


## 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.

 NATIONAL ECONOMIC EDUCATION DELEGATION 

---

 2

## Who Are We?

- **Honorary Board: 44 members**

- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 6 Chairs Council of Economic Advisers
  - o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
  - o Akerlof, Smith, Maskin

- **Delegates: 365 members**

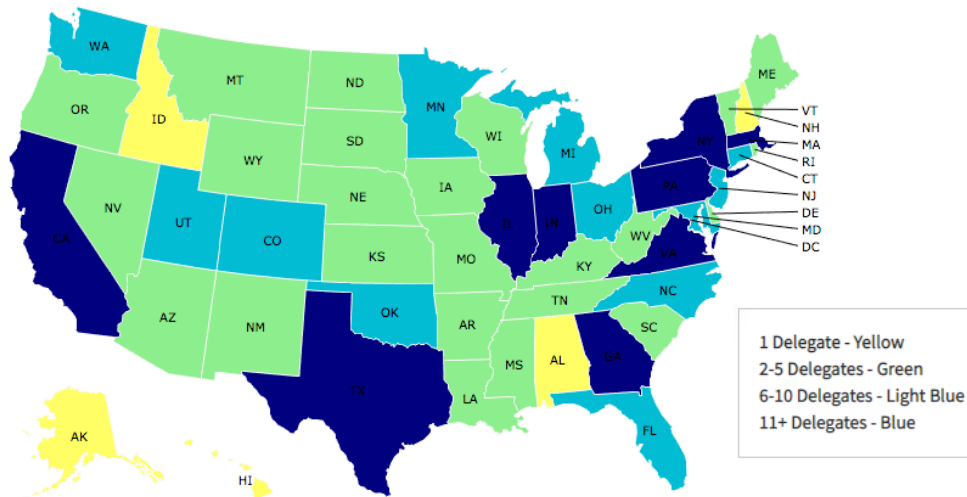
- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

- **Global Partners: 42 Ph.D. Economists**

- Aid in slide deck development



## Where Are We?



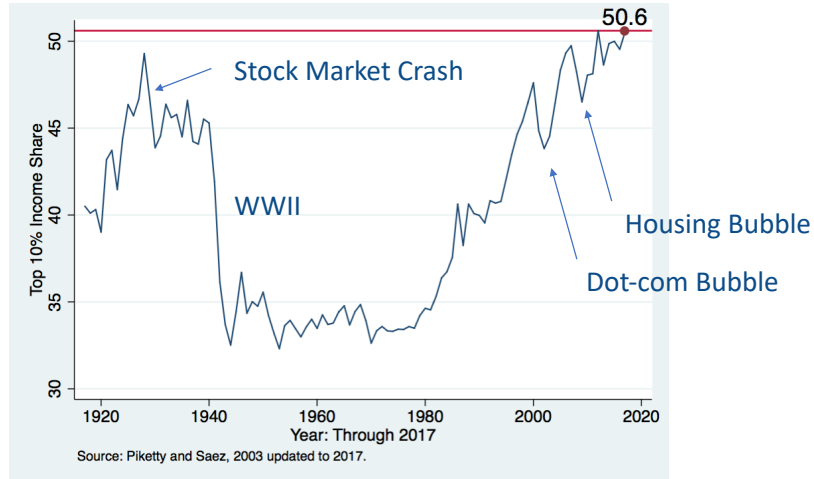
## Credits and Disclaimer

- **This slide deck was authored by:**
  - Jon Haveman, Executive Director of NEED
- **This slide deck was reviewed by:**
  - Timothy Smeeding, University of Wisconsin
  - Robert Wright, Augustana University
- **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).

## Outline

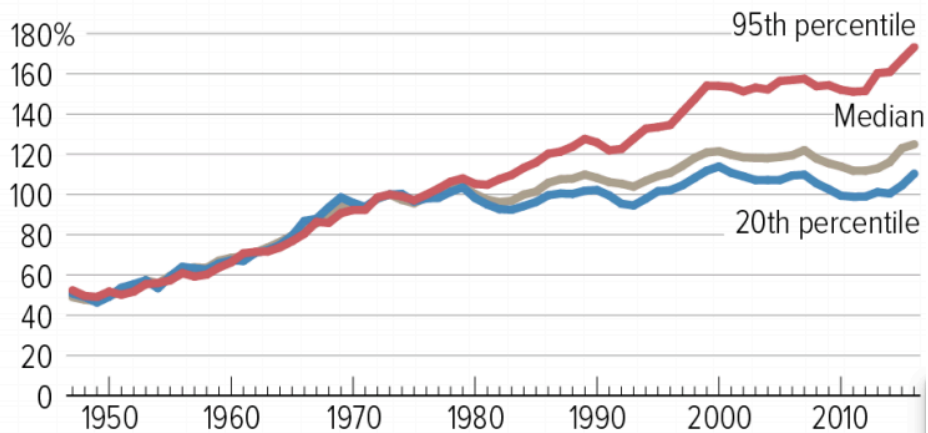
- **Definition**
- **Measurement**
- **How does it happen?**
- **Does it matter?**
- **Is it a problem?**
- **What to do about it**

## National Income Inequality: Share of Top 10%

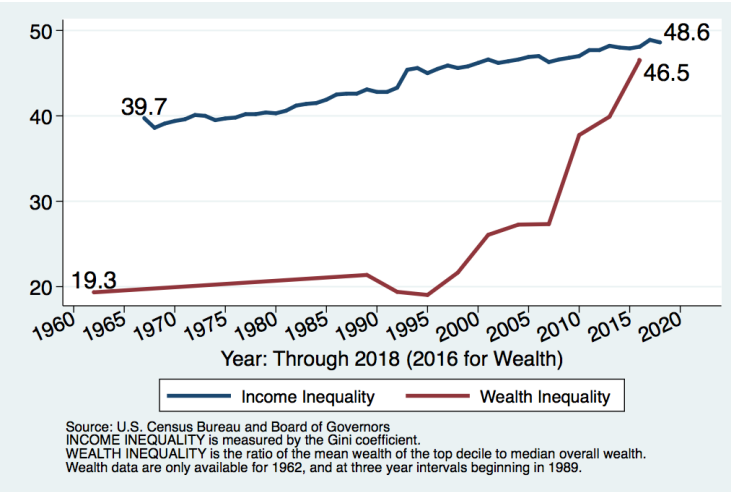


## The Abrupt Increase in Inequality (Before Taxes)

Real family income between 1947 and 2016, as a percentage of 1973 level



# Income and Wealth Inequality

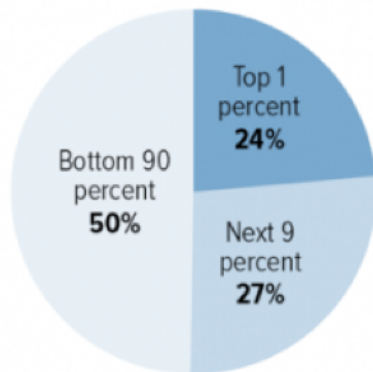


## Income Inequality (Gini)

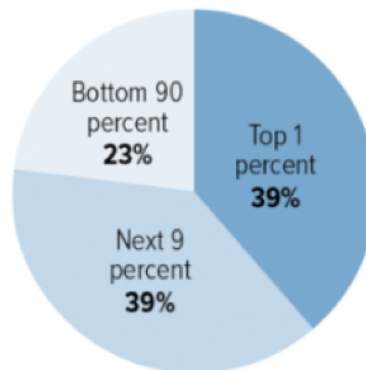
- US: 48.2%
- CA: 48.7%
- Marin: 51.5%

# Wealth Inequality Exceeds Income Inequality

Distribution of before-tax income, 2016



Distribution of wealth, 2016



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, May 15, 2018, page 15, Figure 4.

## Where Does Inequality Come From?

- **Labor Characteristics**

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

- **Market Forces**

- Technology
- Changing demand patterns
- Competition for labor

- **Government Policy**

- Market influence
- Redistribution



NATIONAL ECONOMIC  
EDUCATION DELEGATION

## 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



NATIONAL ECONOMIC  
EDUCATION DELEGATION

12

## 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



## Where Does Inequality Come From? Summary

- **Labor characteristics**

- What do workers bring to the market?

- **Market forces**

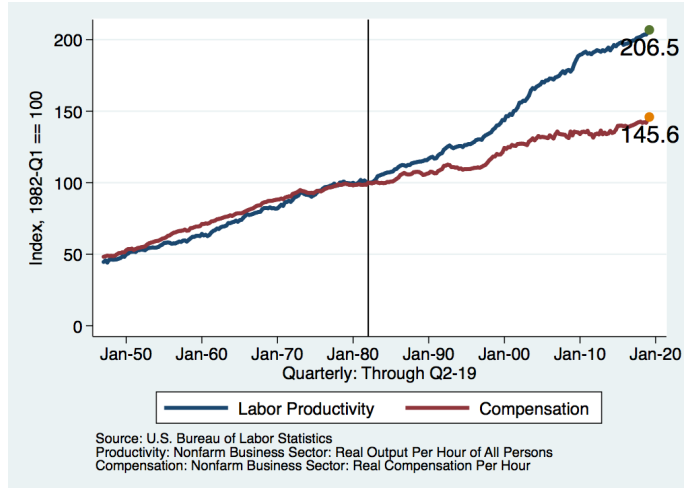
- How does the market value the labor characteristics?

- **Government policies**

- PRE-distribution – affecting markets
- Redistribution – affecting incomes



## Labor Income is Unhinged from Productivity



### Why?

- Declining unionization
- Globalization
- Immigration
- Competition policy
- Cheap technology



NATIONAL ECONOMIC  
EDUCATION DELEGATION

## What is driving increasing inequality?

- **Primary drivers:**
  - Technology
  - Globalization
  - Institutions
- **These drivers can also influence personal choices in ways that affect measured income inequality.**
  - For example, educational choices or labor force participation



NATIONAL ECONOMIC  
EDUCATION DELEGATION

16



# Why Does Inequality Matter?

- **Too little inequality can:**

- Reduce individual motivation
- Slow economic growth

- **Too much inequality can:**

- Reduce individual motivation
- Slow economic growth

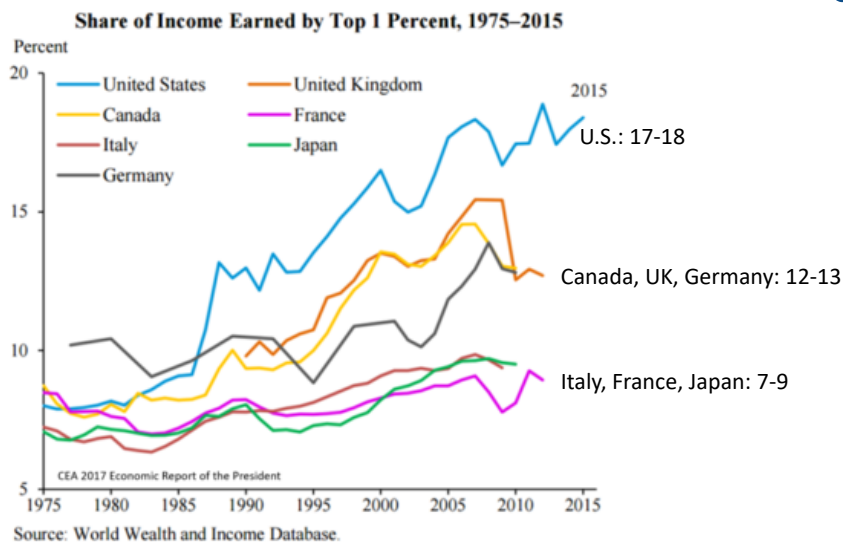
---

- **Too much inequality may also:**

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



# An International Perspective: Comparables





## 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.



NATIONAL ECONOMIC  
EDUCATION DELEGATION

## 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



NATIONAL ECONOMIC  
EDUCATION DELEGATION

## What to do About Inequality?

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



## Tension in Policy Solutions

- **Is it possible to increase growth at the same time that you reduce income inequality?**
  - Common refrain among some that government intervention in the economy is always and everywhere bad for growth.
- **Possibly: expanding equality of access promotes the full utilization of resources.**
  - Expanding equality of access requires resources likely from the well-to-do.



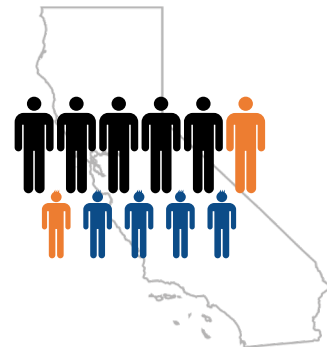
## Most Prominent Policy Proposals

- **Redistributions:**
  - Raising the top marginal tax rate to 70%.
  - 2% annual tax on wealth.
- **Other:**
  - Minimum wage
- **Primary concern:**
  - How does it distort market decisions?
    - Investments
    - Labor supply



## 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 income inequality is a policy choice.**



**Thank you!**

## Any Questions?

[www.NEEDelegation.org](http://www.NEEDelegation.org)

Jon Haveman, Ph.D.

[Jon@NEEDelegation.org](mailto:Jon@NEEDelegation.org)

Contact NEED: [info@needelegation.org](mailto:info@needelegation.org)

Submit a testimonial: [www.NEEDelegation.org/testimonials.php](http://www.NEEDelegation.org/testimonials.php)

Become a Friend of NEED: [www.NEEDelegation.org/friend.php](http://www.NEEDelegation.org/friend.php)



NATIONAL ECONOMIC  
EDUCATION DELEGATION