

Economic Opportunity versus Income Inequality

Special Publication

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May 2015

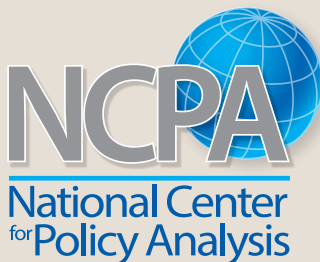
Income inequality is largely misunderstood and its importance is frequently overstated. Since the late 1970s, middle-class incomes and living standards have continued to improve.



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Those who are concerned about growing inequality often fail to take into account household size (more people are working in higher income households), tax credits, government transfers, capital gains and employer-provided benefits.

<http://www.ncpa.org/pdfs/st312.pdf>

Incomes are generally no more unequal in the United States than in Europe, and social mobility continues at a fairly stable rate.

http://www.ncpa.org/sub/dpd/index.php?Article_ID=25295

Numerous social and economic factors explain why income and wealth gaps between the rich and poor have grown, despite the \$5 trillion spent on antipoverty programs over the past 50 years.

<http://www.ncpa.org/pub/reflections-during-black-history-month-what-public-policies-are-hurting-african-americans>

Among these factors is the rise in family breakdown and the incentives not to work embedded in government welfare programs.

<http://www.ncpa.org/pub/st358>) Thus, policies that provide opportunities to advance economically would help reduce inequality, whereas many proposals to reduce inequality through government spending or mandates on employers would increase, rather than reduce, inequality.

Minimum Wage Increases

Raising the minimum wage is not an effective way to help poor people or boost the economy. Most workers earning at minimum wage levels are not the sole wage earners in a household and most of them are not in poor households. One of the most well-documented effects of the minimum wage is that it actually destroys low-wage jobs, where the value of an individual's work is not high enough for employers to gain by hiring them.

<http://www.ncpa.org/pub/ba792>)

Furthermore, the mandate for employers to provide health insurance adds approximately \$6 per hour to the total cost of a worker. Combined with the federal minimum wage of \$7.25 per hour, the least it will cost to employ even a low-skilled worker is about \$13.25 per hour—about \$27,500 per year. This “health minimum wage” is an additional disincentive to

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hiring additional minimum wage earners with families. (<http://www.ncpa.org/media/obama-s-law-could-wreak-havoc-on-texas-small-businesses>)

If employers cannot absorb an increase in the cost of labor, they hire fewer workers, hire more productive (educated) workers, lay off workers, or pass the costs on to consumers. Thus, the stimulative effect on demand may be offset by reduced employment among potential consumers. (<http://www.ncpa.org/pdfs/ib105.pdf>)

Equal Pay for Equal Work

Regarding equal pay for equal work, while it is true that average wages for women are lower than average wages for men, the disparity is largely because women often choose different occupations from men, and because 25 percent of employed women work part-time, and others take time off when they have children. When these two factors -- choice of job and time in the workforce -- are considered, studies demonstrate that women and men earn practically the same amount. (http://www.ncpa.org/sub/dpd/index.php?Article_ID=24275)

Paid Family Leave

The proposal to give every worker seven days of paid sick leave each year would ultimately be paid for by workers themselves through lower wages, fewer raises and fewer paid vacation days. A better alternative would be to expand Health Savings Accounts (HSAs) to every worker, allowing workers to set aside funds for medical needs and to use HSAs to compensate for income lost to sick days. (<http://www.ncpa.org/sotu2015>)

Universal Prekindergarten

According to the National Institute for Early Education Research, expanding preschool to all children could cost \$25 billion each year. While some studies predict long-term benefits reaching \$10 for each \$1 put into prekindergarten programs, Headstart, a federally funded preschool program for the poor, has had few lasting benefits. (http://www.ncpa.org/sub/dpd/index.php?Article_ID=22785)

Additional child care regulations will likely lead to higher prices for families and lower wages for child care staff without improving child care quality. Relaxing restrictions on group size and licensing and zoning requirements could significantly lower the cost of child care without lowering quality. (<http://www.ncpa.org/pub/ba759>)

A better approach would be to fix issues with the current education system before considering its expansion (<http://educationblog.ncpa.org/tag/pre-k-2/>)

Higher Education

Federal programs to ensure access to higher education for individuals from lower income families have expanded to encompass middle class families. The billions of dollars that have flooded into public and private colleges and universities have raised the cost of a college education even higher, as institutions are increasing tuition rates because they can rely on receiving guaranteed money from the government. (<http://www.ncpa.org/pub/ib156>) Rising government subsidies have increased the overall quantity of education demanded. This means that the rising cost of a college education is due in large part to the increased financial aid available rather than any general improvement in the quality of education. (<http://www.ncpa.org/pub/ba726>)

Far more critical to address is the growing shortage of STEM-skilled workers in the U.S. Each year, colleges deliver 271,000 bachelor's degrees in STEM. Yet, there are 277,000 STEM job vacancies, and by 2018, there could be 2.4 million STEM job vacancies. Universal private school choice options would promote school specialization that engages students in STEM-related education. (<http://www.ncpa.org/pub/ib154>)

Prepared by Holly Rio, a special contributor to the National Center for Policy Analysis.