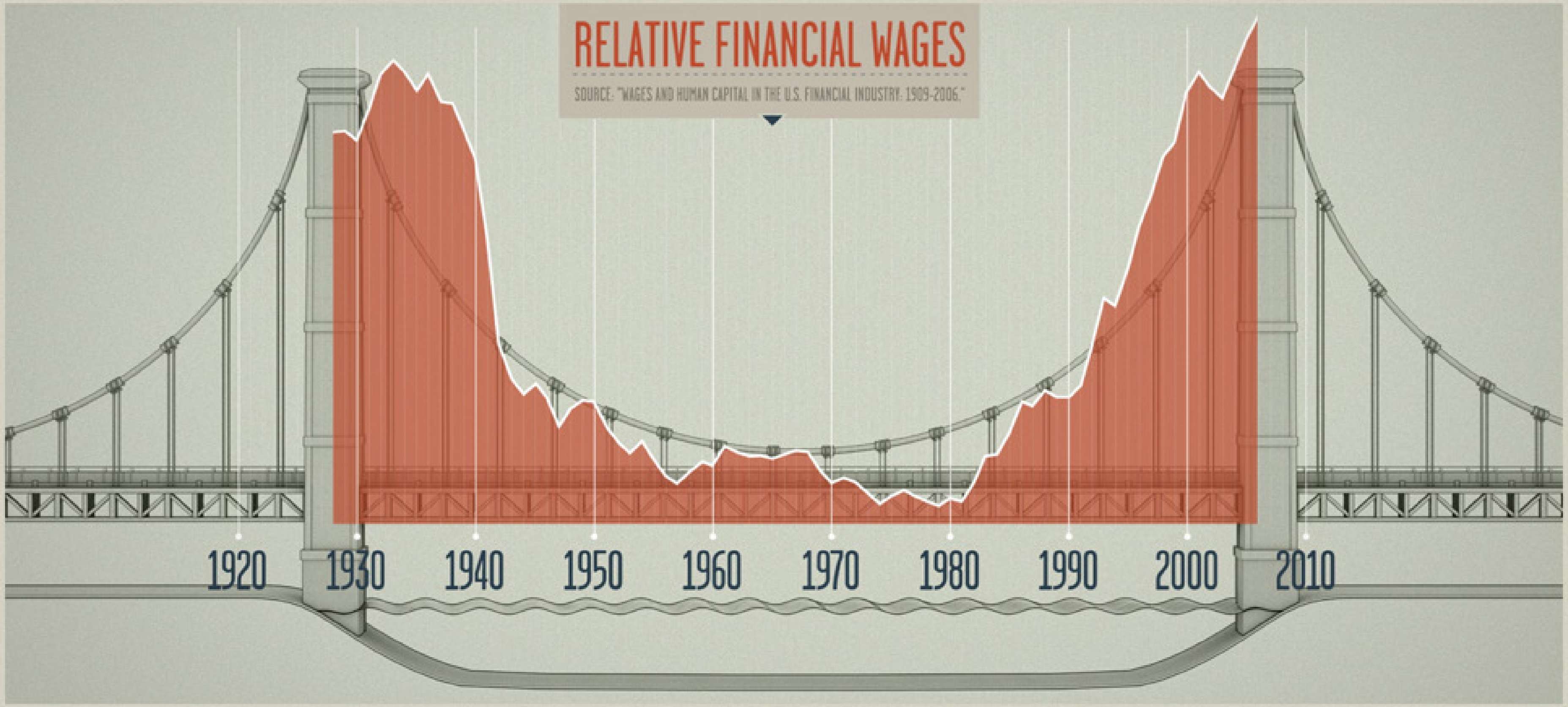
But that virtuous cycle started to unwind in the 1970's.
Pay to middle class workers flattened, as did college graduation rates.



While at the same time, executive pay went through the roof.

PART 3: IS THIS WIDENING INEQUALITY A PROBLEM?

And the financial sector ballooned.
We can see that these trends match exactly with our inequality "bridge" graph, illustrating how it is all interconnected.



The first question is: why didn't we deal with it?

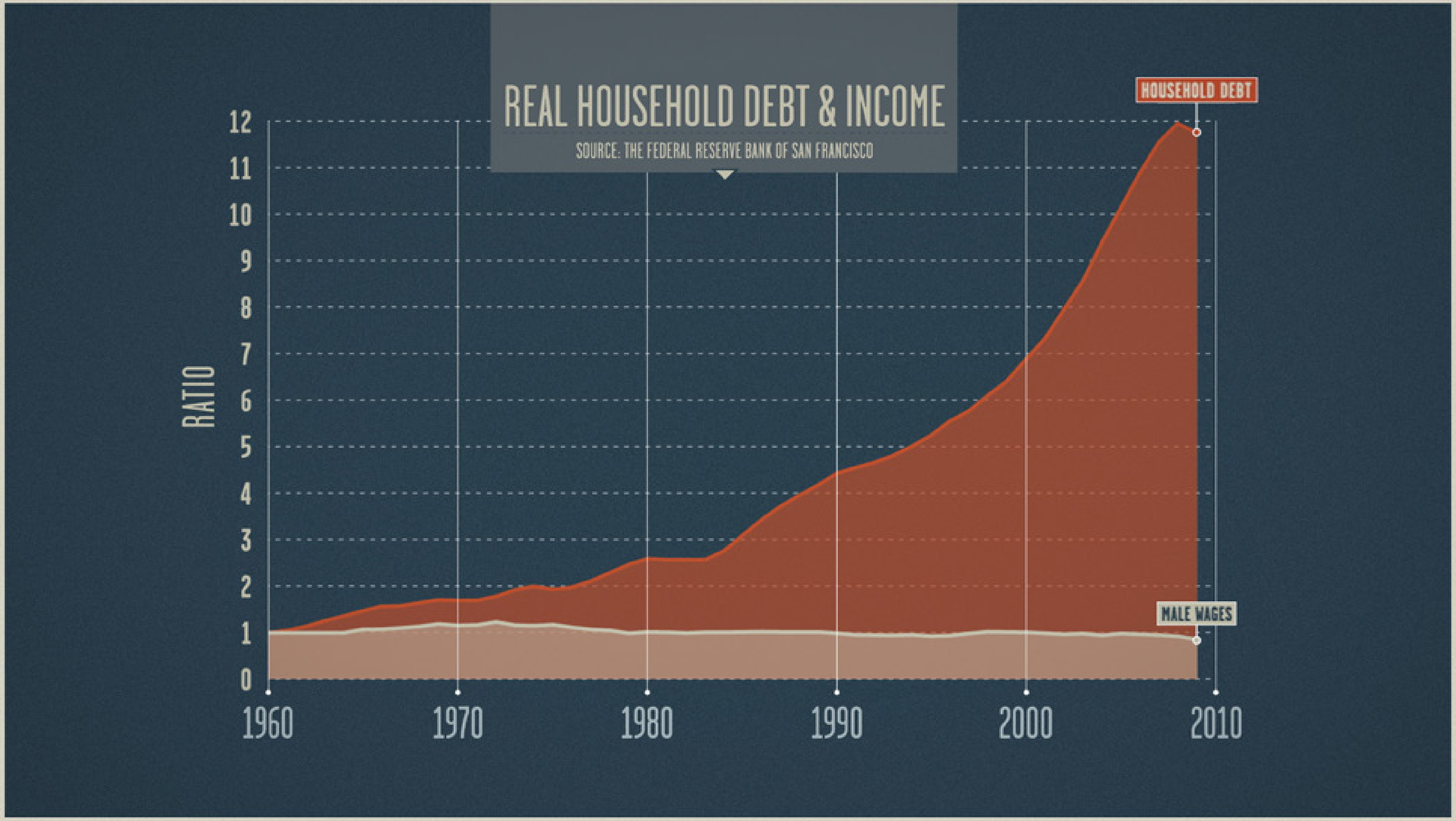
The answer is, the middle class came up with 3 ways to keep spending even while wages were flat. Those 3 coping mechanisms were:

1. Women went in to paid work in huge numbers
2. People worked longer hours (productivity went up and up)
3. People went into debt, particularly housing

From the film INEQUALITY FOR ALL

PART 3: IS THIS WIDENING INEQUALITY A PROBLEM?

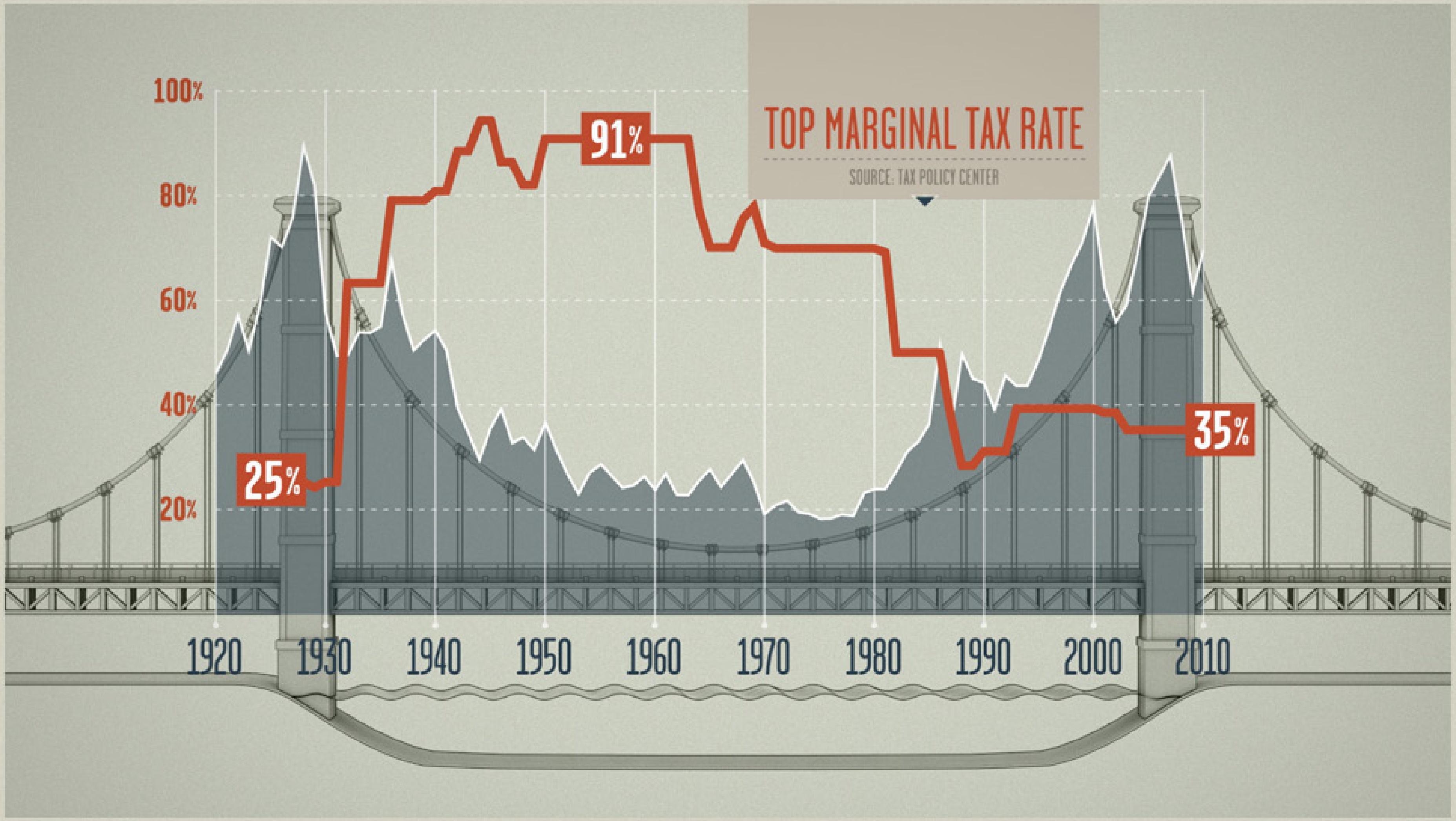
Here's what the houshold debt to typical male wages ratio looked like:



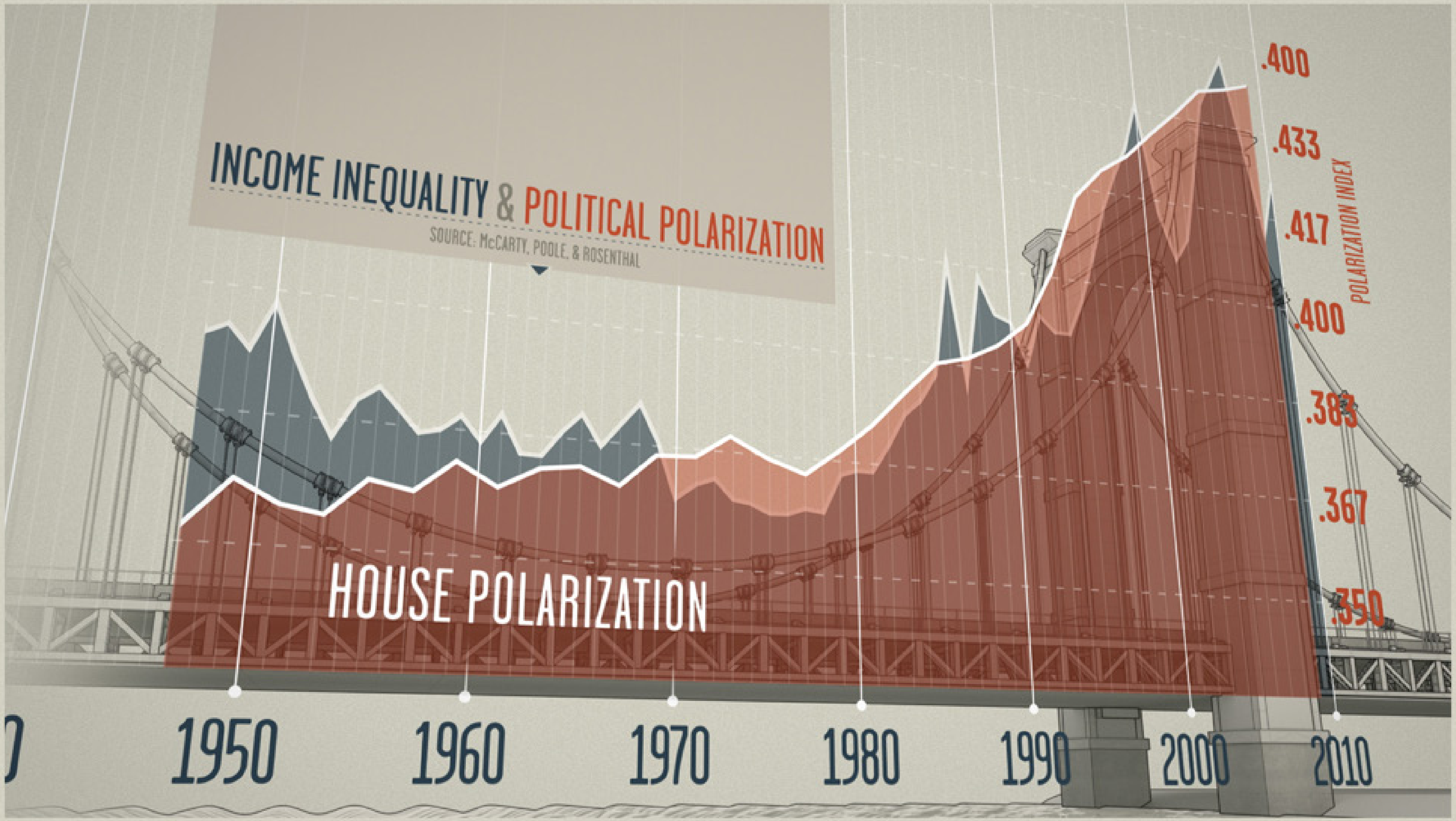
We have seen that when we have a strong middle class, it creates a VIRTUOUS CYCLE.
But when the middle class run out of coping mechanisms, it can lead to the opposite - a VICIOUS CYCLE.

From the film INEQUALITY FOR ALL

But for many who worry about inequality, their primary concern isn't its affect on our economy, it's this growing divide's affect on democracy. As the rich get richer, they have more resources with which to influence democracy.



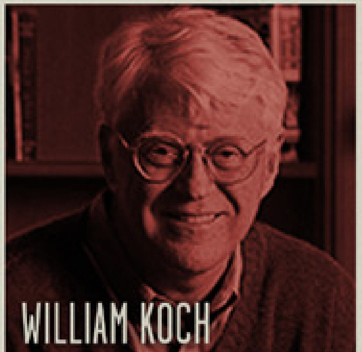
Any questions about whether that consolidation of money works to affect policy can be answered by looking at top marginal tax rates — the rates on any earnings over the highest tax threshold. Over the last century, as inequality goes up, these top tax rates go down.



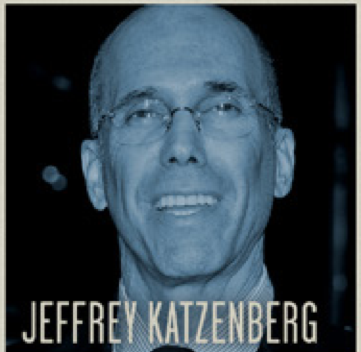
Many citizens start to feel the game is rigged. Losers of rigged games can get very angry. And its easiest to blame the other side. One related consequence is that there is a growing body of evidence suggesting that as inequality increases, so does political polarization.

PART 3: IS THIS WIDENING INEQUALITY A PROBLEM?

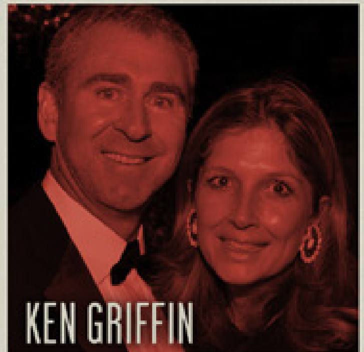
The problem with money isn't partisan. There are liberal billionaires. There are conservative billionaires. So if you see someone buying a result you like, someone else can buy a result you are going to hate.



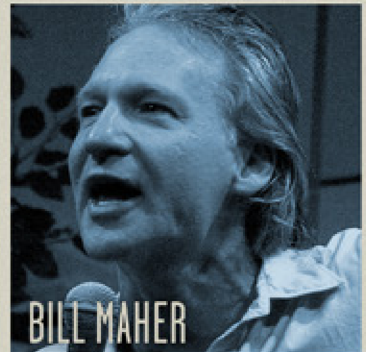
CONTRIBUTION: **$3 MILLION**
TO: **MITT ROMNEY PACS**



CONTRIBUTION: **$3.1 MILLION**
TO: **BARACK OBAMA PACS**

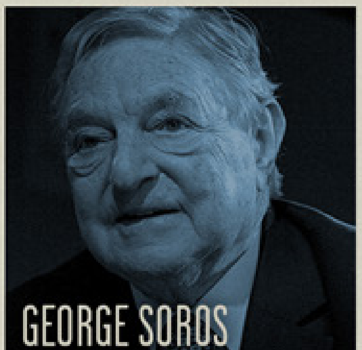


CONTRIBUTION: **$2.58 MILLION**
TO: **REPUBLICAN PACS**

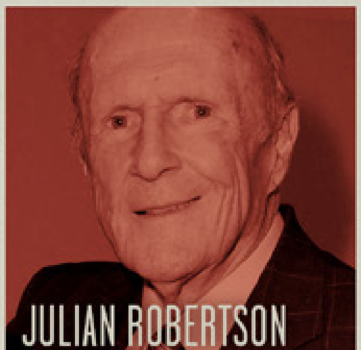


CONTRIBUTION: **$1 MILLION**
TO: **BARACK OBAMA PACS**

CONTRIBUTION: **$70 MILLION**
TO: **REPUBLICAN CAMPAIGNS**

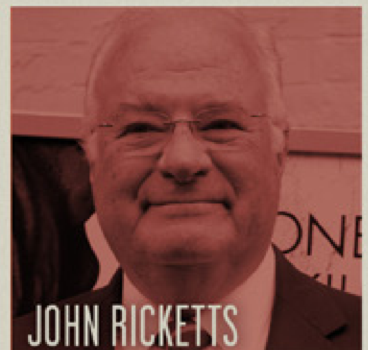


CONTRIBUTION: **$2.5 MILLION**
TO: **BARACK OBAMA PACS**

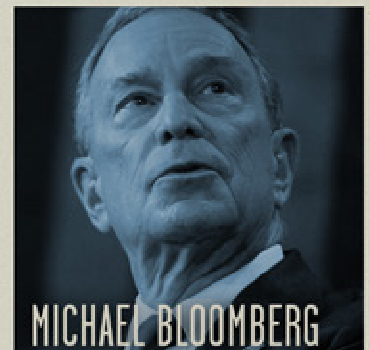


CONTRIBUTION: **$2.25 MILLION**
TO: **MITT ROMNEY PACS**

CONTRIBUTION: **$3.4 MILLION**
TO: **LIBERAL PACS**



CONTRIBUTION: **$12.8 MILLION**
TO: **CONSERVATIVE SUPER PACS**



CONTRIBUTION: **$3.6 MILLION**
TO: **LIBERAL PACS**

The problem of widening income inequality is structural. There are various solutions out there that depend on your political persuasion, but there is no doubt that economic inequality is a major challenge of our time.