First Trust
Monday Morning OUTLOOK

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Spotlighting Inequality

With a Presidential election less than five months away, expect to hear a great deal of discussion about inequality: the gap between the rich, the poor, and the middle class.

It's been a recurring theme of pretty much every presidential election starting in 1932, if not before. What should the federal government itself do to address poverty, expand opportunities for the poor, and close the gap between the rich and poor? It's a potent political talking point, large parts of government spending, along with many agencies and programs, are designed to address it. Inflation, immigration, record-high corporate profits, and soaring stock markets are in the spotlight.

Joe Biden proposes student loan debt forgiveness and caps on drug prices, while Donald Trump has said he will end the taxation of tip income for service workers. These policies are focused on relieving financial burdens on specific groups.

More importantly, if we look at the results of policies during COVID (massive monetary and fiscal stimulus), it is clear that those who own assets benefited, while those who do not, were harmed. Those who had accumulated assets of various kinds – stocks, bonds, real estate, crypto,…etc. – have benefited from asset price inflation, particularly those whose jobs allowed them to work remotely.

This same inflation caused by the Federal Reserve hit lower income groups harder than everyone else. It's a given that those with fewer financial assets benefited less from price appreciation. And while average hourly earnings did accelerate because of inflation…up 22.3% since February 2020, the consumer price index is up 20.8% during that same time frame. But, food prices are up 25.3% and energy prices are up 35.6%, both of which make up a larger share of spending for lower income groups. Airfare, by contrast, is down 1.2% over the same timeframe. No matter how we look at it, living standards have at best stagnated for those with few assets and wage income.

Politicians have pushed for an increase in the minimum wage to try to help lower-income workers keep pace with inflation, but we doubt that's helping. For example, in California a recent law raised the minimum wage for restaurant workers to $20/hour versus $16/hour for other workers.

Overall unemployment remains low at 4.0%, up only 0.3 percentage points from a year ago. But that overall modest increase masks some large increases among younger workers. Unemployment among 16-17 year-olds has soared to 13.6% from 9.7% a year ago. Unemployment among 20-24 year-olds has risen to 7.9% versus 6.3% a year ago. The kids are increasingly not alright in the current labor market.

And no matter how much time politicians spend talking about inequality, too small a share of it will be spent discussing the horrible long-term effects of COVID Lockdowns on learning, which caused a loss of accumulated skills during COVID itself but also the lingering effects of higher school absenteeism.

One way to address educational inequality is for states to continue to move in the direction of funding students rather than funding government-run schools. After all, even in states with locked-down public schools, many private schools found a way to educate students in person. Because most state governments fund schools and not students, those who could afford private schools avoided a good deal of the learning loss.

Meanwhile, lurking in the background, is the issue of the huge number of low-skilled workers coming across the border in the past few years. Obviously, the people coming to the US will be able to earn more here than in their home countries.

But whether or not this immigration is overall "good" or "bad" for the US economy, low-skilled immigration almost certainly benefits higher-income natives, who, don't have to compete in the labor market against newcomers, much more so than the low-income Americans, who often do have to compete.

The fact that all these problems became worse during COVID is ironic. Many politicians believe the real source of inequality is capitalism itself, with America as the poster-child. But in the US, during COVID, government (including the Fed) became bigger and more powerful than ever, while living standards stagnated for those who had not accumulated assets.

The real, and only proven, way to create less inequality is to allow free market capitalism to work. Interfering in that process creates more problems than it solves.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
6-12 / 7:30 am	CPI – May	+0.1%	**+0.1%**		+0.3%
7:30 am	"Core" CPI – May	+0.3%	**+0.3%**		+0.3%
6-13 / 7:30 am	Initial Claims – Jun 8	225K	**226K**		229K
7:30 am	PPI – May	+0.1%	**+0.2%**		+0.5%
7:30 am	"Core" PPI – May	+0.3%	**+0.3%**		+0.5%
6-14 / 7:30 am	Import Prices – May	0.0%	**+0.1%**		+0.9%
7:30 am	Export Prices – May	+0.2%	**+0.1%**		+0.5%