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National Economic Education Delegation

- **Vision**
 - One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.
- **Mission**
 - NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.
- **NEED Presentations**
 - Are **nonpartisan** and intended to reflect the consensus of the economics profession.

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Credits and Disclaimer

- **This slide deck was authored by:**
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- **Disclaimer**
 - NEED presentations are designed to be nonpartisan
 - It is, however, inevitable that the presenter will be asked for and will provide their own views
 - Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED)



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Outline

- **Definition & measurement**
- **How does it happen?**
- **Does it matter?**
- **What to do about it**
- **Inequality & Coronavirus**



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Economic Inequality: Income

- **Definition:**

- The extent to which the distribution of income deviates from complete equality
- The dispersion of income throughout the economy

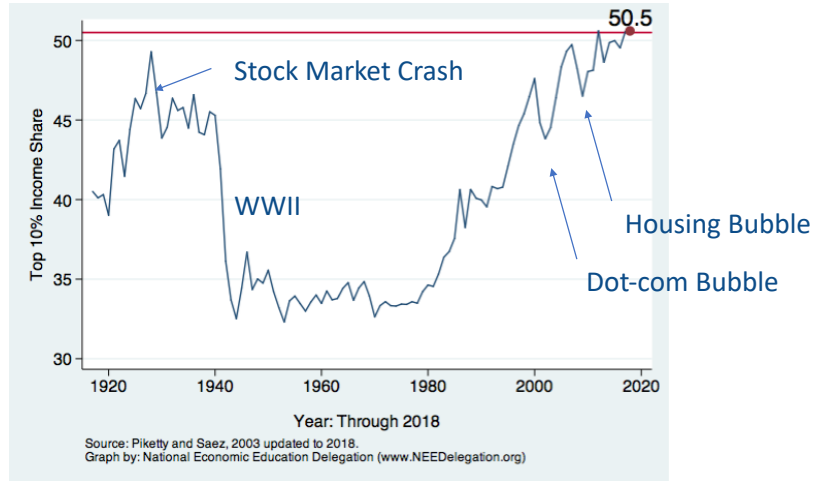


Different Ways of Thinking About Inequality

- **Income Inequality**
 - Before taxes and transfers
 - After taxes and transfers
- **Wealth Inequality**



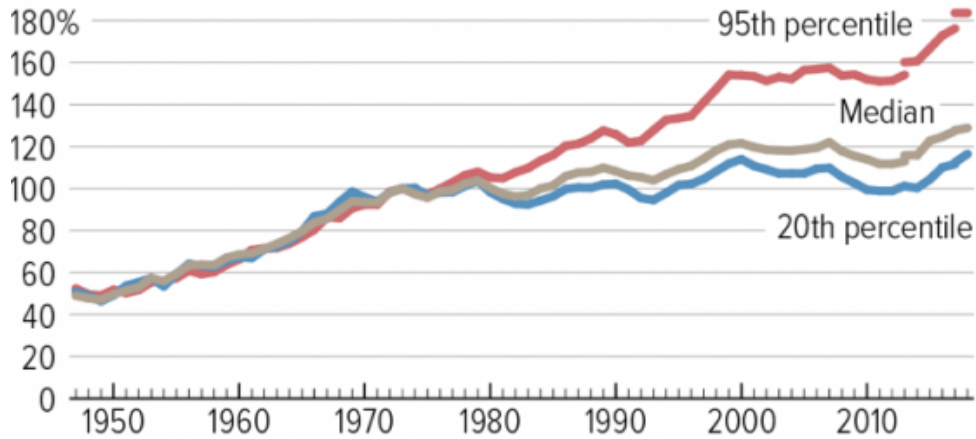
National Income Inequality: Share of Top 10%



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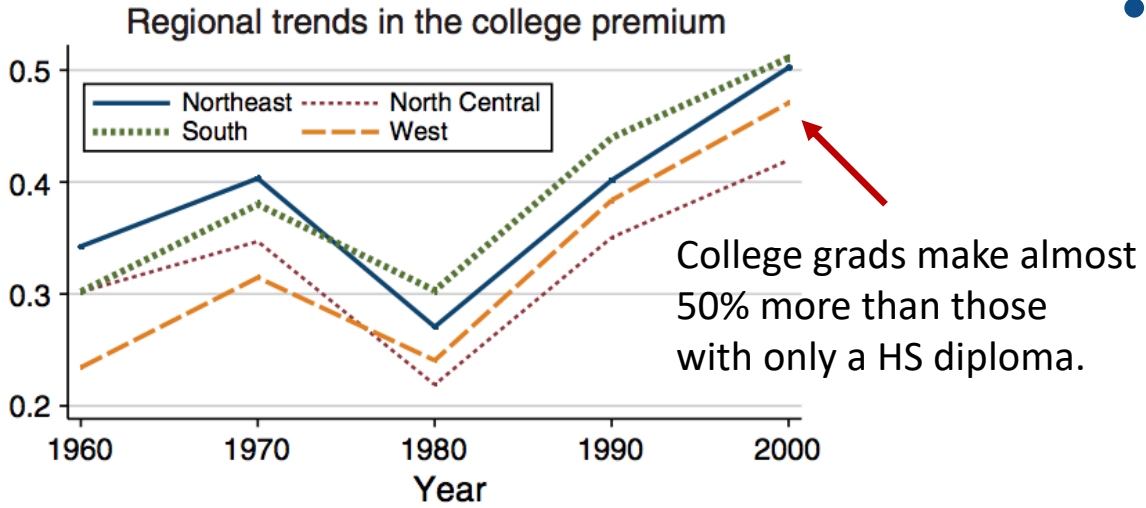
The Abrupt Increase in Inequality

Real family income between 1947 and 2018, as a percentage of 1973 level

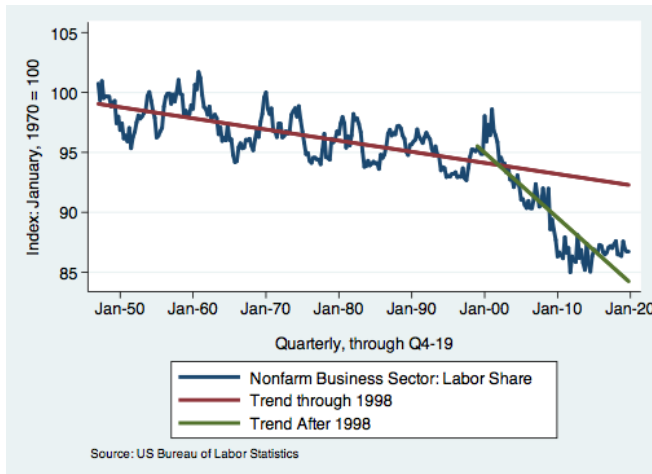


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Returns to Education



Effects of the Unhinging?



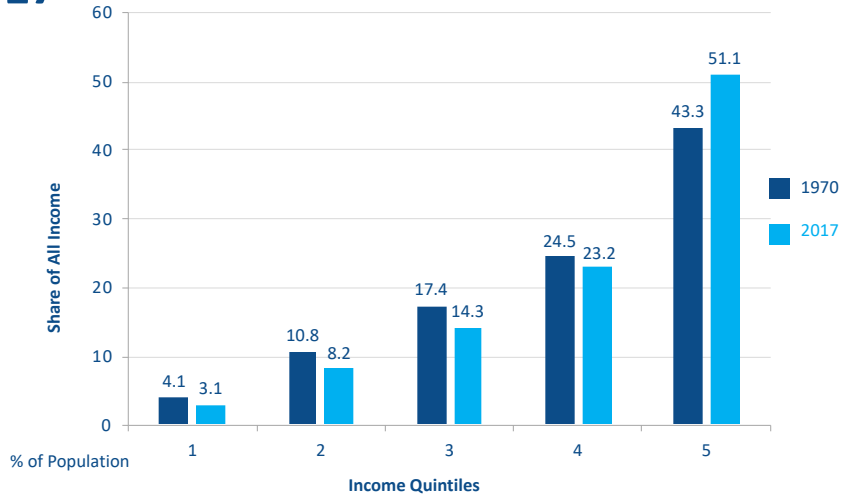
Labor's Share of Income

1960: 66%

2011: 56%

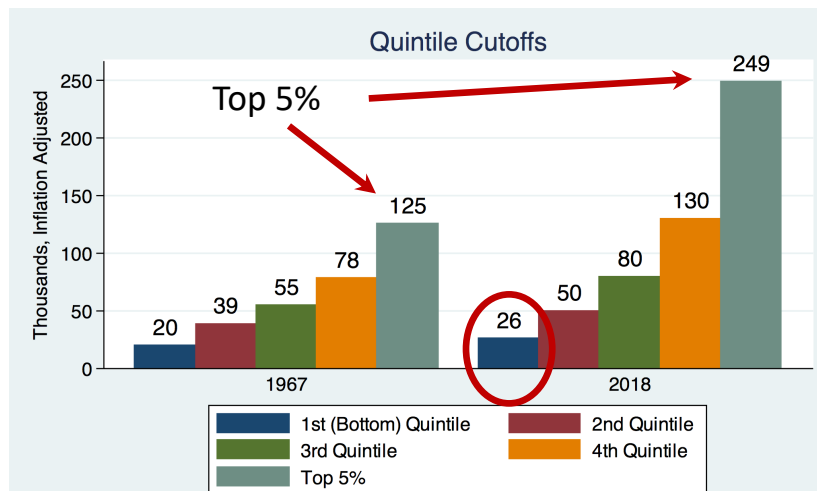
2016: 58%

Income Share Changes Between 1970 and 2017

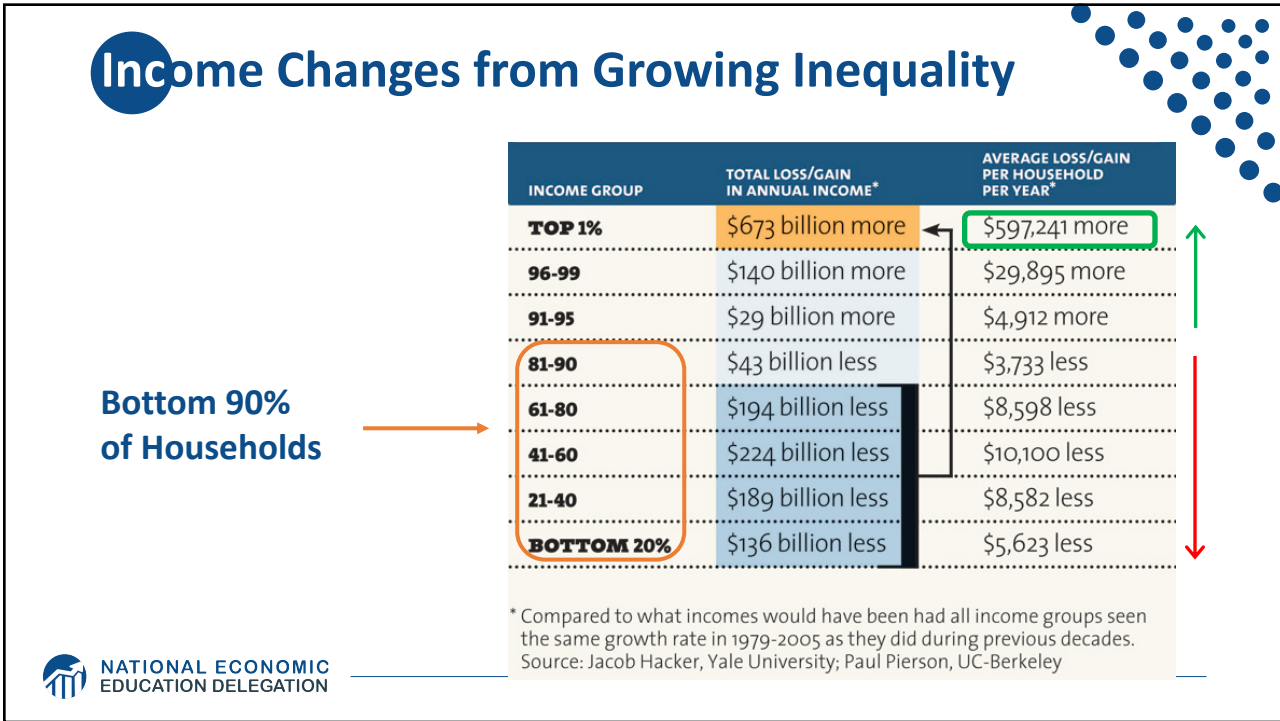


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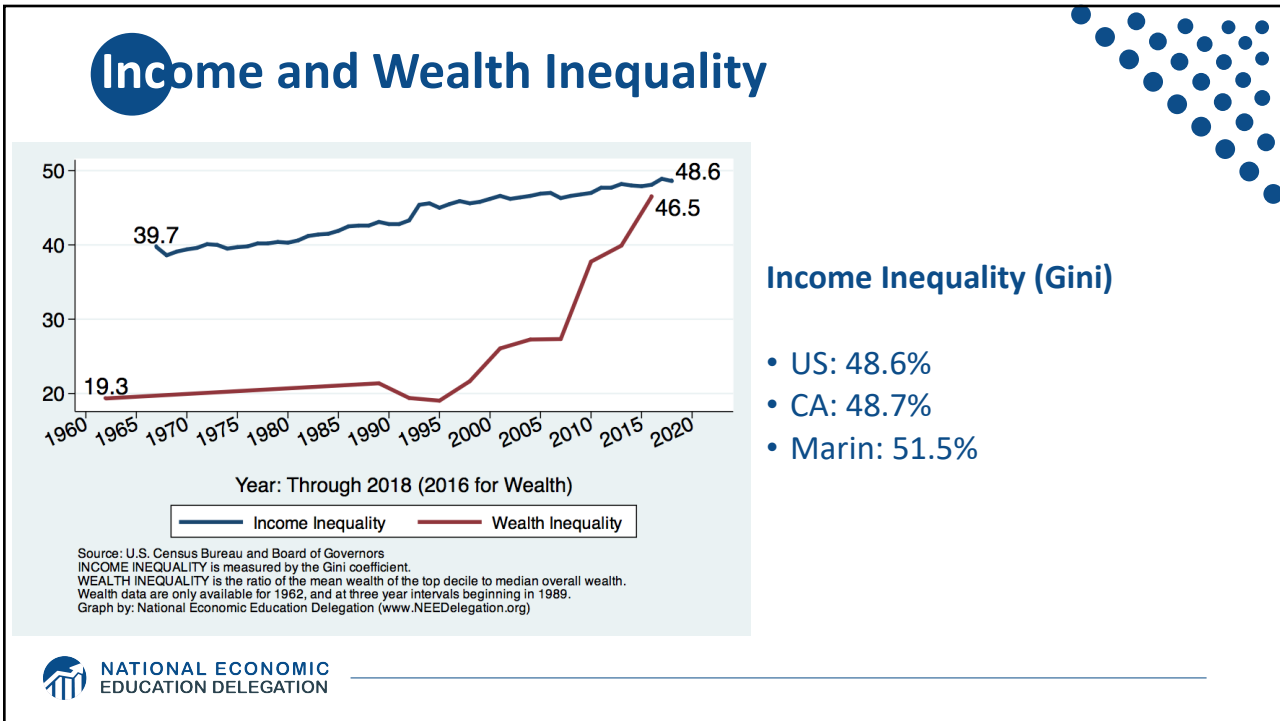
Quintile Income Cutoffs



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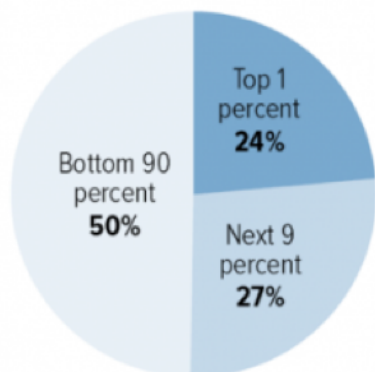
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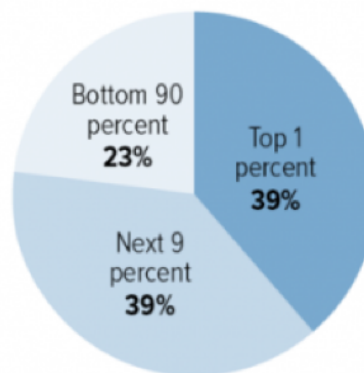
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Wealth Inequality Exceeds Income Inequality

Distribution of before-tax income, 2016



Distribution of wealth, 2016



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Source: Chad Stone, Danilo Trisi, Arloc Sherman, and Roderick Taylor, "A Guide to Statistics on Historical Trends in Income Inequality," Center on Budget and Policy Priorities, Policy Futures, Dec. 11, 2018.

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Where Does Inequality Come From?

• Labor Characteristics

- Demographics
 - o Age distribution
- Personal Choices
 - o Educational attainment
 - o Effort
 - o Priorities

• Market Forces

- Technology
- Changing demand patterns
- Competition for labor

• Government Policy

- Market influence
- Redistribution



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Government Policy and Inequality

• Market Influence: PRE-distribution

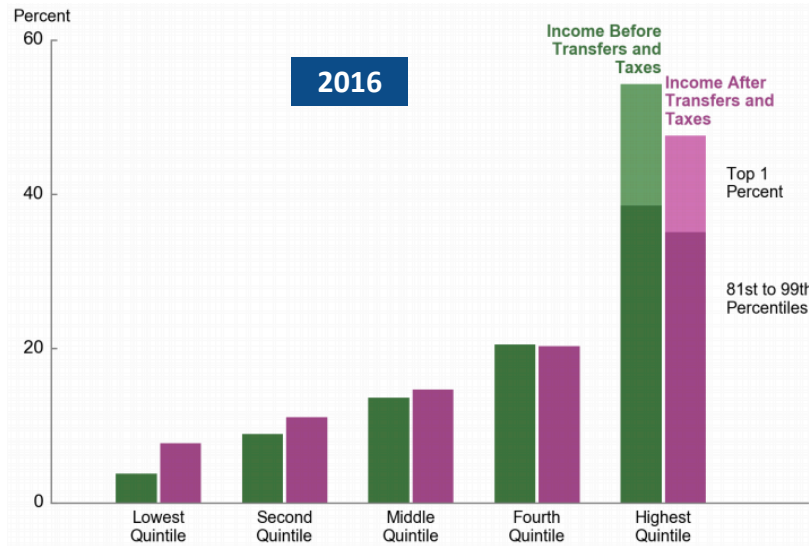
- Characteristics of labor
 - o Access to education
- Effects on labor demand
 - o Market regulation
 - Competition policy
 - o Labor regulations
 - Minimum wage, overtime, health insurance, etc.

• RE-distribution

- Tax Rates
- Income support
 - o Direct aid
 - o Food stamps

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Tax and Transfer Programs: Income Shares



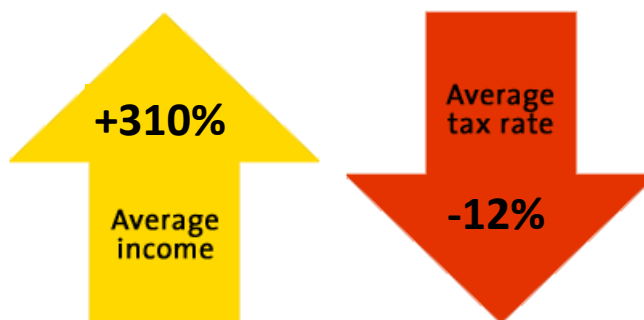
Source: U.S. Congressional Budget Office, "The Distribution of Household Income, 2016", Average Income Before and After Means-Tested Transfers and Federal Taxes, by Income Group, 2016.

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What About Tax Rates?

400 TAXPAYERS WITH HIGHEST INCOMES

1992-2014



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Source: IRS, Statistics of Income Division, December 2016.

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Market Forces and Inequality

• Changing demand patterns

- Technology
- Globalization
- Industry composition
 - PCs instead of typewriters
 - Services instead of goods
 - Professional services instead of personal services

• Competition in labor markets

- Unionization
- Market concentration



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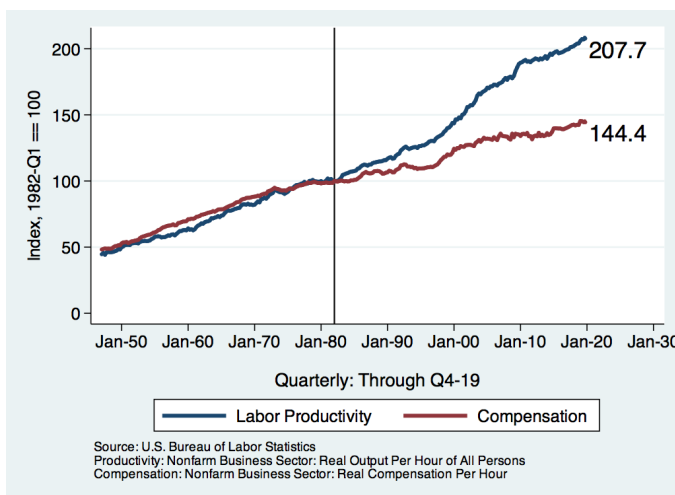
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Where Does Inequality Come From? Summary

- **Labor characteristics**
 - What do workers bring to the market?
- **Government policies**
 - PRE-distribution – affecting markets
 - Redistribution – affecting incomes
- **Market forces**
 - How does the market value those labor characteristics?

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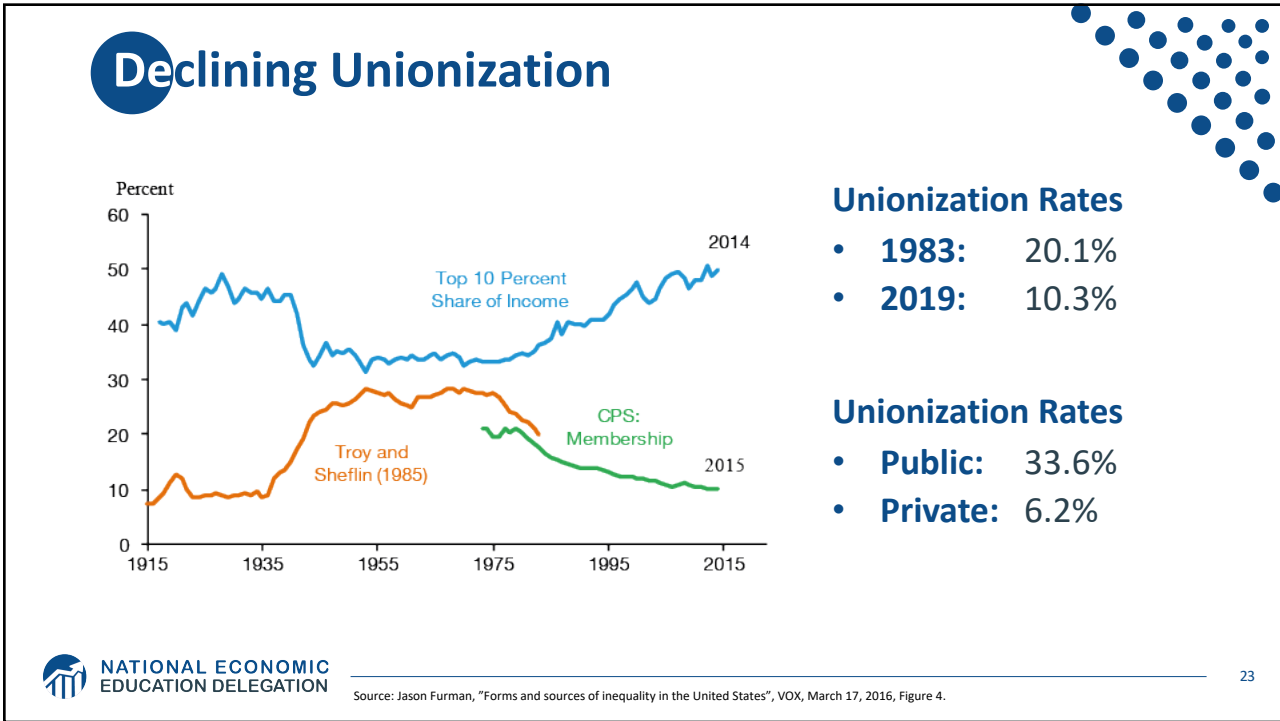
Labor Income is Unhinged from Productivity



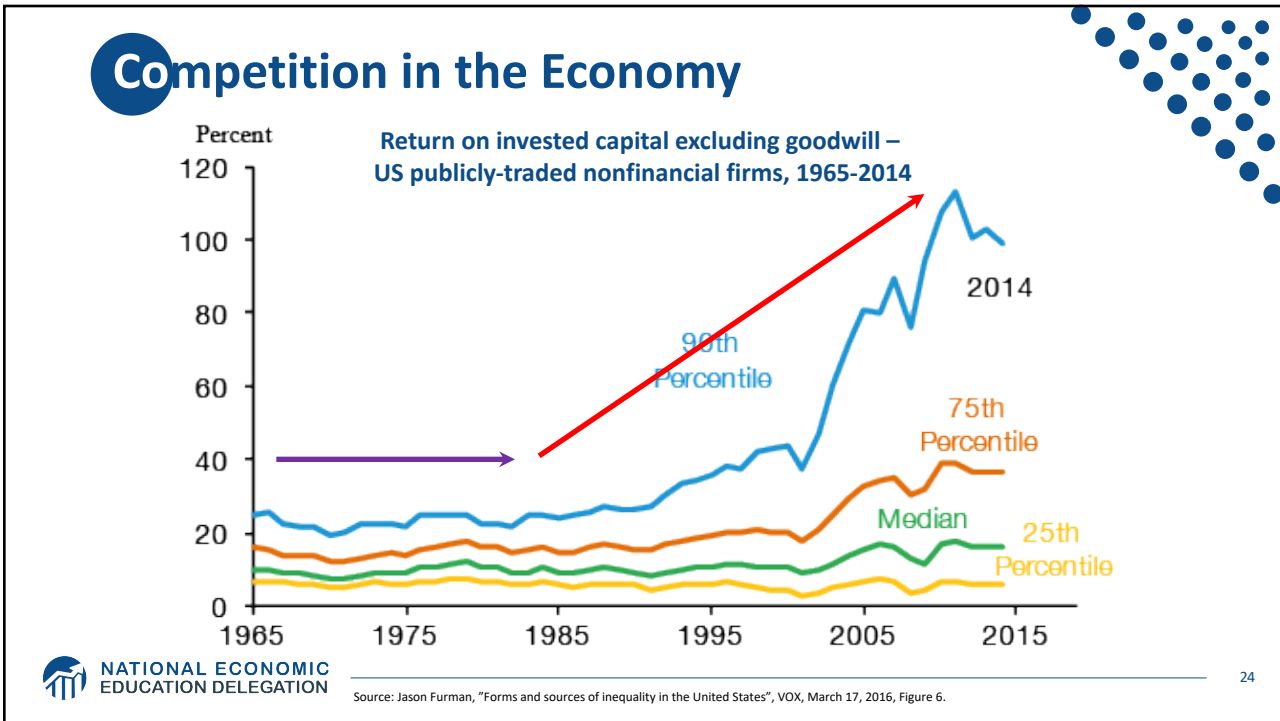
Why?

- Declining unionization
- Globalization
- Competition policy
- Cheap technology

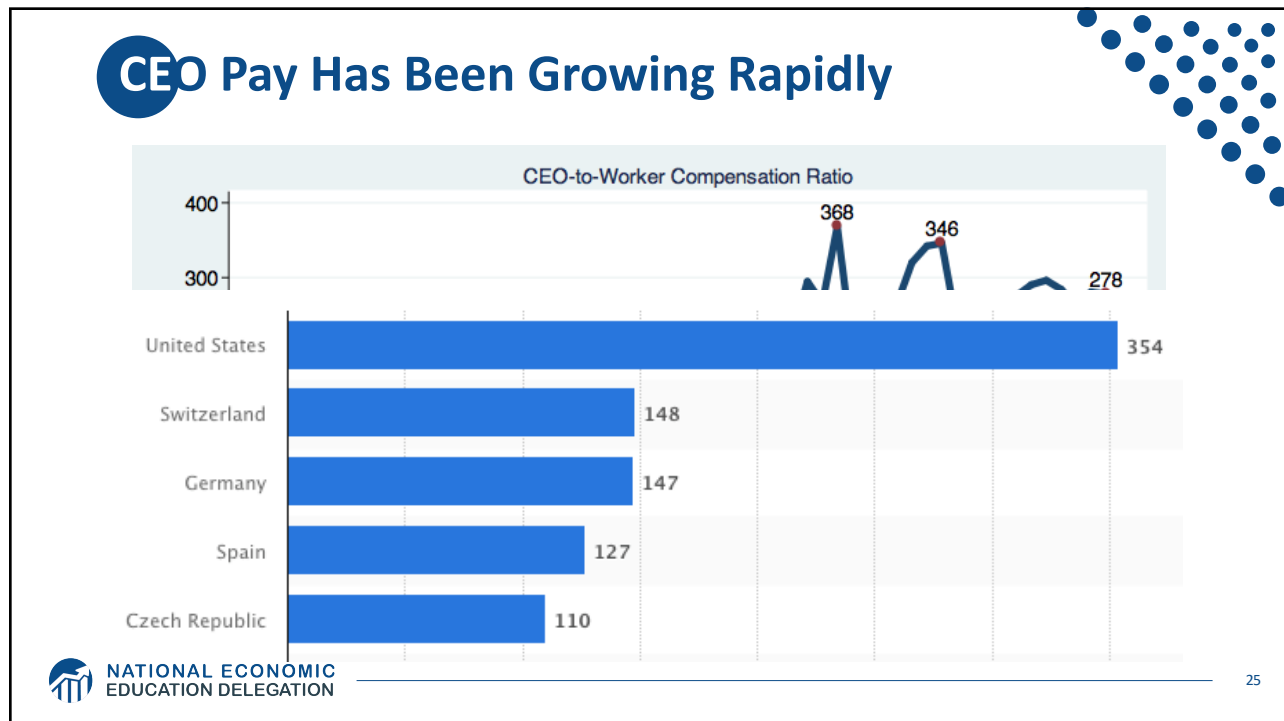
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Technological Change and Inequality

- **Much of the technology adopted in the last 30 years has eliminated low-skill or low-wage jobs.**
 - Computers, advanced manufacturing equipment, steel mini-mills, automation
- **There is a “winner take all” aspect of the tech-driven economy.**
 - This likely favors a small group of individuals.
- **Both aspects increase inequality by increasing the rewards to:**
 - Those with significant labor market skills.
 - Owners over workers

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Technology can Hurt Low Income Workers



Early on, technology was good to low income workers



Until it was bad for them....



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A Modern Example: Uber & Lyft

- **Technology:**

- Facilitates market power for owners.
- Reduces bargaining power for labor.
- Shifts costs of doing business onto labor.

- **Modern day Robber Barons?**

- Ruthlessly absorbing as much income as they can.
- Lack of regard for labor.



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Globalization

- **What is globalization?**
 - Flow of goods, services, capital, and labor across international borders.
- **How does it affect inequality?**
 - Through a differential impact on low-skilled workers and hence their wages
 - For the United States, globalization is thought to lower the wages of low skilled and hence low-wage workers relative to those of high-skilled workers



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What is driving increasing inequality?

- **Primary drivers:**
 - Technology
 - Institutions
 - Globalization
- **These drivers can also influence personal choices in ways that affect measured income inequality.**
 - For example, educational choices or labor force participation.
 - Returns to education go down, people get less education.



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Why Does Inequality Matter?

- **Too little inequality can:**

- Reduce individual motivation
- Slow economic growth

- **Too much inequality can:**

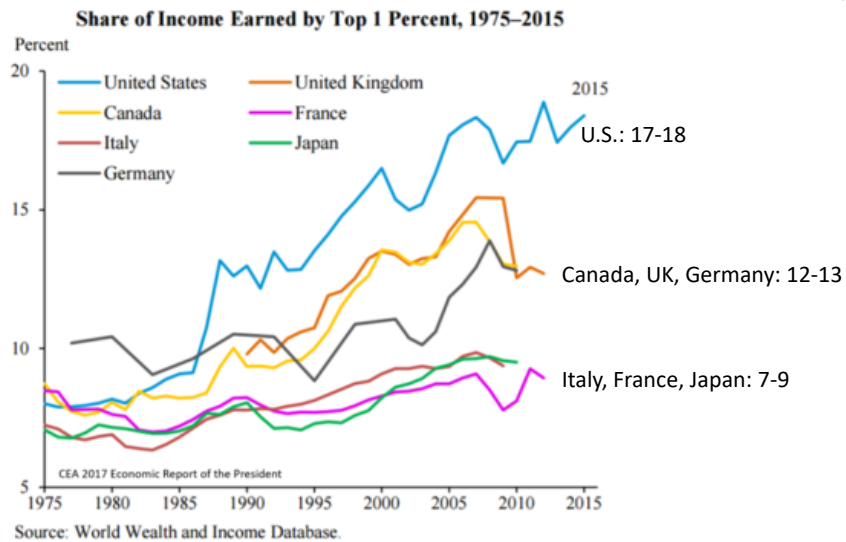
- Reduce individual motivation
- Slow economic growth

- **Too much inequality may also:**

- Divide society
- Distort political environment
- Reduce political participation
- Reduce investments in public goods
 - o Education
 - o Environmental protections



An International Perspective: Comparables



Addressing Inequality: Is It A Problem?

- **Why it might be a problem.**
 - Economic issues (*Efficiency*)
 - Increased inequality may slow economic growth.
 - Or, inequality concentrates resources among investors.
 - Noneconomic issues (*Equity*)
 - Values, ethics and morals will drive individual evaluations of the level of inequality.
 - Is GDP the best measure of well being?

- **Suppose you think it's a problem. How might it be addressed?**

Addressing Inequality: Immediately Available Policy Solutions (1/2)

- **RE-distribution**
 - Tax and transfer programs

- **PRE-distribution**
 - Strengthen labor unions
 - Collective bargaining
 - Other policies that favor labor over business owners
 - Minimum wages



Addressing Inequality: Immediately Available Policy Solutions (2/2)

- **Other**
 - Reverse trends in market power
- **Locally**
 - Employment services: job training, interview skills, or assistance with day-to-day issues, such as child care
 - Cognizance of the potential for technologies to affect worker/employer power dynamics
 - Uber, Lyft, etc.



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Addressing Inequality: Long Term

- **It's all about access to resources:**
 - Education, in particular
 - Improve public education
 - Reduce disparities in quality of public education
 - Improve counseling in low-income schools
 - With respect to college – paths to success and funding
 - Investments are needed in early education, not later
 - Universal pre-K
 - Upgrade quality of elementary schools in low-income areas



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What to do About Inequality?

- Nothing?
- Redistribution?
- PRE-distribution?
- Access to resources?



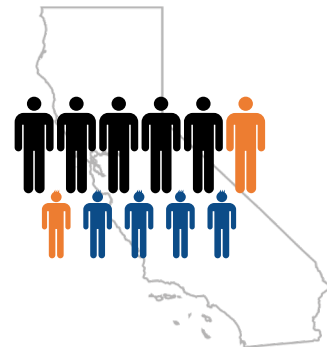
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Summary

- **Income inequality is clearly increasing.**
 - The economy is clearly favoring owners of productive resources over labor.
- **The causes appear to be largely driven by:**
 - The market – technology, competition, and trade
 - Changing institutions.
- **Open questions are:**
 - To act or not to act?
 - If so, how?
- **The level of inequality is a policy choice.**



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Coronavirus and Inequality

- Resources to weather the storm.
- Jobs at risk.
- Health insurance at risk.
- Telecommuting
- Restrictions on the use of government funds.



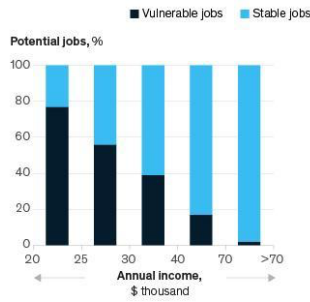
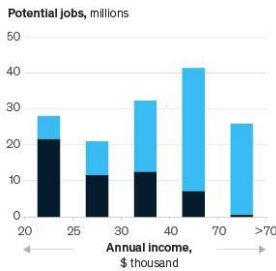
Financially Insecure Before Coronavirus

- 40% of Americans don't have the cash to pay for a \$400 emergency expense
- 25% have no retirement or pension savings
- Less than 60% can answer at least three basic financial literacy questions correctly.
- 1 in 5 of adults knows someone impacted by the opioid crisis.
- About 25% of borrowers who attended a for-profit college are behind on student loan payments compared with about 10% who attended a public or private college

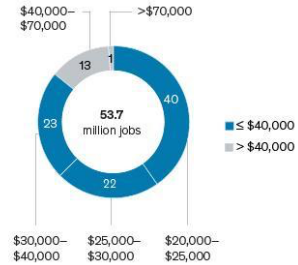


Eighty-six percent of vulnerable jobs paid less than \$40,000 a year.

Level of job vulnerability,¹ by income band



Vulnerable jobs by annual income band¹ %

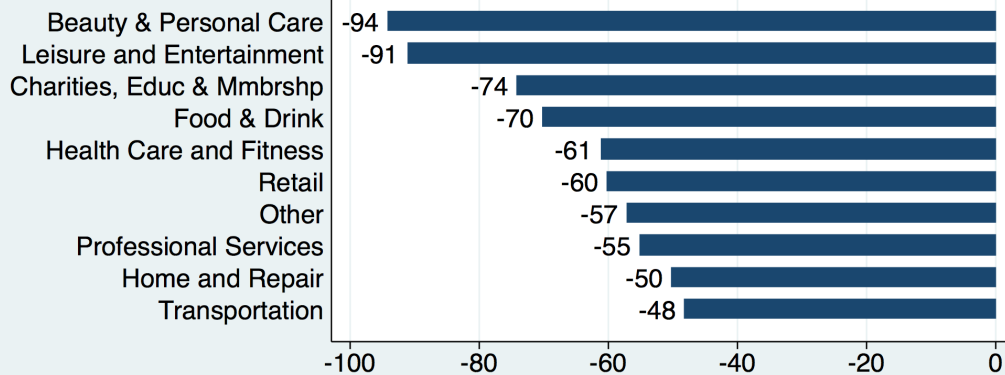


Note: Data may not sum to 100, because of rounding.
¹Vulnerable* jobs are subject to furloughs, layoffs, or being rendered unproductive (for example, workers kept on payroll but not working) during periods of high physical distancing.
 Source: LaborCube; McKinsey Global Institute analysis

McKinsey & Company

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Percent Change Hours Worked

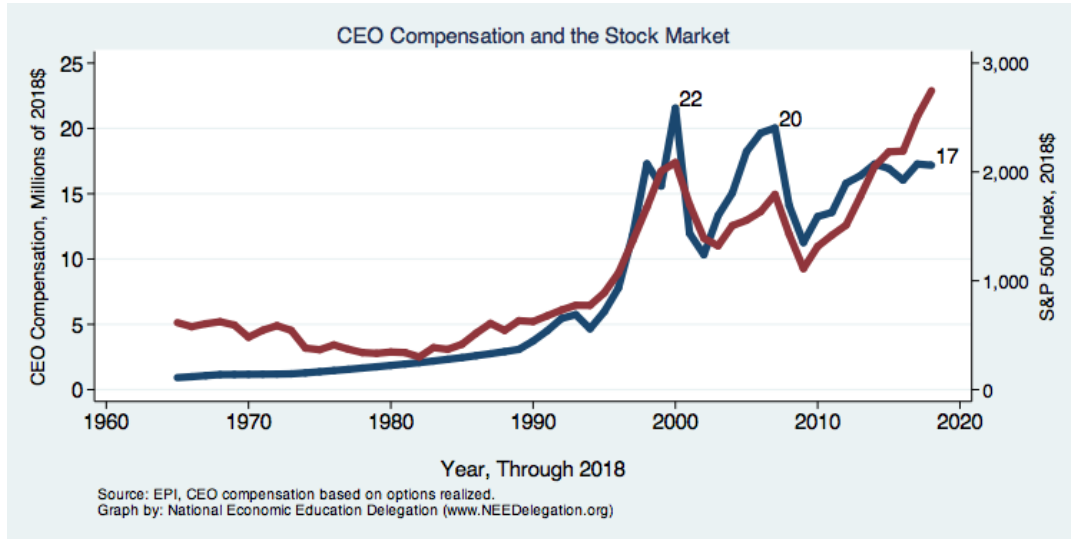


% Change in Hours Worked, as of 4/12/20 Relative to January Daily Average

Source: HomeBase
 Graph by: National Economic Education Delegation (www.NEEDelegation.org)

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CEO Compensation – Tied to Stock Prices



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Thank you!

Any Questions?

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