

The pandemic has served up a reminder, as if any were needed, of how deeply unequal America is. Billionaires have seen their wealth explode over the past year and a half thanks to a huge stock market rally, especially in the tech sector. At the opposite end of the spectrum, million of mostly low-wage workers have lost their jobs, while also facing a higher risk of death from Covid-19. But against this gloomy backdrop, there is some good news: the incomes of poor Americans have grown more quickly than those of richer ones.

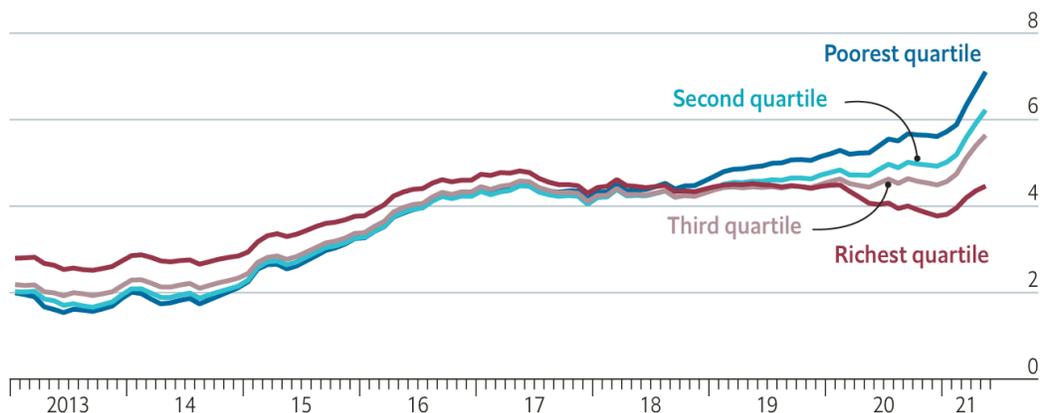


*"The country grandpa came from was a stinking hellhole of unspeakable poverty where everyone was always happy."*

This trend started in 2018 and over the course of the pandemic the gap has widened, such that currently incomes for the lowest earners were growing by about 7% annually, compared with 4.5% for the highest earners (see chart).

### Playing catch-up

United States, median income growth\*, %  
By quartile of household income



So what explains the shift in fortunes? Some of the credit goes to policymakers' willingness to run a hot economy in the years prior to the pandemic. Traditionally, economists have worried that if growth booms, unemployment may drop too low, pushing up wages and, by extension, inflation. But the pre-pandemic evidence is that the "too low" level of unemployment may be considerably lower than previously assumed. Even with jobless rates below 4%, inflation remained subdued. At the same time, wage growth was most pronounced at the lowest rungs of the income ladder (given an additional boost in some States by higher minimum wages). This relationship was first observed by Arthur Okun, an American economist, in a paper in 1973 about how "high pressure" economies tend to promote upward labour mobility as companies pay more for workers.

The onset of the pandemic led, almost overnight, to a low-pressure economy. Unemployment soared, which would normally be expected to depress wage growth. And without any help from the government, that is exactly what would have happened. But thanks to an expansion of unemployment insurance as well as a series of stimulus cheques, the reality was very different. The poor have been the main beneficiaries, with far fewer suffering precipitous drops in income than would have otherwise been the case.

The good news should not be exaggerated. A few years of stronger earnings growth for poor Americans barely begins to narrow the chasm between them and their rich fellow citizens. Nevertheless, it is proof that ever-widening inequality is not an immutable law of a modern economy.

With Thanksgiving just around the corner, that is indeed something to be thankful about!

Be safe, be well!

Martin

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