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Inequality in the United States

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Michael Clune's Econ Class, Drake High School
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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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- **This slide deck was authored by:**
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Outline

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



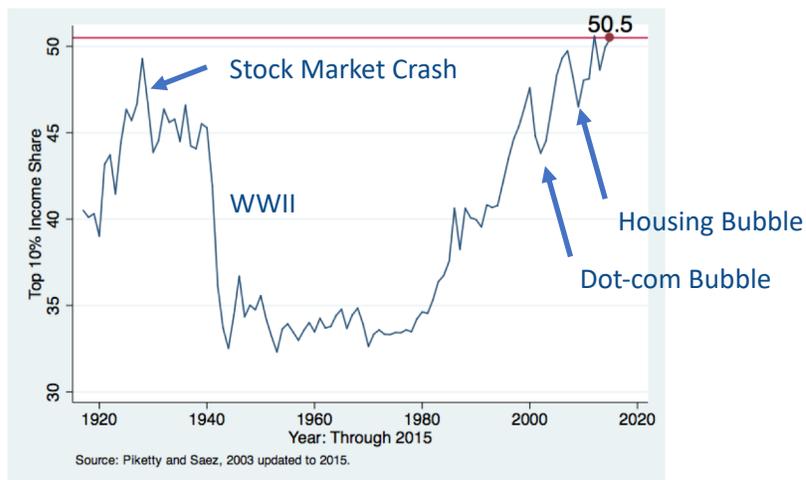
Economic Inequality: Income

• **Definition:**

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

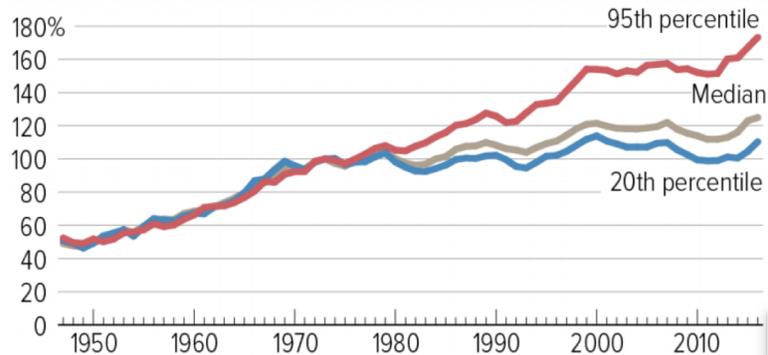


National Income Inequality: Share of Top 10%



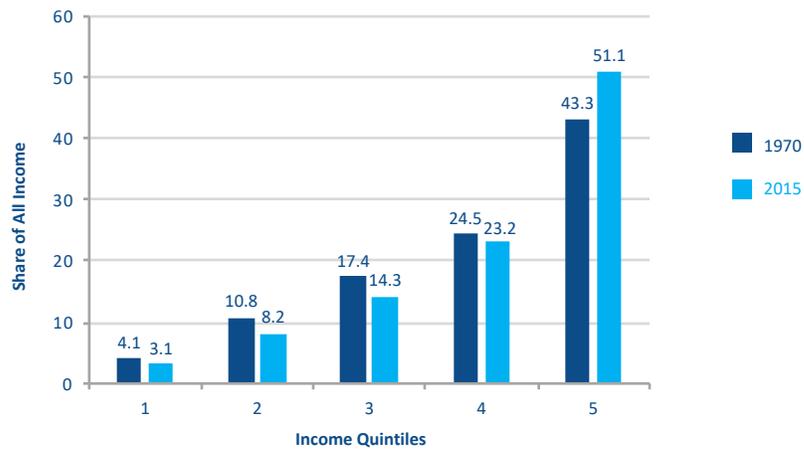
The Abrupt Increase in Inequality

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



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 10.

Income Share Changes Between 1970 and 2015



Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements.

Income Changes from Growing Inequality

Bottom 90% of Households

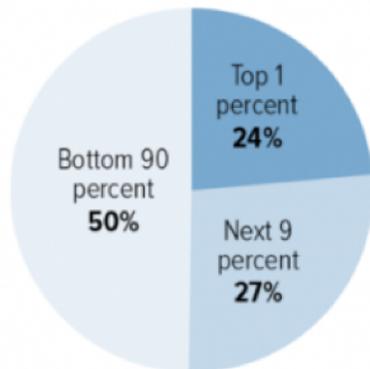
INCOME GROUP	TOTAL LOSS/GAIN IN ANNUAL INCOME*	AVERAGE LOSS/GAIN PER HOUSEHOLD PER YEAR*
TOP 1%	\$673 billion more	\$597,241 more
96-99	\$140 billion more	\$29,895 more
91-95	\$29 billion more	\$4,912 more
81-90	\$43 billion less	\$3,733 less
61-80	\$194 billion less	\$8,598 less
41-60	\$224 billion less	\$10,100 less
21-40	\$189 billion less	\$8,582 less
BOTTOM 20%	\$136 billion less	\$5,623 less

* Compared to what incomes would have been had all income groups seen the same growth rate in 1979-2005 as they did during previous decades.
Source: Jacob Hacker, Yale University; Paul Pierson, UC-Berkeley

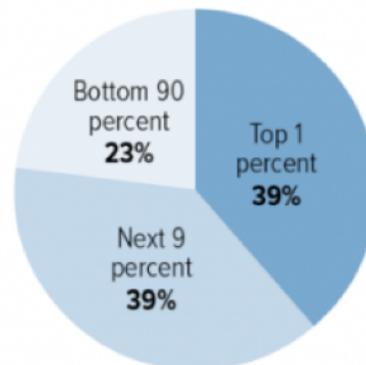


Wealth Inequality Exceeds Income Inequality

Distribution of before-tax income, 2016

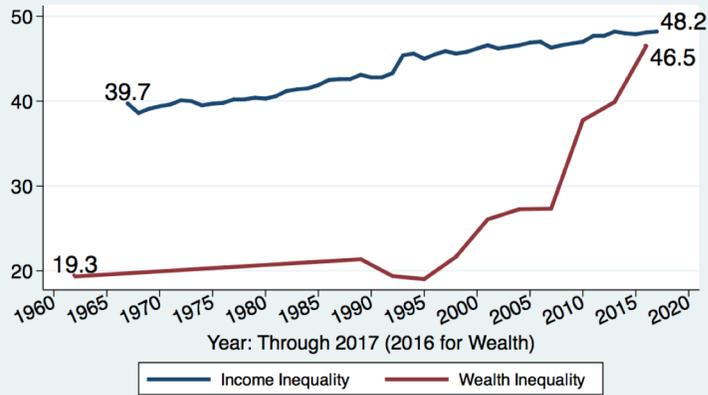


Distribution of wealth, 2016



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.

Income and Wealth Inequality



Income Inequality (Gini)

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

Source: U.S. Census Bureau and Board of Governors
 INCOME INEQUALITY is measured by the Gini coefficient.
 WEALTH INEQUALITY is the ratio of the mean wealth of the top decile to median overall wealth.
 Wealth data are only available for 1962, and at three year intervals beginning in 1989.



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Where Does Inequality Come From?

• Labor Characteristics

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

• Market Forces

- Technology
- Changing demand patterns
- Competition for labor

• Government Policy

- Market influence
- Redistribution



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Government Policy and Inequality

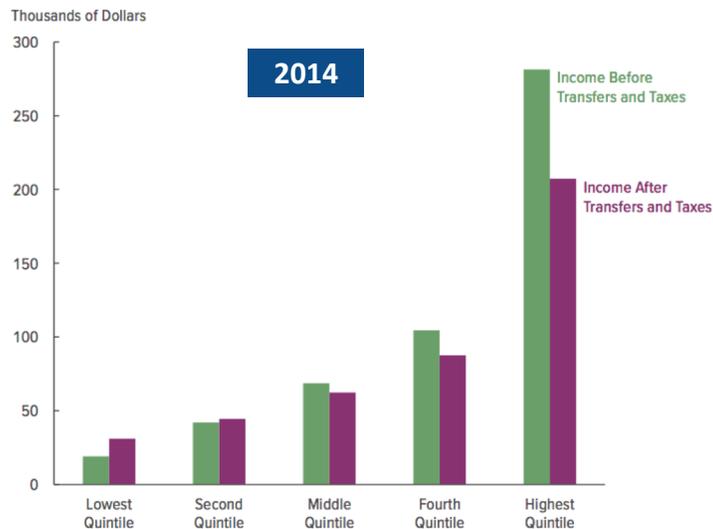
- **Market Influence: PRE-distribution**

- 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

Tax and Transfer Programs and Inequality



What About Tax Rates?

400 TAXPAYERS WITH HIGHEST INCOMES

1992-2014



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

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

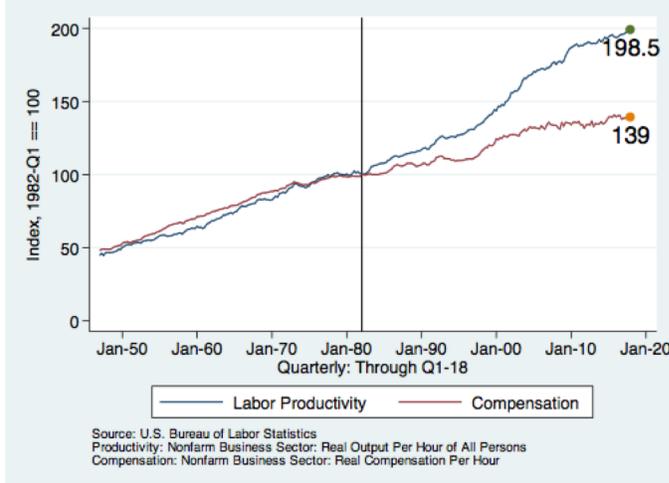
- Unionization
- Market concentration



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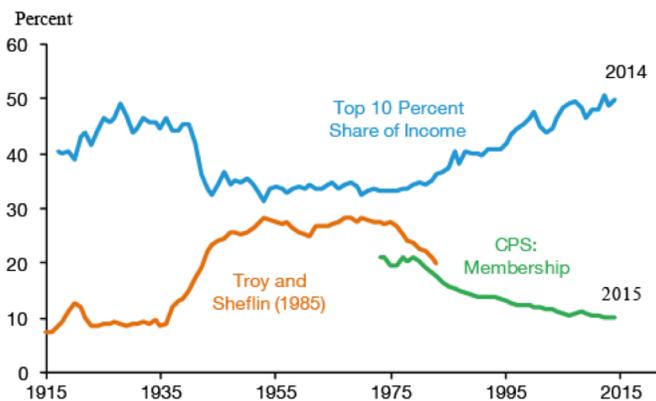
Labor Income is Unhinged from Productivity



Why?

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

Declining Unionization



Unionization Rates

- **1983:** 20.1%
- **2018:** 10.5%

Mechanisms for the Effects of Globalization

- **Merchandise trade**

- Importing goods that are made with low-skilled workers and exporting goods that are made with high-skilled workers
 - Lowers the wages of unskilled relative to skilled
 - making the distribution of income **less equal**

- **Outsourcing**

- Similar channel as with merchandise trade

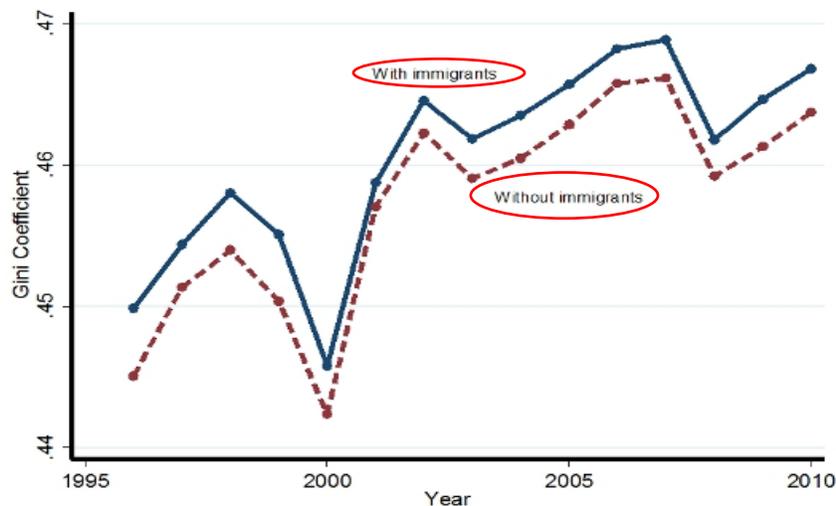
- **Trade in services**

- US imports of middle-skill services: business and some professional services

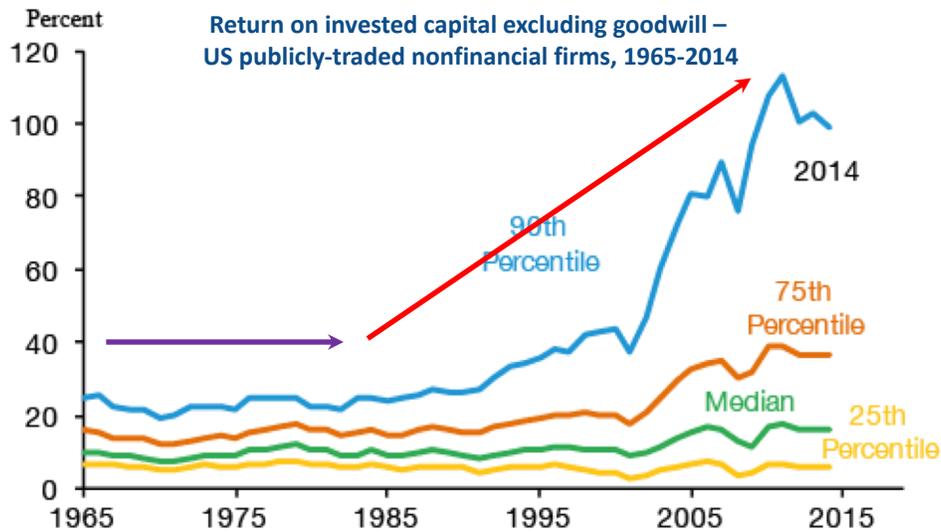
- **Intuitively: The same as if we were to move the actual workers.**



Immigration and Inequality



Competition in the Economy



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Source: Jason Furman, "Forms and sources of inequality in the United States", VOX, March 17, 2016, Figure 6.

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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 technology-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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Where Does Inequality Come From? Summary

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



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 and labor force participation



Why Does Inequality Matter?

- **Too little inequality can:**

- Reduce individual motivation
- Slow economic growth

- **Too much inequality can:**

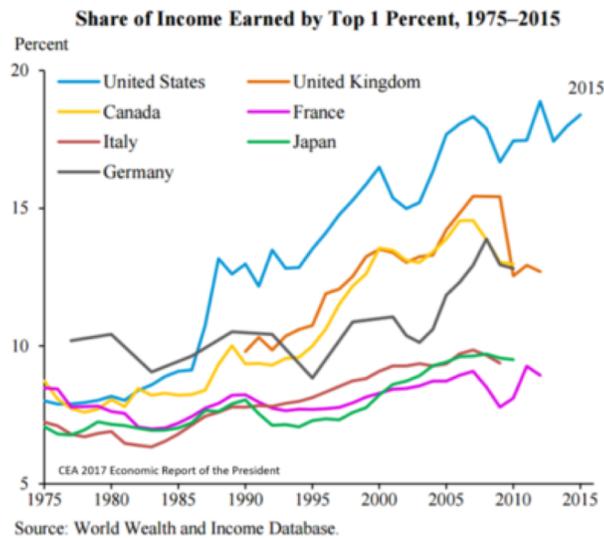
- Reduce individual motivation
- Slow economic growth

- **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: 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?
- RE-distribution?
- PRE-distribution?
- Access to resources?



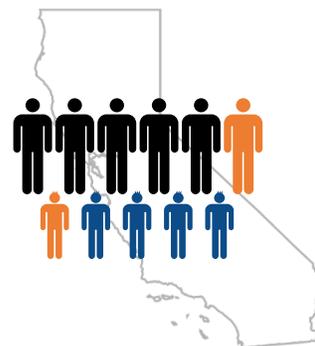
Tension in Policy Solutions

- **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.



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?



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