How to Fix Economic Inequality?
An Overview of Policies for the United States and Other High-Income Economies

For decades, a gap has been growing between the rich and poor in advanced economies, especially the United States. Then the coronavirus pandemic struck, costing over a million lives globally by the end of October 2020 and setting off the worst global recession in nearly a century. The people most vulnerable to a health and economic shock have been hit the hardest.

Now at a time of acute health and economic crisis, widening divisions are raising moral, social, economic, and political challenges. Many experts argue that longstanding US policies that widened inequality have also exacerbated the pandemic’s impact. As the United States and other countries strive to rebuild their economies, governments have an opening to alleviate unfair economic disparities and improve access to opportunities.

This guide draws together research from the world’s leading experts on inequality trends and causes within countries and a list of available policy options to mitigate the growing gap (mostly for the United States, with lessons applicable to other advanced countries).

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Note: Most of the research below comes from the Peterson Institute 2019 conference on “Combating Inequality,” later work from attending experts, and other PIIE publications. Read also “We Have the Tools to Reverse the Rise in Inequality,” by conference organizers Olivier Blanchard (PIIE) and Dani Rodrik (Harvard University), from their forthcoming book of essays by conference participants, Combating Inequality: Rethinking Government’s Role, to be published by MIT Press in 2021.
SECTION 1
Inequality is rising within countries

Income inequality has grown within advanced economies as top earners have experienced more rapid income growth and bottom earners were left behind.

In the past few decades, the Gini coefficient—a standard measure of income distribution across population segments increased within most high-income economies. The United States remains the most unequal high-income economy in the world. The disparity reflects a surge in incomes for the richest population segments, along with sluggish or even falling incomes for the poorest, especially during bad economic times.

At the same time, the middle class is shrinking. The percent of Americans in the middle class has dropped since the 1970s, from 61 percent in 1971 to 51 percent in 2019. Some have moved up the income ladder, but an increasing number are also moving down. The middle class has also shrunk considerably in countries like Germany, Canada, and Sweden, but other advanced economies have generally experienced more modest declines.

The Gini coefficient measures how equally income is distributed across a population, with 0 being perfectly equal (where everyone receives an equal share) and 1 being completely unequal (where 100 percent of income goes to only one person). Between 1985 and 2013 (or latest available year of data), the Gini coefficient rose significantly for most high-income countries for which long-time series are available.
Disposable income (what is left after taxes and government spending) has risen the most for the top 10 percent of earners in recent decades. Poorer families have benefited much less from wider economic growth in most countries. Across many countries, middle and low incomes are barely higher or less in 2016 than what they were ten years prior.

Since 1980, the pretax income of the bottom half of workers in European countries has grown by 37 percent. For the bottom half of Americans, pretax income has risen only 3 percent.

Figure 2: Real disposable income in advanced economies by income position, 1985–2016 (index: 1985=100)

Note: Unweighted average for 17 countries for which long-term data are available: Canada, Denmark, Finland, France, Germany, Greece, Israel, Italy, Japan, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Sweden, United Kingdom, and United States. Available dataset includes Mexico, which is not an advanced economy.


Figure 3: Average pretax income growth of bottom 50 percent of population relative to 1980

Note: Data for Europe refer to 38 European nations.

Sources: Chancel (2019) based on Blanchet, Chancel, and Gethin (2019); Piketty, Saez, and Zucman (2018).
While inequality within countries has worsened, global inequality has declined—in large part because of globalization.

Inequality between the poorest and richest people in the world has noticeably declined in recent decades. Trade has been a critical driver of this improvement, cutting the number living in extreme poverty (those living on less than $1.25 a day) by half since 1990, according to the World Bank. Total trade as a share of GDP in developing countries has doubled since 1985. Opening up to trade boosts a country’s economy, which helps create new investment and employment opportunities that foster long-term growth.

There is a strong correlation between expanded exports as a share of global GDP and the reduction in extreme poverty, based on research by the World Bank.

Read more:

*Imagine There’s No Country: Poverty, Inequality, and Growth in the Era of Globalization* by Surjit S. Bhalla

“Deconstructing Branko Milanovic’s ‘Elephant Chart’: Does It Show What Everyone Thinks?” by Caroline Freund
Wealth is even more concentrated at the top than income.

Wealth buttresses financial security for families. It comprises the value of assets, such as a home or corporate stocks, minus outstanding debt, such as a mortgage or student loans. Wealth is much more concentrated among the top tier of wealth holders, with households in the top 10 percent of the wealth distribution in high-income countries owning more than half of all household wealth in 2015 (or latest year available), according to the Organization for Economic Cooperation and Development (OECD). In the United States, they own 79 percent. By comparison, the top 10 percent of all income earners receive about a quarter of all cash income. Changes in wealth inequality in recent years differ across countries, though it grew particularly wider in the United States and the United Kingdom after the global financial crisis.

The richest Americans have been able to save more of their money and grow their wealth faster than the average American since the late 1980s. A Pew Research Center study finds only upper-income families in the United States grew wealth between 2001 and 2016, gaining 33 percent at the median. Middle-income families experienced a 20 percent loss in median net worth while lower-income families lost 45 percent.

Figure 5: Share of total household disposable income and total household net wealth held by the top 10 percent, 2015 (or latest available)

<table>
<thead>
<tr>
<th>Country</th>
<th>Income share</th>
<th>Wealth share</th>
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</thead>
<tbody>
<tr>
<td>Slovakia</td>
<td>20%</td>
<td>34%</td>
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<td>Latvia</td>
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<td>58</td>
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<tr>
<td>Chile</td>
<td>36</td>
<td>79</td>
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</table>

Note: The OECD average is the simple country average. Data refer to the share held by the richest 10% of households in the case of wealth; and by the richest 10% of individuals in the case of income. Numbers shown on bars are rounded.

How to measure inequality?

Inequality can be measured in many ways, most often using income. The Gini coefficient is a measure of how equally income is distributed across the population, with 0 being perfectly equal (where everyone receives an equal share) and 1 being completely unequal (where 100 percent of income goes to only one person). Wealth inequality considers the value of people’s assets, like real estate and corporate stock, minus debts. Many income inequality measures do not account for taxes and government transfers like healthcare and income support programs, which help reduce inequality. For more on the impact of government intervention, see Section 6 below and this study by the Congressional Budget Office (CBO).

“The American Dream” is fading. Generations today are much less likely to earn more than their parents.

Social mobility—the chance to move up the income ladder—has fallen in the United States. Americans are increasingly stuck in the income bracket they were born into. Research by Raj Chetty (Harvard University) shows on average, almost 80 percent of children born in 1950 were earning more than their parents by age 30. For children born in 1980, that number dropped to 50 percent. Escaping poverty has become more difficult as wider economic gains disproportionately benefit wealthier classes. A child born in Canada has almost double the chance of moving from the bottom to top income quintile.
US children born in the early 1980s were much less likely to earn more at age 30 than their parents did at the same age.

Americans born into low-income households are more likely to remain at the bottom of the income ladder than their European counterparts, according to an OECD report.

**Figure 7: Percent of US children earning more than their parents at age 30 by year of birth, 1940–1984**

Only half of children born in the early 1980s were making more than their parents at age 30.

**Note:** Children’s income is the sum of individual and spousal income at age 30, excluding immigrants after 1994. Parental income is the sum of the spouses’ incomes for families in which the highest earner is ages 26–35.

**Source:** Chetty et al. (2017).

**Figure 8: Percent of men in bottom or top earnings quartile with fathers in the bottom quartile**

<table>
<thead>
<tr>
<th>OECD 16 average</th>
<th>Top quartile</th>
<th>Bottom quartile</th>
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<tbody>
<tr>
<td>Denmark</td>
<td>17%</td>
<td>3%</td>
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<tr>
<td>Portugal</td>
<td>21%</td>
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<tr>
<td>Chile</td>
<td>23%</td>
<td>25%</td>
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<tr>
<td>UK</td>
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<td>Netherlands</td>
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<td>France</td>
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<td>Luxembourg</td>
<td>35%</td>
<td>39%</td>
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<tr>
<td>Germany</td>
<td>39%</td>
<td>42%</td>
</tr>
<tr>
<td>US</td>
<td>42%</td>
<td>42%</td>
</tr>
</tbody>
</table>

**Note:** Calculations based on 2011 data. Chile refers to 2009 data. Numbers shown on bars are rounded.

**Source:** Organization for Economic Cooperation and Development (OECD), “A Broken Social Elevator? How to Promote Social Mobility.”
The top 1 percent command an ever bigger share of national income and wealth in the United States.

In the United States, the top 1 percent of earners made a little over 10 percent of the country’s income in 1980. In 2017, they made 20 percent, surpassing the share of the bottom half of earners. In Europe, the gains among the top 1 percent have been less dramatic, and the bottom half still has more income share than the top 1 percent.

The top 1 percent wealth share declined for much of the 20th century in the United States but then started rising in the late 1970s. It has recently reached levels last observed in the early 1920s. The upswing has been almost entirely driven by the wealthiest top 0.1 percent, who held 7 percent of US wealth in 1979 and nearly 20 percent today, based on research by Emmanuel Saez and Gabriel Zucman.

Figure 9: Pretax share of national income, 1980–2017

![Chart showing pretax share of national income](chart)

In the United States, the top 1 percent of earners now receive a larger pretax share of national income than their European equivalents.

Sources: Chancel (2019) based on Blanchet, Chancel, and Gethin (2019); Piketty, Saez, and Zucman (2018).

Figure 10: Top 1 percent personal wealth share in rich countries, 1910–2014

![Chart showing top 1 percent wealth share](chart)

The wealthiest 1 percent of Americans have held close to 40 percent of the nation’s wealth in recent years, approaching levels not seen in nearly a century.

The income gap between men and women has narrowed but persists.

Since the 1970s, widespread progress occurred in reducing the wage gap between men and women across advanced economies, but progress leveled off in the United States and elsewhere around 2005. Women in the United States earned 18 percent less than men on average in 2019, close to the average among G7 countries. Factors for the wage gap include differences in jobs held by men and women and outright discrimination. If current trends continue, it may take a century to reach wage parity.

**Figure 11: Gender wage gap among G7 countries and South Korea, 1970–2019**

Progress towards narrowing the gender wage gap slowed starting around 2005.

The income gap between Black and white Americans has remained about the same since the 1980s. The racial wealth gap has widened considerably.

White Americans earned 2.5 times more than Black Americans in the 1960s. By the 1980s that differential dropped to 1.3 times more, partially because the minimum wage expanded to more sectors. The racial earnings gap has since stagnated.

The US racial wealth gap has grown since the 1980s-1990s and the difference between groups is pronounced. In 2019, a typical white family had eight times the wealth of a Black family and five times the wealth of a Hispanic family.
Wealth among Black and Hispanic families has grown more slowly since the 1990s than in white families.

People generally accumulate wealth as they grow older, but the differences in wealth across US racial and ethnic groups is stark. A 2019 Fed survey shows young Black families have almost no wealth ($600) compared with $25,400 for white families.
SECTION 2
What drives inequality?

Technology and trade are factors, but policies determine outcome.

Automation and trade liberalization have profoundly transformed labor markets across advanced economies, giving disproportionate advantages to highly skilled and educated workers, and research shows these forces have played a role in widening inequality. But it is important to emphasize the role of governments in mitigating these effects. The United States and Europe have very different levels of inequality despite similar levels of technological change and trade liberalization. Divergent policies among countries must logically have influenced their disparities in the growth in inequality.

How have technology and globalization widened inequality within the United States?

Economists generally think globalization has contributed marginally to rising US wage inequality but that technology has played a much bigger role. For the last half century, the United States has generated tremendous economic growth and wealth as a result of technological innovations and international trade and investment. Tech giants emerged with the advent of the internet. Businesses tapped global supply chains, technology breakthroughs, and international markets to expand their reach, turning some into multinational powerhouses, generating high-end jobs, and making a whole new range of products affordable for consumers.

But some workers have lost out. US industrial production is still at historically high levels, but automation makes that achievement possible with far fewer workers. The US economy, like many advanced economies, has been driven more by services (information, business and professional services, health care, restaurants, travel, financial services) and less by manufacturing, with consumers spending a smaller percent of their incomes on manufactured goods than they used to.
Technology has reduced demand for certain low- and middle-wage workers, such as in factory assembly lines, and increased demand for high-skilled, higher-paid workers. To cut costs and stay competitive, many businesses outsourced manufacturing production from domestic factories to countries like China, Vietnam, and Mexico, displacing some domestic manufacturing jobs. (A Peterson Institute study finds about 156,000 US manufacturing jobs were lost on net each year between 2001 and 2016 from expanded trade, or less than 1 percent of the workers laid off in a typical year).

Men and workers without a college degree have been hardest hit, especially in factory towns outside major US cities. Many of these workers have dropped out of the labor force. By contrast, highly educated and skilled workers, particularly in urban areas, earned a premium.

Learn more about the effects of trade and investment in this guide, “What Is Globalization?”

Governments have cut top tax rates.

Tax policy is one of the most important factors in determining inequality levels in advanced economies. Taxes in the United States and many other rich countries have become less progressive in the past 50 years, meaning that tax obligations have declined for those with the highest incomes. The top earners used to pay much higher tax rates on their income than they do now. Less progressive taxation has accelerated the growth of top incomes.

1. In 2016, 19.9 million workers [pdf] were laid off or discharged (i.e., involuntary separations).
The average tax rate paid by the top 1 percent of US earners has steadily declined over many decades; since 2010, the highest-earning individuals have been paying an average tax rate roughly equal to or even less than other Americans. (Income levels of taxpayers do not account for government transfers).

In the 1950s, the top US marginal income tax rate was above 90 percent, a legacy of the war-foothing economy of World War II. It is now just below 40 percent. (In the United States, the top marginal tax rate is charged only on earnings above $510,000 for an individual). Other countries, like Japan and France, had similar declines.
Poor Americans are much less likely to attain higher education than rich Americans.

In the United States, 90 percent of children with parents in the top 10 percent of the income distribution will likely attend college. For children with parents in the poorest 10 percent, less than a third will. American families are more burdened by college tuition costs than families in Europe, where higher education is more likely to be free or subsidized. US college tuition for four-year institutions has risen five-fold since 1985, adjusted for inflation, reaching $27,000 a year on average in 2017. US children today are less likely to exceed their parents’ standard of living because education levels are failing to grow at the rate required to meet the demand for a more educated workforce.

Healthcare in the United States is not universal.

The United States is the only wealthy nation without universal health coverage. Healthcare expenditures grew from 5 percent of GDP in 1960 to almost 18 percent in 2018. Americans spend more than double on healthcare per person than other wealthy countries on average, many of which have some form of publicly funded healthcare system, yet the country lags on many health outcomes such as life expectancy and infant mortality. In 2018, 8.5 percent of people, or 27.5 million, did not have health insurance at all (though the Affordable Care Act made some headway in reducing the number after 2010). Employers that provide health benefits to workers shoulder the costs of rapidly rising insurance premiums.

The US federal minimum wage has fallen.

The US federal minimum wage, currently $7.25 an hour, has dropped by almost 30 percent since the 1960s when adjusted for inflation. More than half of US states have set higher minimum wages but the rest have not. France’s minimum wage grew more than 80 percent between 1980 and 2016 when adjusted for inflation, to almost €10 or nearly $12 an hour.
Unions are less powerful than they used to be.

Union membership has long been declining across rich countries, especially in the United States. In the 1950s, approximately one-third of all US workers belonged to a union. In 2019, that figure was just 10 percent. Most European countries still have much higher shares of workers in unions than the United States. Some European countries (Germany, for example) also have employees on corporate advisory boards or board seats that can be reserved for trade unions, increasing their influence over wages and workplace regulations.

Americans are moving less often while cities attract high-paying jobs.

In the past three decades, the share of the US population making an interstate move fell by half, limiting the ability of families to pursue new job opportunities in response to declines in manufacturing jobs. It’s not clear why mobility fell, but rising housing prices in areas of opportunity may be a factor. In cities, wages for highly educated workers grew faster than for the less educated, widening the income gap between urban and nonurban areas.

The economic fallout from the COVID-19 pandemic has disproportionately harmed already vulnerable groups.

Low-income workers, minorities, and women are among those who have suffered the biggest economic losses. (See Section 5)

Climate change hits the poorest the hardest.

Extreme weather patterns attributed to climate change are widening inequality. Low-income groups tend to be more exposed to environmental threats, like flooding, hurricanes, and heat waves, and live in communities without effective disaster relief strategies.

Additionally, certain policy responses to limit the climate crisis could disproportionately affect low-income workers. An example is the French government’s attempt to implement a fuel tax, which provoked street protests throughout the country.
SECTION 3
Why care about inequality?

Social and economic inequalities, for example inequalities of wealth and authority, are just only if they result in compensating benefits for everyone, and in particular for the least advantaged members of society.

John Rawls, A Theory of Justice (1971)

There are opposing views on whether economic inequality needs to be narrowed, ranging from economic to political to philosophical. The most obvious case for combating inequality rests on the notion of fairness—that everyone should have an equal chance at attaining prosperity.

On the other side of the argument, some influential economists have long held that there is a tradeoff between equality and growth—that greater inequality may be an inevitable outcome of higher output, but this point of view is hotly contested. Some social scientists think that inequality may be acceptable if people are also lifted out of poverty (regardless if others are becoming superrich). Others defend inequality as an inevitable result of differences in talent and the important role of free choices by individuals. They argue that excessive focus on inequality is misplaced.

Here are some counterpoints and alternative ways of thinking about it.

It matters who is treated unequally and why

Discussions about solutions must take into account those people still excluded from economic security because of their race, gender, ethnicity, or place of birth, argues Adam S. Posen (PIIE). Inequality on the basis of discrimination is arguably worse as well as differently addressed than economic equality per se. By the same token, high wealth or income which doesn’t come from unfair advantages may not be bad in and of itself, even if that inequality should be reduced in pursuit of other goals.

Inequality may hurt a country’s economy.

Recent studies find evidence that inequality hampers a country’s growth, and this view is gaining ground among policymakers. Jason Furman (PIIE) warns that it is difficult to generalize about the causal relationship between inequality and growth but that policymakers don’t need to choose, because they can pursue well-known “win-win” options, such as improving primary education.

People at the bottom lack power and opportunities to get ahead.

Economic growth metrics cannot by themselves measure human wellbeing, explains Danielle Allen (Harvard University). People must feel included and empowered in society. In an economy with high levels of inequality, people at the bottom lack options to gain wealth or participate in the political system.

Inequality is undemocratic.

Thomas M. (Tim) Scanlon (Harvard University) argues that inequality must be addressed when it results in unfair discrimination by democratic institutions—for example, when
benefits like education and health care are available unequally, when opportunities for advancement are limited, or when citizens are subjected to racism, sexism, or shameful treatment for being poor.

**Authoritarians exploit inequality for political gain.**

Experts have linked rising inequality to the wave of populism and authoritarianism across the world—when governments exploit economic anxiety by appealing to “ordinary people” in opposition to “elites” who are accused of discriminating in favor of foreigners, immigrants, or minorities in the workforce.
SECTION 4  
American beliefs and perceptions on inequality

Most Americans (6 in 10, according to Pew Research) think that economic inequality is a problem. Lower earners are much more likely to believe addressing economic inequality should be a top policy priority. Slightly more than half of Americans with lower incomes say reducing inequality should be a top legislative priority compared with only 36 percent of upper-income earners.

Research by Stefanie Stantcheva (Harvard University) shows that people who are optimistic about social mobility—that rags to riches stories come true, at least for some—generally oppose redistributive policies and tend to oppose government assistance for low-income groups. Conversely, Americans pessimistic about the probability of becoming rich tend to favor such programs.

Americans as a whole overestimate their chances of ascending the income ladder and think that social mobility, achieving the “American Dream” through hard work, is a US hallmark. In fact, social mobility is greater in Europe than the United States.
SECTION 5
The coronavirus crisis

“The burden of the downturn has not fallen equally on all Americans. Instead, those least able to withstand the downturn have been affected the most.”

Jerome Powell, Chairman, Board of Governors of the Federal Reserve (Senate Banking Housing and Urban Affairs Committee, June 16, 2020)

In addition to costing numerous lives and infecting tens of millions, the COVID-19 pandemic has triggered an unprecedented global recession, worsening underlying social vulnerabilities that contribute to inequality. As of the end of October 2020, the United States has the highest number of cumulative cases and deaths in the world from the disease and is among the countries with the highest number of cases and deaths per capita. Research continues to emerge on the pandemic’s economic damage, but some repercussions for US inequality are obvious.

Low-wage workers lost a higher share of jobs than high-wage workers.

The US unemployment rate hit levels not seen since the Great Depression, peaking in April 2020 at 14.7 percent. Employees in the lowest-income brackets and in low-wage jobs in sectors like retail, transportation, in-person services, and hospitality were hit disproportionately by lockdowns. Forty percent of households making less than $40,000 per year lost a job in March 2020. By contrast, only 13 percent of those earning more than $100,000 a year lost their employment in the same period, according to the US Federal Reserve. At the same time, one study shows that US billionaires gained over $500 billion in the months following mid-March 2020.

Lack of healthcare and sick leave, and crowded housing conditions, spurred disease spread and death.

Lacking access to healthcare, many low-income families deferred testing and treatment, which raised transmission rates, says Heather Boushey (Washington Center for Equitable Growth). Countries with greater paid sick leave benefits were better positioned to contain the virus as employees with symptoms could afford to stay home. Those in poor communities had more preexisting respiratory problems, obesity, and hypertension, which led to higher COVID-19 mortality rates. They were also more likely to live in multigenerational homes, increasing their exposure to the disease.

Minorities suffered the worst health and economic outcomes.

As of September 2020, Black Americans have died from COVID-19 at 3.4 times the rate of white Americans, adjusting for age differences in race groups, while Hispanic and Indigenous populations died at 3.3 times the rate of white Americans. Minority workers were more likely to work in high-exposure jobs in the food service, health, and transportation sectors.

Black and Hispanic Americans were also particularly affected by the economic shock of COVID-19. In April 2020, 61 percent of Hispanic Americans and 44 percent of Black Americans lost a job.

2. Due to misclassifications in data as some workers were furloughed, that number could be as high as 20 percent.
Americans reported that someone in their household had lost a job due to the coronavirus outbreak, compared with just 38 percent of white adults. The disproportionate effects continued even as unemployment began to fall in June.

**Those lacking college degrees were more likely to be exposed to the virus.**

College-educated workers with higher incomes were better able to work remotely, and thus reduce their exposure to the virus, than low-wage, non-college-educated workers, who were more likely to hold jobs that could not be done remotely.

**Working mothers bore the brunt of lost childcare.**

About one in five working-age adults said in July 2020 they were not working because the pandemic disrupted their childcare arrangements. Of those not working, women ages 25 to 44 were three times as likely as men to say it was because of childcare demands.

**US economic relief was less effective in keeping workers employed than in Europe**

Between January and May 2020, the US unemployment rate more than tripled, from 3.6 percent to 13.3 percent, but countries like France, Italy, and Germany each experienced less than a 2 percentage point increase.

One preexisting factor was that US workers have fewer protections against being fired than European counterparts. And when the pandemic hit, European countries allowed greater numbers of workers to stay with firms even if they were not working, with the state paying most wages. The United States’ job retention scheme, known as the Paycheck Protection Program (PPP), largely sent payments to workers individually instead of employers and also gave aid to firms that did not need it while missing others in desperate need. As a result, it was not as effective at keeping workers employed. Many European workers maintained connections to their employers, whereas US workers were laid off or furloughed and had to obtain unemployment insurance from overburdened state governments.

![Figure 19](image-url)

**Note:** US unemployment data refer to June and include temporary layoffs. US job retention support data refer to short-time compensation schemes.

**Source:** Organization for Economic Cooperation and Development (OECD), Employment Outlook 2020.
Inequality could widen in the aftermath.

Inequality may deepen in the pandemic’s wake as businesses act protectively to automate tasks now performed by low-wage workers. The shift to online education could also disadvantage the 45 million Americans from low-income households with limited access to broadband internet and smartphones and devices.

The depth and duration of lockdowns forced many small businesses, which lacked liquidity and access to capital, to close, increasing the dominance of larger firms in many industries. Research shows larger firms pay a smaller share of earnings to workers, instead channeling profits to investors and owners and giving the wealthy investor class a larger slice of the economic pie.
### SECTION 6
How much have governments slowed the rise of inequality?

**US efforts have lagged most other advanced economies.**

Governments can reduce inequality through tax relief and income support or transfers (government programs like welfare, free health care, and food stamps), among other types of policies. Before the effects of direct taxes (excluding sales and other indirect taxes) and government transfers, the US Gini level is not unusual for advanced economies, on par with Germany or France. But the United States ranks highest on Gini after taxes and transfers because it redistributes income relatively less than most other advanced economies.

**Figure 20: Gini coefficient before and after taxes and transfers for high-income OECD countries, 2018 or latest available data**

<table>
<thead>
<tr>
<th>Country</th>
<th>Less inequality</th>
<th>More inequality</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>Before taxes and transfers</td>
<td>.39</td>
</tr>
<tr>
<td>UK</td>
<td>After taxes and transfers</td>
<td>.37</td>
</tr>
<tr>
<td>New Zealand</td>
<td>After taxes and transfers</td>
<td>.35</td>
</tr>
<tr>
<td>Japan</td>
<td>After taxes and transfers</td>
<td>.34</td>
</tr>
<tr>
<td>Italy</td>
<td>After taxes and transfers</td>
<td>.33</td>
</tr>
<tr>
<td>Spain</td>
<td>After taxes and transfers</td>
<td>.33</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>After taxes and transfers</td>
<td>.33</td>
</tr>
<tr>
<td>Australia</td>
<td>After taxes and transfers</td>
<td>.32</td>
</tr>
<tr>
<td>Greece</td>
<td>After taxes and transfers</td>
<td>.31</td>
</tr>
<tr>
<td>Canada</td>
<td>After taxes and transfers</td>
<td>.31</td>
</tr>
<tr>
<td>Estonia</td>
<td>After taxes and transfers</td>
<td>.31</td>
</tr>
<tr>
<td>Switzerland</td>
<td>After taxes and transfers</td>
<td>.30</td>
</tr>
<tr>
<td>Ireland</td>
<td>After taxes and transfers</td>
<td>.30</td>
</tr>
<tr>
<td>France</td>
<td>After taxes and transfers</td>
<td>.29</td>
</tr>
<tr>
<td>Germany</td>
<td>After taxes and transfers</td>
<td>.29</td>
</tr>
<tr>
<td>Netherlands</td>
<td>After taxes and transfers</td>
<td>.29</td>
</tr>
<tr>
<td>Sweden</td>
<td>After taxes and transfers</td>
<td>.28</td>
</tr>
<tr>
<td>Poland</td>
<td>After taxes and transfers</td>
<td>.28</td>
</tr>
<tr>
<td>Austria</td>
<td>After taxes and transfers</td>
<td>.28</td>
</tr>
<tr>
<td>Finland</td>
<td>After taxes and transfers</td>
<td>.27</td>
</tr>
<tr>
<td>Belgium</td>
<td>After taxes and transfers</td>
<td>.26</td>
</tr>
<tr>
<td>Norway</td>
<td>After taxes and transfers</td>
<td>.26</td>
</tr>
<tr>
<td>Denmark</td>
<td>After taxes and transfers</td>
<td>.26</td>
</tr>
<tr>
<td>Iceland</td>
<td>After taxes and transfers</td>
<td>.26</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>After taxes and transfers</td>
<td>.25</td>
</tr>
<tr>
<td>Slovenia</td>
<td>After taxes and transfers</td>
<td>.24</td>
</tr>
<tr>
<td>Slovakia</td>
<td>After taxes and transfers</td>
<td>.22</td>
</tr>
</tbody>
</table>

**Note:** The Gini coefficient measures how equally income is distributed across a population, from 0 (perfectly equal) to 1 (all income to one person). Direct taxes exclude sales and other indirect taxes. Data years range from 2014–2018.

**Sources:** Organization for Economic Cooperation and Development (OECD). Calculations by Jacob Funk Kirkegaard and David Xu.
Despite the high level of US inequality, tax relief and government spending programs do help low-income Americans.

Since 1965, the United States has expanded the social safety net for poor and low-income families, notes Jason Furman (PIIE). As a result, the US poverty rate is lower than it would be without these transfers—15 percent instead of 27 percent in 2015.

US federal government programs include:

- **Social Security**: This program provides income to Americans when they retire or cannot work due to a disability.

- **Earned Income Tax Credit, or EITC**: This tax credit, first enacted in the 1970s and expanded many times since then, refunds what low- and moderate-income workers pay in Social Security and Medicare taxes, with benefits depending on one’s income and number of children. Income support for working families through the EITC supplements wage income by as much as 40 percent, helping workers in low-paying jobs make ends meet.

- **Supplemental Nutrition Assistance Program, or SNAP**: This program (formerly known as food stamps) provides aid to low-income families that they can use in stores to purchase food.

- **Medicaid and Medicare**: These programs subsidize health care for the poor and elderly.

- **Housing subsidies**: These housing assistance programs are aimed at alleviating housing costs for very low-income families.
• Trade Adjustment Assistance: This program, started in the 1960s, aids workers who lose their jobs because of increased imports.

• Child and Dependent Care Tax Credit (CDCTC): Established in the 1970s, this tax credit allows families to claim tax refunds for children and dependents. Children experience the highest rates of poverty compared with all other age groups in the United States. The CDCTC has been effective at reducing childhood poverty rates and has been expanded many times since its inception.

The supplementary income accruing from these programs is often not included in official statistics measuring the high level of poverty in the United States. But these programs have kept millions of Americans out of poverty and more support would alleviate poverty even further.

Figure 22: Change in number of people in poverty in the US after government transfers and nondiscretionary expenses by age group, millions, 2019

a. Elements that decreased poverty

<table>
<thead>
<tr>
<th>65 years and older</th>
<th>18–64 years</th>
<th>Under 18 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>-17.5</td>
<td>-7.5</td>
<td>-1.4</td>
</tr>
<tr>
<td>-0.1</td>
<td>-3.4</td>
<td>-4.0</td>
</tr>
<tr>
<td>-0.5</td>
<td>-1.8</td>
<td>-0.5</td>
</tr>
<tr>
<td>-0.6</td>
<td>-1.3</td>
<td>-0.8</td>
</tr>
<tr>
<td>-0.3</td>
<td>-1.2</td>
<td>-1.0</td>
</tr>
<tr>
<td>-0.1</td>
<td>-0.5</td>
<td>-0.7</td>
</tr>
<tr>
<td>-0.1</td>
<td>-0.3</td>
<td>-0.4</td>
</tr>
<tr>
<td>-0.1</td>
<td>-0.3</td>
<td>-0.1</td>
</tr>
<tr>
<td>-0.1</td>
<td>-0.1</td>
<td>-0.1</td>
</tr>
<tr>
<td>-0.1</td>
<td>-0.1</td>
<td>-0.1</td>
</tr>
</tbody>
</table>

-26.5 | Social Security
-7.5 | Refundable tax credits
+2.9 | Supplemental security income
+2.6 | Housing subsidies
+2.5 | SNAP
-1.2 | School lunch
-0.7 | Child support received
-0.5 | Unemployment insurance
-0.3 | TANF / General assistance
-0.2 | WIC
-0.2 | LIHEAP
-0.1 | Workers’ compensation

b. Elements that increased poverty

<table>
<thead>
<tr>
<th></th>
<th>65 years and older</th>
<th>18–64 years</th>
<th>Under 18 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Child support paid</td>
<td>0.3</td>
<td>&lt;0.1</td>
<td>0.2</td>
</tr>
<tr>
<td>Federal income tax</td>
<td>1.1</td>
<td>0.1</td>
<td>0.9</td>
</tr>
<tr>
<td>FICA</td>
<td>4.1</td>
<td>1.3</td>
<td>2.6</td>
</tr>
<tr>
<td>Work expenses</td>
<td>5.0</td>
<td>1.5</td>
<td>3.2</td>
</tr>
<tr>
<td>Medical expenses</td>
<td>7.7</td>
<td>1.4</td>
<td>4.0</td>
</tr>
<tr>
<td></td>
<td>0.2</td>
<td>2.2</td>
<td></td>
</tr>
</tbody>
</table>

SNAP = Supplemental Nutrition Assistance Program; TANF = Temporary Assistance for Needy Families; WIC = The Special Supplemental Nutrition Program for Women, Infants, and Children; LIHEAP = Low Income Home Energy Assistance Program; FICA = Federal Insurance Contributions Act

SECTION 7
Policy recommendations

This menu of policy recommendations is focused on the United States, with some also applicable to other advanced economies. It represents some commonly cited solutions by inequality experts, organized by policies related to taxes, education, labor, corporate regulations, and the social safety net. Economics can provide some guidance over which approach is most effective, but political attitudes toward inequality will play a significant role in which ones to focus on.

<table>
<thead>
<tr>
<th>What income group is affected?</th>
<th>At what stage of the economy does the policy intervene?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pre-production</td>
</tr>
<tr>
<td>Bottom earners</td>
<td>Expanded access to healthcare and education; universal basic income</td>
</tr>
<tr>
<td>Middle earners</td>
<td>Public spending on higher education and job training programs</td>
</tr>
<tr>
<td>Top earners</td>
<td>Inheritance and estate taxes</td>
</tr>
</tbody>
</table>

Another way of thinking about policies to combat inequality is to organize them by economic stages: Policies in the pre-production stage focus on people entering the workforce, production policies affect workers, and post-production policies redistribute income and wealth. These categories can then be further divided by policies directed at bottom, middle, and top income levels. Listen to Dani Rodrik explain here.

**TAX POLICIES**

“We have shed our blood in the glorious cause in which we are engaged; we are ready to shed the last drop in its defense. Nothing is above our courage, except only (with shame I speak it) the courage to tax ourselves.”

James Madison (1782)

Expand the Child Tax Credit (CTC) and the Earned Income Tax Credit (EITC).

The Child Tax Credit provides a $2,000 per child tax credit for parents but excludes the lowest earners, i.e., those with the smallest tax bills, from receiving the full credit. Parents without taxable income cannot claim this refund.

Making the CTC fully refundable would allow the lowest earning families, including those without an income, to claim the full imbursement. Such a change would function as a child allowance available to those with earnings under a certain threshold. This step would be an effective way of reducing childhood poverty.

The Earned Income Tax Credit is calculated based on the number of dependents (children) and work status. It has been effective at reducing poverty since its enactment in 1975. Periodic increases in the program’s disbursements have improved child educational and health outcomes and increased employment among single parents. Expanding the program would further reduce poverty while encouraging work.
Hilary Hoynes (University of California Berkeley) estimates in a National Academy of Sciences report that an investment of $90 billion to $100 billion a year in expanding existing policies—such as EITC, Child and Dependent Care Tax Credit, housing vouchers, and food assistance—would cut child poverty in half.

**Shift taxes toward capital and away from labor to encourage hiring workers.**

Laura D’Andrea Tyson (University of California Berkeley) suggests reducing payroll taxes to ease the burden on workers and taxing capital gains (profit from the sale of an asset like a stock or bond) at the same rate as personal income or higher. She also suggests that local governments agree not to compete against each other in a race to provide ever more expensive tax breaks for corporations to locate there. There are also growing calls for cross-country coordination to tax “mobile” stateless capital income.

**Create a wealth tax.**

Adjusting the top marginal tax rate alone would not increase the effective tax rate on the superrich, argues Gabriel Zucman (University of California Berkeley). Incomes are only a very small fraction of their wealth. Many billionaires accumulate their wealth through shares and other assets, which are subject to capital gains taxes, rather than income taxes. Two former 2020 presidential candidates, Senators Elizabeth Warren and Bernie Sanders, backed taxing wealth directly. Their wealth tax plans sought to tax the net wealth, the assets held minus debts, of the richest citizens on an annual basis. Supporters of a wealth tax, including Emmanuel Saez (University of California Berkeley) and Zucman, contend that it would curtail the power of the superrich while funding valuable programs to help those in need. Other experts, such as Lawrence Summers (Harvard University), argue it is impractical because calculating individual wealth (real estate, possessions) is problematic, and wealth can be shifted abroad. Still others say a wealth tax may be unconstitutional and note that it has been difficult to implement in Europe.

**Keep the estate tax.**

Taxing inheritances with an estate tax has been a feature of US tax policy since the Civil War. Proponents of the tax, which is levied on the wealth of the deceased (including real estate, stocks and bonds, cash, and other assets) before it is passed on to their heirs, see it as a tool to address inherited economic inequality and incentivize spending over holding wealth. Opponents deride it as a “death tax” that prevents family farms and small businesses from being transferred to heirs.

Stefanie Stantcheva (Harvard University) finds the estate tax is often misunderstood. The American public vastly overestimates how many families are over the exemption threshold—that is, how many families actually pay the estate tax. The exemption threshold has been raised over the years (from $3.5 million in 2009 to $11.58 million in 2020), so in reality only 1 in 1,000 US households have estates above the exemption level. Stantcheva suggests that informing the public about the threshold and the small number of estates that would be taxed would increase support for the estate tax.

**Impose a value-added tax (VAT).**

Many advanced industrial economies impose a value-added tax (VAT), which is like a retail sales or consumption tax but collected at each stage of production of goods and services and harder to evade. VATs raise significant revenue in countries that use it, but the financial
costs are borne more heavily by low-income consumers since they spend a higher percent of their income on taxable goods. To combat inequality, advocates say that products that take up a larger share of low-income family expenditures, like food, should be exempted from the VAT. Also, revenues generated from the tax could be used for government aid programs or direct cash transfers.

**Create automatic tax cuts and unemployment benefits.**

Policymakers should set up automatic tax cuts and benefits, known as automatic stabilizers, in the United States that kick in when the unemployment rate rises above a certain threshold in a given time period, instead of having to draw up new legislation that has to pass through Congress every time there is a downturn. Unemployment benefits could also start automatically during recessions.

**Provide tax credits for more research and development (R&D).**

Support for R&D, in the form of investment or tax credits, would spur job creation and raise wages through increased productivity. As new fields emerge there will be more training opportunities. Federal R&D could be more directed away from military and toward economic development. Climate change has been identified as a national security threat and defense spending could be invested in R&D to combat and/or adapt to climate change, which would create jobs as well.

**EDUCATION POLICIES**

**Provide universal early childhood education and increase support for childcare.**

Government-provided universal preschool education and childcare could financially benefit low-skilled and low-income workers and help keep women in the workforce. The COVID-19 crisis has heightened the need for sustained, increased public investment in childcare, as many working women disproportionately have left the workforce to take on care responsibilities. Investing in and increasing publicly funded childcare is also a way to create jobs that cannot be automated.

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**Figure 23: Ratio of wages earned by college graduates vs. high school graduates, 1914–2017**

![Graph showing the ratio of wages earned by college graduates vs. high school graduates from 1914 to 2017. In 2017, college graduates earned nearly twice as much as high school graduates on average.]

**Source:** Autor, Goldin, and Katz (2020).
Improve access to quality higher education.

Making quality public higher education more accessible to more people is one important way to boost incomes. Many policies have been put forward to address this: tax credits to offset college costs; expanding grants and providing reduced or free tuition for low-income students (i.e. Pell grants); a national service program to allow students to earn money that can be put toward education; canceling outstanding loans based on income, time passed, or amount repaid; providing grants to colleges and universities to give more scholarships; or even cancelling tuition entirely. The debate continues over which schools any of these policies should apply to—community colleges and other 2-year degree programs, all public colleges, all 2- and 4-year programs, private schools, etc.

Germany has made almost all programs at public universities tuition-free for domestic and international students.

Provide more job training.

Improving access to low-tuition and tuition-free community colleges and vocational and apprenticeship programs would help prepare young people for new jobs in technology, health care, and other expanding fields that require learned skills. Sectoral training programs can raise earnings 20 to 40 percent, says Lawrence Katz (Harvard University). State and local governments can supplement federal programs in this area: 11 states in the United States have already implemented tuition-free community college, says Laura D’Andrea Tyson (University of California Berkeley). Programs must combine on-the-job training with more general occupation-specific knowledge to build a flexible workforce that can adapt to changing technologies and is receptive to retraining.

Implement talent discovery and matching programs.

Identifying talent in low-income areas and giving them access to educational and training opportunities would improve social mobility. Talent matching programs could link people with a specific set of skills with jobs they can pursue in the long term.

LABOR POLICIES

Raise the federal minimum wage and wages for essential low-paying jobs.

Raising the federal minimum wage would help the lowest paid workers in states that have not already introduced their own higher minimum wages. Opponents say raising the minimum wage would burden employers and reduce the number of jobs available, but several studies find there is little effect on employment.

Jobs in childcare, nursing, elder care, food service, and healthcare are vital to society, but they pay poorly with little to no opportunities for advancement. Workers in these fields need higher wages and career progression opportunities to raise social mobility. These jobs are also less susceptible to automation.

Enforce existing minimum wage laws.

Some employers evade minimum wage laws by classifying employees as independent workers, deducting company costs from wages (for example, taking the cost of a uniform from an employee’s pay), failing to pay overtime, and through other forms of wage theft.
One study suggests that the total wages US employers steal by violating minimum wage and other labor laws exceeds $15 billion each year. More resources to combat wage theft and incentives for compliance would help.

**Increase government investment in job creation programs.**

Fiscal and monetary stimulus—more government investment in job-creating projects—can be more effective than specific government transfer programs to spur a “hot economy” that pushes wages up faster than prices, according to Jason Furman (PIIE). Governments can also spend on infrastructure or other programs to generate employment (which was done during 2009-10), supplement worker income, or train workers for jobs, as programs did during the Great Depression.

**Give employees more bargaining power at companies.**

Richard Freeman (Harvard University) calls trade unions the one “institutional force that fights against inequality.” Several experts point out that as US union membership has fallen, worker bargaining power has declined. As a result, growth in labor productivity has benefitted mainly top wage earners. Easing restrictions on the formation of unions would help. Daron Acemoglu (MIT) says corporations should have nonexecutive workers serve on their boards, the way some German companies do.

Many experts advocate for empowering unions to bargain for better compensation, benefits, access to training, and education. A recent Business Roundtable initiative recommends that big companies make commitments to all stakeholders, including workers and customers, not just investor shareholders.

**Protect workers in the “gig economy” and other alternative work arrangements.**

Shifts in technology and labor arrangements, such as temporary, part-time, on-call, and self-employment jobs, have sometimes disadvantaged workers. Firms are incentivized to hire or classify existing workers as independent contractors because they do not have to provide them with traditional labor protections and worker benefits. The government can develop universal and portable systems that give social protections and benefits for these workers and prevent worker misclassification.

**Create a federal job guarantee.**

The federal government can become the employer of “last resort” through a National Investment Employment Corps spending $750 billion to $1.5 trillion while eliminating the need for some antipoverty programs, argues William Darity Jr. (Duke University). A federal job guarantee would cut inequality by lifting the lowest earners and protecting employment opportunities for groups subject to discrimination.

Richard Freeman (Harvard University) maintains that a federal job guarantee could have been effective at managing the economic shock of the COVID-19 crisis. It could have put newly unemployed workers to work on critical government projects, such as contact tracing, at a wage above the poverty level. As economies rebuild, the federal government can facilitate access to labor through job programs that expand during periods of economic slowdown and shrink during periods of private sector job growth. The same can be said of the need for climate-related labor—federal governments can provide jobs to work on critical green projects.
Expand Trade Adjustment Assistance beyond trade-affected workers.

Trade Adjustment Assistance (TAA) is much criticized as ineffective, but those who received training through the program enjoyed substantial increases in earnings. The program falls short because of its limited scope—it only helps workers demonstrably hurt by trade, not by technology or other factors beyond their control. Removing the conditions and expanding the TAA program to include workers displaced by automation and other factors would deliver the program’s benefits to a wider group of recipients.

How did Germany manage the twin shocks of offshoring and automation?

Germany has had more success than other developed economies in assisting workers hit by offshoring of manufacturing jobs and an influx of imports from China and Eastern Europe. Some of this success can be attributed to German competitiveness in manufacturing goods that were exported to China to support its expanding industrial sector, but German manufacturers have also negotiated temporary wage reductions with workers and unions to save jobs and have been more willing to retrain their workers to take high-skilled and technologically demanding jobs. German apprenticeship programs have helped new workers enter the job market. (Workers 55 years or older have had less success with these programs). Unions and employers in Germany are more accustomed to cooperating than in the United States, allowing for the development of training possibilities within firms. These relationships helped prepare the German workforce for automation and have increased their resilience to future shocks.

CORPORATE REGULATION POLICIES

Create strong competition policies that promote technological innovation.

Technological innovation can be a factor in reducing inequality when new firms enter the market and compete with incumbents for market share. Without strong competition and antitrust policies allowing new entrants into the business landscape, large firms like Amazon and Facebook can use their technology and market dominance to drive out competitors by denying them access to their platforms or engaging in predatory pricing models. Some policymakers favor government regulation to break up monopolies that stifle competition, but supporters of digital sector monopolies argue that their size benefits consumers.

Eliminate noncompete agreements.

Almost 40 percent of workers have at some point signed a noncompete agreement that sets limits on their ability to work for competing firms after leaving a job. Ostensibly, these contracts protect trade secrets, but they also reduce worker mobility and bargaining power. Research indicates wages increase when noncompete agreements are banned and workers can leave low-paying jobs without constraint.
Ban mandatory arbitration and class action waivers.

Mandatory arbitration prevents workers from suing their employers in court, requiring workers to resolve disputes with their employers through private arbitrators. These arbitrators are often chosen by the employers, leading to worse outcomes for workers.

Workers who can pursue legal action against their employers often face prohibitively high legal costs. Class action lawsuits allow workers to share the legal costs among multiple plaintiffs, reducing the financial barriers to legal remedy. Class action waivers that prevent workers from bringing these lawsuits against their employers should also be prohibited, says Heidi Shierholz (Economic Policy Institute).

SOCIAL SAFETY NET POLICIES

Expand access to health care.

The Affordable Care Act (ACA) enacted in the United States in 2010 offers to fund 90 percent of the cost if states expand Medicaid eligibility to include a segment of low-income adults and children, and people with mental illness, who remain uninsured. Some states have declined this incentive. Macroeconomic stability during a public health crisis depends on access to health care, as the COVID-19 crisis amply makes clear. Expanding access to healthcare through Medicaid, Medicare, or subsidized COBRA health insurance plans (for laid off workers) would go far in combating economic inequality and improving economic resilience during a crisis.

Relax eligibility conditions for safety net programs.

In 2019, the Trump administration imposed work requirements for accessing the Supplemental Nutrition Assistance Program (SNAP), formerly known as food stamps, tightening eligibility. Extremely poor families, including children, are often denied access to the program because of work requirements, which punishes families with children especially, according to Hilary Hoynes and Jesse Rothstein (University of California, Berkeley).

Such steps have been part of a wider trend in the United States of diverting public spending on safety net programs away from families without earnings to families with at least one employed parent. Various studies show that tying work requirements to government aid has little effect on employment. Reversing this trend and channeling more assistance to the most disadvantaged segments of the population would help reduce inequality.
Expand other programs to assist the poor.

Housing vouchers, unemployment benefits, Supplemental Security Income (SSI), and Social Security Disability Insurance (SSDI) have helped the elderly and disabled during the opioid crisis of recent years. Expanding these programs could help tackle rising inequality and build an economy resilient to future shocks.

Ensure existing safety net administration is scalable and up-to-date.

The COVID-19 pandemic exposed the administrative weakness of some existing safety nets in the United States. Out-of-date unemployment insurance systems could not handle the massive influx of unemployment insurance claims as the pandemic hit and businesses shuttered, slowing payments to people in need. Ensuring that safety net systems can be scalable in times of need will reduce wait times for those who need these systems the most.

Guarantee a minimum level of income for everyone.

One longstanding idea among some economists is to enact a universal basic income (UBI), which grants everyone a fixed cash transfer every month, regardless of income or need. Greg Mankiw (Harvard University) argues that a UBI would be simple to administer and financed efficiently by a VAT. Jesse Rothstein (University of California Berkeley) suggests a broad negative income tax scheme instead of UBI, where people earning under a certain amount receive supplemental pay from the government instead of paying taxes (this could be seen as a massive expansion in the EITC program) along with a tax increase for the wealthy to fund those transfers.
SECTION 8
We already have the tools needed to combat inequality

No single roadmap exists on how to narrow the gap between the rich and poor, but governments have the toolkit to make a difference. There is broad agreement among inequality experts to use a variety of methods across many fronts. To make progress, policymakers will need to accept and follow through on several points:

1. **Inequality is an urgent problem.** The acceleration of the trend has damaging repercussions on society, with many falling behind on living standards and growing discontent among the “have-nots.” COVID-19 laid bare these structural failings and deep economic vulnerabilities.

2. **Governments must act more forcefully.** By themselves, macroeconomic policies to stimulate private sector economic growth will not close the gap. Governments have to do more to directly address inequality through focused policies while considering the effects of technology, globalization, public health, and any other rising factors.

3. **Taxes and spending programs need to be more progressive, particularly in the United States.** Policymakers face decisions on whether to focus on the government’s revenue side via a tax system in which the wealthy pay more of a share or on public spending for programs that benefit the lower and middle classes. Either way, a legitimate goal would be to expand access for lower-income citizens to quality education, healthcare, and other fundamentals for living and working in society.

4. **Data should drive policymaking, but novel approaches should be considered.** Governments that rely only on proven policy solutions may have limited scope. They need to try and test new and innovative policies to confront complex problems, especially the displacement of jobs by technology and the effects of climate change.

The United States faces a range of crises: a continuing pandemic, widespread unemployment and business failures, climate change, racial and political polarization, and economic inequality. As the world attempts to heal from the damage inflicted by COVID-19, policymakers can use this moment to rebuild more equal and just economies that work for the many, not just the few.

“The millions who are in want will not stand by silently forever while the things to satisfy their needs are within easy reach.”

Franklin Roosevelt (1932)
**GLOSSARY**

**Antitrust laws** are a collection of federal and state laws designed to promote market competition. They include bans on price fixing, conspiring with competitors to divide markets, and bid rigging.

**Automatic stabilizers** are ongoing fiscal policy measures that are automatically triggered when a condition is met, without the need for government action.

**Automation** occurs when a machine carries out a process or procedure that was previously done by human labor.

**Consumer goods**, or final goods, are the end products or services that can be sold to users without further manufacturing or production activity.

**Fiscal stimulus** refers to policy measures designed to increase economic activity through increased government spending or reduced taxes. By contrast, **monetary stimulus** refers to central bank actions to spur the economy—including lowering interest rates or purchasing securities.

The **Gini coefficient** is an index that measures economic inequality through income distribution. On the Gini scale, each economy receives a value between 0, indicating everybody earns the same amount, and 1, indicating one person earns all the country’s income.

**Government transfers** are payments made to individuals for the purposes of redistributing wealth, not in exchange for any goods or services. Welfare payments and Social Security are both examples of government transfers in the United States.

**Inheritance** refers to the assets transferred to the next of kin after death.

**Investment assets** are items purchased to produce additional income. These can be tangible, like artworks or properties, or intangible, like stocks, bonds, and mutual funds.

**National income** is the total amount of money earned within a country.

**Offshoring** is the process of moving a company’s operations abroad to save costs. Companies usually offshore processes from developed countries, where the cost of doing business is often higher, to developing nations.

**Pretax income** refers to the amount of money a person earns before taxes are applied. The employer then deducts a percent of the employee’s earnings and sends it to the government in the form of payroll taxes. In the United States, federal income, Medicare, and Social Security are the three main payroll taxes. But an individual’s tax rate is not calculated on their entire income; instead different parts of an individual’s income are taxed at different rates. **Marginal tax rates** are the rates paid on each additional dollar of income earned. In the United States, for example, the first $9,875 an individual earns is taxed at a lower rate than the next $30,250.

**Progressive taxes** are set at rates that depend on a person’s ability to pay them. Lower earners pay a lower rate than higher earners, who can afford to pay more. By contrast, regressive taxes, which have no correlation to earnings and tax everyone at a similar rate, place a greater financial burden on lower-income families, as a larger percentage goes towards the tax.
Social mobility refers to the ease with which an individual or family can move up or down the wealth ladder.

The social safety net is a collection of government programs designed to help vulnerable families and individuals.

Trade liberalization is the process of removing or reducing barriers to the movement of goods or services between nations. In this context, liberal refers to more free or open trade.

A trade union is an organized association of workers that works to protect and promote their rights and interests. The association may contain workers from a single profession or company, or it can be made up of workers from related fields of work.

Unemployment insurance, or unemployment benefits, is the financial assistance governments pay out to workers that lose their jobs and become unemployed. Unemployment insurance schemes typically have strict eligibility requirements and do not pay out if the worker leaves their job voluntarily.

A value added tax (VAT) is a tax applied to each stage of a supply chain whenever value is added to a product. For example, a manufacturer would pay VAT on raw materials purchased, a retailer pays VAT on the goods purchased from the manufacturer, minus the amount previously paid by the manufacturer on the raw materials. Finally, a consumer pays VAT on the final product, minus the amount paid by the retailer and manufacturer.

Wealth is the value of all assets owned minus debts.

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Correction notice: An earlier version of this PIIE feature presented a chart on the effect of taxes vs. spending on reducing Gini coefficients. This data used to construct the chart (formerly Figure 21) and the associated text were inaccurate and have been removed.
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