A Note on Income Inequality
Trustee Leadership Forum for Retirement Security

Overview:
Income inequality has been a topic of increasing attention, from President Obama’s 2013 remark that “growing inequality . . . is the defining challenge of our time”; to the popularity of Thomas Piketty’s 2013 book, Capital in the Twenty-First Century, a data-driven study of the growing concentration of wealth in the hands of the few; to global strikes by fast food workers. There is a developing consensus that, as Nobel Laureate Economist Joseph Stiglitz has written, “We pay a price [for income inequality], not only in terms of a weak economy today, but lower growth in the future.”

Labor unions are very much founded on the ideas of equality and fairness in wages. But how does growing income inequality connect to labor’s pension funds and struggles for retirement security? Beyond the mission of labor organizations to secure pensions for working men and women, could income inequality now pose a systemic risk to those very investments? What if pension investments are, in fact, contributing to the growth of income inequality?

Why a Strategic Focus on Income Inequality?
Piketty, Stiglitz, and other scholars argue that growing global income inequality:

- is linked to slower economic growth,
- promotes economic instability,
- enables rent-seeking and political capture, and
- exacerbates social instability.

If these arguments do have merit, how should pension trustees think about the problem of income inequality? What approaches may be appropriate? Some questions to consider include:

- Can consideration of income inequality help better manage risk when making investment decisions?
- Do investors contribute to, or reduce, income inequality? What strategies may be adopted to take these effects into account?
- What role can investors play in addressing the big picture causes of inequality? What systems and structures are in place that promote or reduce income inequality?
What Can Trustees Do?

*Inequality and Risk Management*

- Advocate exercising pension funds’ votes on “Say on Pay” issues, instead of leaving it to a proxy service.
- Scrutinize funds’ holdings for “reputational risk” associated with companies known for wage inequality.
- Integrate income inequality into pension funds’ investment analyses.

*Inequality and Investment Strategy*

- Investigate place-based or community investing, for instance, investing in affordable housing, social services and/or economic development in places with need.
- Look to impact investing with the goal of alleviating poverty.
- Advocate for infrastructure investment with the goals of creating good jobs and equitable access to transportation, clean water and other social goods.
- Adopt a responsible contractor policy.
- Examine fees. Excessive investment fees and the financialization of the economy effectively transfer working people’s wealth to Wall Street.
- Focus on long-term investing, and be skeptical of the promise of out-sized rewards.

*Systemic Change*

Collective calls or joint advocacy by trustees around income inequality as an issue that may affect the long-term sustainability of their investments could be a way to address larger, structural issues like tax avoidance schemes, which may be enriching in the short-term, but, in the long-term, may add to the income inequality gap.

**Further Reading**

“The Rise (and Likely Fall) of the Talent Economy”

This paper discusses how the economy has moved from valuing labor to valuing financial returns, and how stock-based incentives have encouraged short-termism and created an unsustainable inequality of income at the expense of workers. The author calls for three changes, including calling on pension funds to stop supporting stock-based compensation and not supplying hedge funds with large amounts of capital.

*The Rise (and Likely Fall) of the Talent Economy*, by Roger L. Martin, October 2014, Harvard Business Review
“Testing Theories of American Politics: Elites, Interest Groups, and Average Citizens”
This statistical analysis, by professors from Princeton and Northwestern Universities, examines the impact of income inequality on policy in the United States, and concludes that “economic elites have far more independent impact upon policy change than the preferences of ordinary citizens” and that in our current political system, the majority no longer rules, money does.

Testing Theories of American Politics: Elites, Interest Groups, and Average Citizens, Martin Gilens and Benjamin I. Page, April 9, 2014, forthcoming in Perspectives on Politics Fall 2014

Summary: Princeton Concludes What Kind of Government America Really Has, and It's Not a Democracy, by Tom McKay, April 16, 2014, PolicyMic

“Fast Food Failure: How CEO-to-Worker Pay Disparity Undermines the Industry and the Overall Economy”
Policy think tank Demos examines CEO-to-Worker compensation ratios by industry and finds extreme income inequality in U.S. accommodation and food services, particularly in fast food, which appears to pose financial risks for those firms and their investors.

Fast Food Failure, by Catherine Ruetschlin/Demos, April 22, 2014

The Price of Inequality
Nobel Laureate and noted economist Joseph Stiglitz’s book on income inequality lays out the history and causes of the current income inequality crisis, the costs of this growing gap, and proposes policy solutions.

The Price of Inequality, by Joseph Stiglitz

Stiglitz gives a short version of his arguments here: Why Inequality Matters and What Can Be Done About It, by Joseph Stiglitz, April 1, 2014, on The Next New Deal: The Blog of the Roosevelt Institute

Capital in the Twenty First Century
French economist Thomas Piketty examines historic income data to track the concentration of wealth worldwide, concluding that without regulatory intervention wealth will remain concentrated and largely inherited, not earned.

Capital in the Twenty First Century, by Thomas Piketty