Monique Morrissey, economist at the Economic Policy Institute

Interviewed by Batul Hassan

BH: How would you define economic inequality?

MM: Well, typically, we have long been working with the Pikkety data, before he got famous, which allowed a finer breakdown at the top. So EPI has pointed out the top one percent is different than top three is different than the top five. And many trends are really the top one percent, in many cases. So it's useful to work and look at the very top to do fine breakdowns. Recently the Federal Reserve started looking at inequality, and part of it depends on how large your survey is. If your survey isn't very big, even if you oversample wealthy people like the Fed does, then you might want to just look at the top three percent. Often the focus is the bottom 50, then the next 40, then the next 10, then the next five and one. And then sometimes it just depends on the purpose. If you're looking at wages, then you might want to look at the top wages, and a breakdown by wages. With wealth, sometimes you look at wealth by income. In other words, you see how much is held by the top 20 percent of income earners. So it really depends on the context - we don't have one - but I would say we have been early to point out there's inequality from the broad middle class to the -- there's a broad middle class that's, it's stagnated or declined in general terms and then it depends on what measure you're using and what years you're looking at whether or not you're talking about top ten percent has increased or top five percent or top one. The top one percent has increased pretty steadily… Although not in the past year, which is unusual. But basically as a general rule, the smaller the breakdown has been consistently upped, and then the farther down the scale you go is flat or declining.

It's also an interesting question from the perspective of public policy. Reporters will often unquestioningly accept politicians' definitions of what the middle class is. And typically when it comes to defending tax breaks, or tax policy, then the middle class suddenly becomes very, very high. So when president Obama was suggesting increases in taxes, he assured everybody that the middle class would be protected and essentially defined the middle class as anyone earning up to $250,000. And yet when it comes to things like cutting social security, and there are people out there proposing Social Security cuts quite frequently, and they're saying things like, 'oh, we'll only cut benefits on high-earners or high-beneficiaries,' and then in order - because - Social Security - you don't really get much money by cutting high-earners, all of a sudden the people who are going to get the cuts are making 40,000/year. So it's a very important thing to not accept the politician's definition of the middle class and actually look at the statistics of what the middle class income is, especially when politicians claim to be protecting or exempting middle class and only, you know, only things that will affect "upper earners" so it is a very flexible yardstick we've found.

I would argue that anything that goes into the top quintile --- especially the top decile -- is not middle class. You could argue that someone who might be statistically in the top quintile in New York City might be considered upper middle class in the rest of the country in terms of their lifestyle -- and someone just short of the top quintile in Alabama might have a very lavish lifestyle -- but nonetheless I think that's something for reporters to not be accepting as given.

BH: Do you have a definition of the middle class?

MM: A lot of it depends on the sample and data we're given. You might want to divide the population into five -- the bottom is low income, the second quintile is lower-middle, the third would be middle income, the fourth quintile would be upper-middle and the fifth would be your high-earners. But that may not always be possible. For example, in smaller samples, people might use quartiles and the middle class will be everybody but the top and bottom 25 percent. So from the 25th to the 75th is is also a common and perfectly acceptable definition of middle class. So again, it's not to be squishy our selves, but it really does depend on what data you're looking at. And then also, again, it depends on the measure but if you're looking at a single point, it's often useful to be looking at the median -- the exact person in the middle. EPI often tries when looking at middle class to use the median because that usually is the typical person, which is usually less than the average because the average is skewed by really high incomes at the top. So for that reason we and many other people have a strong preference for the median. But then in the work that i do, for ex, often the median is 0. Because when you're looking at retirement savings, and at families in the middle, you're looking at African-American families and Hispanic families and younger households or any group like that. Really any group other than older, college-educated, married, upper-middle class white households -- those are the people that have retirement savings. But if you look at any group that's different than that, you look at less than college-educated, or non-white and Hispanic, the median in the retirement accounts in zero. So that's not a very telling statistic. So you end up having to talk about the percentage that have savings and the median of families that do have savings is more informative, but it can be misleading if you don't note the fact that the majority of these households don't have any savings at all.

BH: What is the national proportion of people with or without retirement savings?

MM: It's almost exactly half, but again it depends on what age-range you're looking at. But generally speaking, it's just slightly above half. If you look at the median overall of households who have retirement savings, you a very small number you get about 15,000 dollars. And that's because close to 50 percent have just about nothing; 15,000 sounds like a lot, but it's not if you're trying to retire on it -- it's negligible. But again if you're looking at any subgroups -- comparing college-educated, non college-educated, married and non-married, white versus non white or Hispanic -- any of these breakdowns, it's only the first group of the set that has a positive median. For everybody else, the overall median is zero. But that's not the case for overall wealth; everyone has a number even though sometimes it's negative. That's not the case with retirement savings, though.

BH: What do you think the public considers to be the middle class?

MM: Everybody thinks they're middle class. Ironically, I have friends in New York City decidedly in the top 10 percent certainly, probably top 5 percent - who would've taken umbrage at not being considered middle class. I mean, its true that cost of living is high in New York City, but nonetheless, everybody thinks they're middle class except maybe people in Forbes 400.

And then at the bottom, regarding poverty levels, at EPI, we don't think the poverty line is an adequate measure. So we often look at breakdowns like below 1 1/2 or two times the poverty line is a better measure of people who are actually struggling. And there's also - for most purposes - it's not a perfect measure but for many purposes, but something called a supplemental poverty level is a more comprehensive of what people can do, what resources they have. Both in positive and negative ways. The overall poverty rates tend to be similar, but you have a little higher poverty rate for seniors, a little bit lower for children. And that's partly because historically, families with children have gotten more government transfers, and those were not counted in the earlier measures. So supplemental poverty measure is not ideal, but it's a little bit better. And even within the supplemental poverty level, you probably don't want to think that line are people above that level are not in hardship. We wouldn't consider anyone middle class unless they were well above 1 ½ times either the supplemental or official poverty line.

BH: Explain supplemental poverty line.

MM: Supplemental poverty level. It's been around since 2011, in the works for many years. The poverty measure dates back to the 1960s. It was a back-of the envelope calculation: somebody basically said, well, this is how much families pay for food, and we think the poverty level should be a multiple of that. Three times that. And then that line became entrenched by various means. So now, that is the poverty line. So nobody who is a social scientist thinks that it is a very good measure, partly because it doesn't take into account all sources on income, including government transfers. And for seniors, for example, the reason their supplemental poverty tends to be slightly higher is because the normal poverty line doesn't take into account medical expenses. So unlike the regular poverty measure, if someone was making a lower-middle class income but every single penny of that - and this is the case for a lot of seniors - was being sucked away by health costs, that wasn't being factored in. While the supplemental does subtract some, not all, out-of-pocket medical spending. And it adds in also many forms of government assistance. So for all these reasons it took a long time for national academy of science in terms of the census bureau actually producing a quasi-official alternative to the official poverty measure. It didn't happen until 2011.

BH: What context is missing for people to understand their own place in the spectrum?

MM: For reporters, it would be very, very useful when talking about any policy that has distributional impact to say, for example, let's take the bush era tax cuts, and then when Obama was talking about shielding the middle class and was talking about middle class as 250,000 or less - it would've been useful if every article reporting on this mentioned the percentage of the population that would've been affected. And similarly, when talking about social security benefit cuts, it would be helpful for reporters to put that in context and say, these are you know, in whatever quintile of incomes.

So I think there's too much focus among conservatives and the mass media on the stock market which really disproportionately affects the top wealthy people in the country and then among progressive policy advocates there's too much focus on really micro policies that affect very few people who in the vast majority of cases would see more results with macro policies. You know expansionary fiscal and monetary policies that would affect the middle class, too.

And, I would add that in my work, retirement security, there's a tendency to - the conservatives (heritage, etc.), who spend a lot of time talking about the progressivity of social security, and then the people on the left who are essentially focusing on across the board how people benefit from these kinds of things - what the right wants to do is transform this broad-based, contributory kind of program into something closer to the SSI which is a means-tested program for seniors and people with disabilities. And SSI basically shriveled and is nothing now. So basically if the poor people are not in a program with the middle class, that program has the tendency to shrivel to nothingness. so it's important for advocates to emphasize that if we're not in it together, the poor get left behind, instead of making token efforts to appeal to people at the very, very bottom, a small group, where the programs will eventually just go away. That's why EPI thinks it's very important to emphasize that low income families are also affected the most by things that help out the middle class - be that government programs or economic policies.

BH: How would you define living standards? What are some terms/phrases you see being misused or surrounded by confusion?

MM: I think one of the things - it's not a term but more of a concept - but there are often attempts to stoke inter-generational welfare. So attempts to portray the old versus the young and the old are getting too much. And one way this is done is focusing on government transfers which go to older people, which are huge -- but that's because they're not working anymore. But what gets lost there is the fact that most seniors believe, and rightfully, that Social Security is something that is essentially their savings. They contributed to it. When they were working, they were young, they supported older workers and retirees, therefore they contributed to it and they are owed. And yet when there are some reports that come out annually when they look at how much federal money goes to seniors versus children and not only are they not taking into account -- it's just money the seniors paid in -- if you did it in a private sector, young people would not be better off. Social security can't borrow, so it has to be whatever spending was put in earlier. And then when the cuts are proposed, they'd actually fall onto people who are young workers now. And then most of the spending on young people is actually at the state and local level -- like the education budget and even Medicaid, which is mostly local. So instead of viewing the population as the same people in different life stages, and looking at who a cut program is going to fall on, either current seniors or future seniors, which are young people, but it's also ignoring or focusing narrowly on federal spending versus state and local spending. Or direct spending versus indirect spending. If you're only looking at direct expenditures versus tax expenditures … my favorite example is that Social Security administration is a fraction of the programs budget, about one percent, it's a highly efficient program and yet people are always trying to cut it. Meanwhile you've got tax expenditures subsidizing private savings and more than two-thirds of those go to the top quintile, and it's an incredibly wasteful system, a lot of it is pocketed by financial service companies, which incur high fees. It's much more inefficient than Social Security, yet people will simultaneously talk about cutting social security and increasing private tax payer subsidized spending and that makes no sense at all.

There's a belated attempt to point out that there's one single billionaire with an axe to grind while the unions are of course only out to protect their pensions so of course they're 'self interested.' but it means that anyone who knows anything about these unions -- it's not even that they're balanced off, which would be unfair because you have one billionaire… but beyond that they're unquestioningly portraying people as having only the good of the taxpayer, of the public. They can go around saying 'oh if we don't cut these pensions, we'll have to shut libraries.' and the reporters don't go to check that out and see if it's actually true. Or what the major tax breaks for the wealthy are being preserved. Or if they're cutting benefits that were supposedly guaranteed. There's just a blind kind of unquestioning idea that the pension -- anyone one the pro-pension side is by nature not believable and don't have an equal skepticism about the supposedly courageous pension cutters out there. Just think about the last time you saw -- very, very rarely -- unions are admittedly in slow decline. That said, the way they're represented is totally different from what they actually are. Often, the things they're arguing for are things that affect more people than just those people who are in the unions.

The public misunderstands and reporters often reinforce the misconception that if you're in a recession, you need to tighten your belt. Inevitably. So there's this basic misunderstanding of what used to be taken for granted, by economists at least, of counter-cyclical Keynesian policy. macro policy: you need to spend more, and you tighten your belt when the economy is galloping along.

There's also this general idea that Americans don't work enough. That irks me, especially in retirement work. We work way longer than everyone else, way harder.. our labor force participation rate is very high. We work like crazy, but we work inefficiently. So our GDP, production per person, tends to be higher in the U.S. if you take an average than in many western European countries. But then the percentage of people who actually live pretty well, it's in higher in Western Europe. And that's because A) the income inequality isn't as bad there, B) a lot of their basic needs are met -- so they don't have to worry about healthcare, and C) if you take into account how much Americans work, that's not … is somebody better off if they work a few fewer hours and spend more time with their kid, or if they work those hours and have to hire a babysitter for longer.. The babysitter is going to count towards your GDP, but the kid isn't better off, you're not better off, and the babysitter could be employed doing something more productive.