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# Economic Inequality


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**Matthew Prince's Econ Class, Hanover 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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## Outline: Economic Inequality

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



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# Economic Inequality: Income

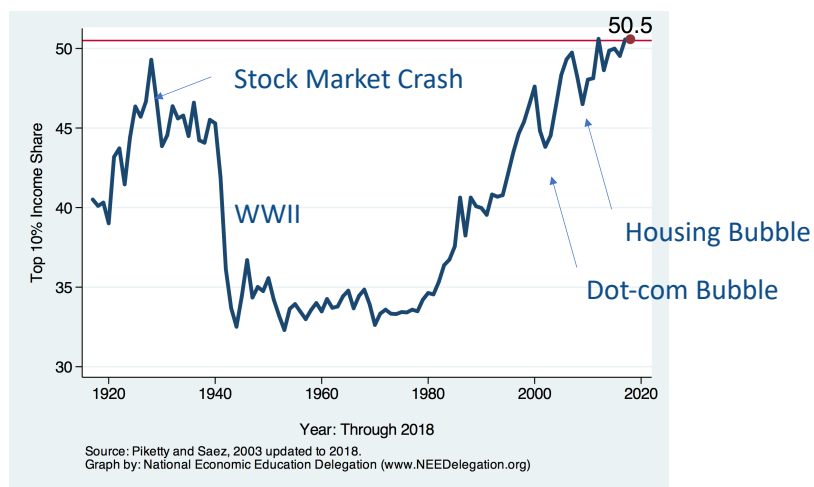
• **Definition:**

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

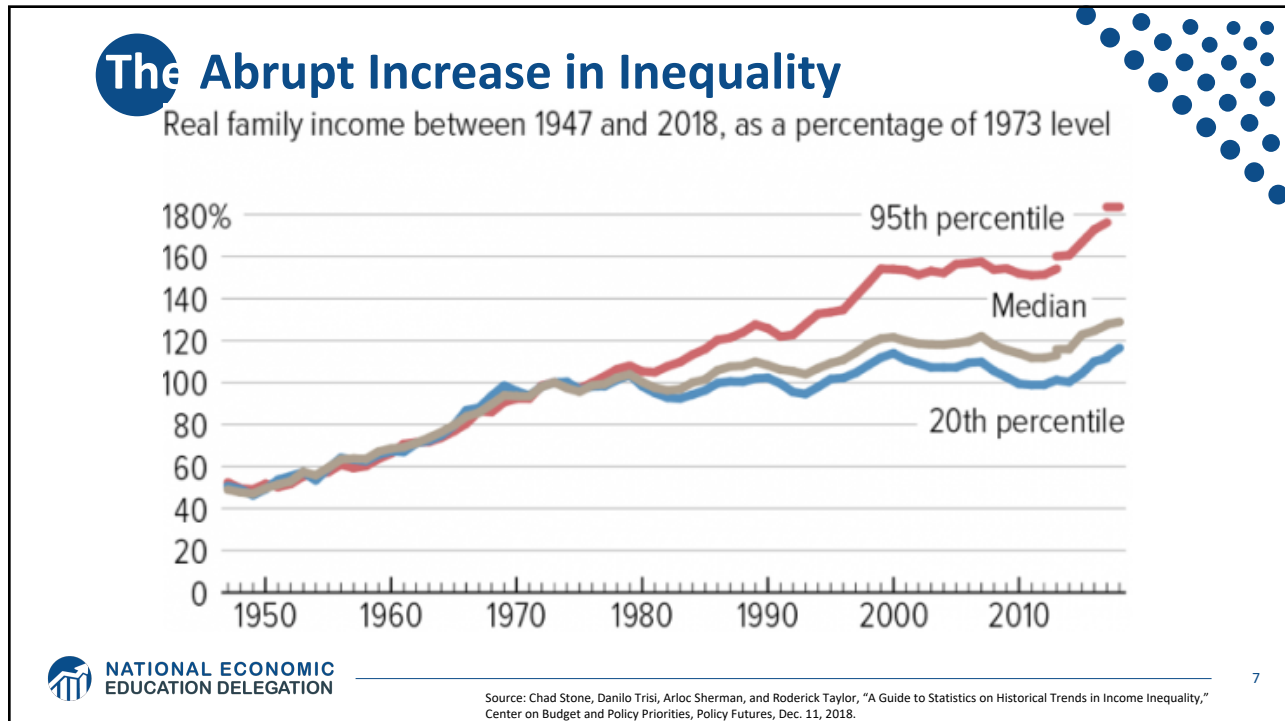


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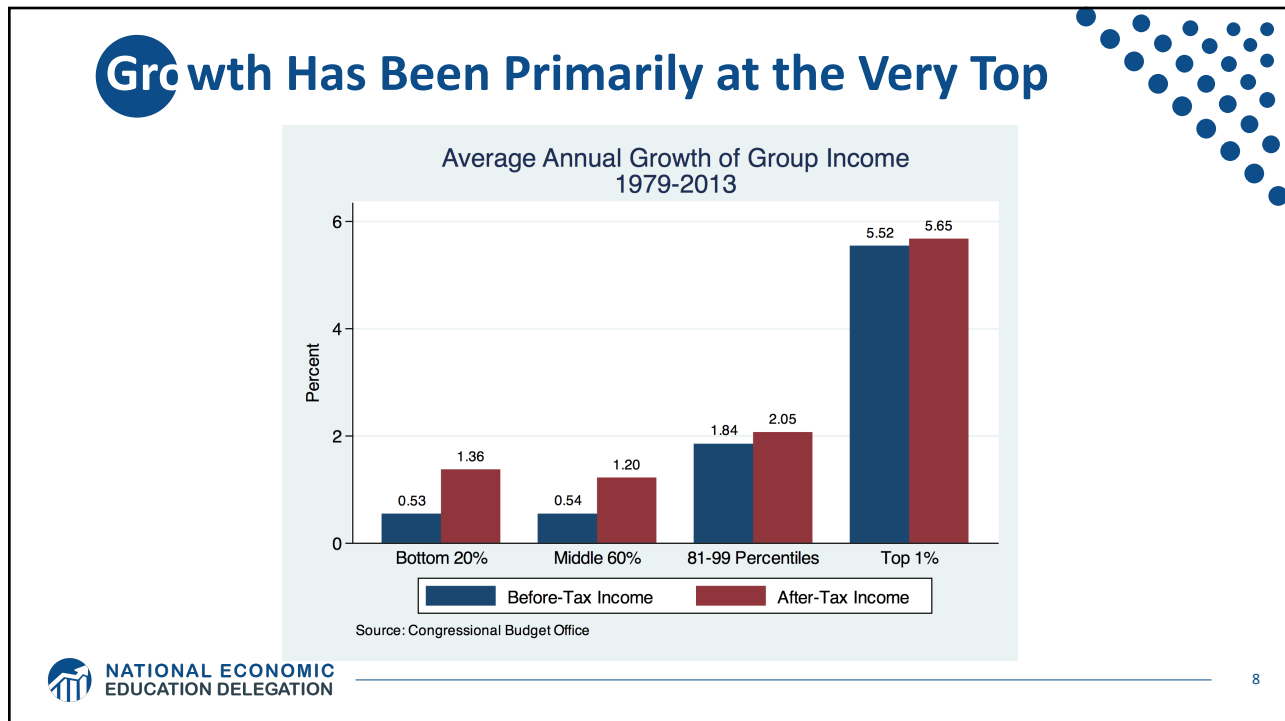
# National Income Inequality: Share of Top 10%



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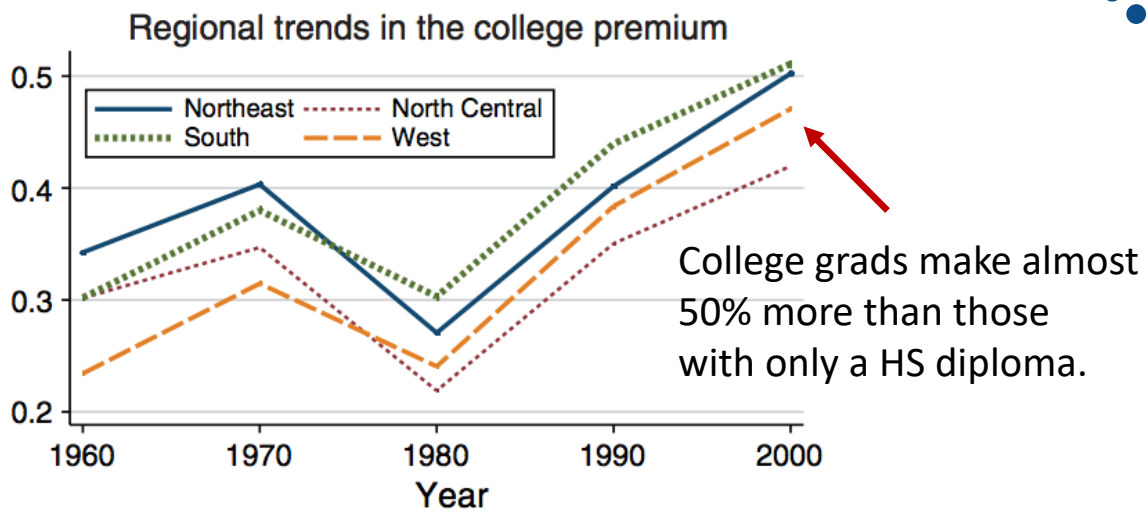
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## Tale of Two Periods

- Increases in inequality have been consistent since late 1970s.
- Causes have not:
  - 1980-2000                      - Changing returns to education.
  - 2000-ongoing                 - Shifting income from workers to owners.

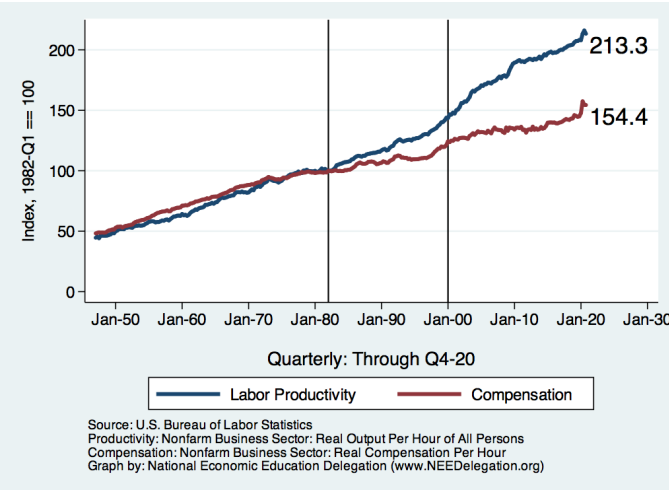
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## Returns to Education



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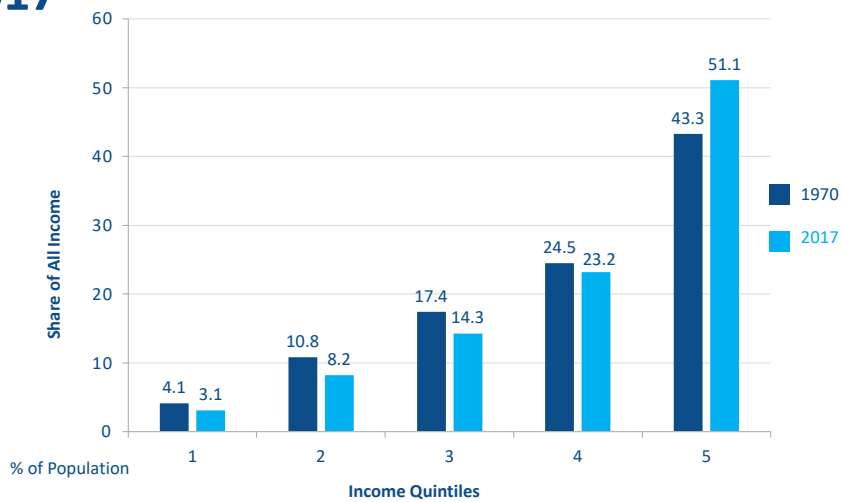
# Labor Income is Unhinged from Productivity



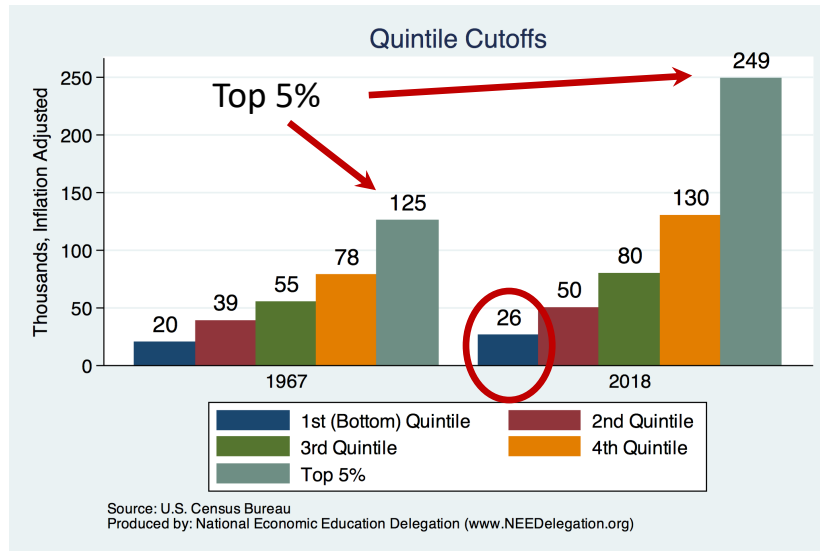
## Why?

- Declining unionization
- Globalization
- Competition policy
- Cheap technology

# Income Share Changes Between 1970 and 2017



## Quintile Income Cutoffs



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## Income Changes from Growing Inequality

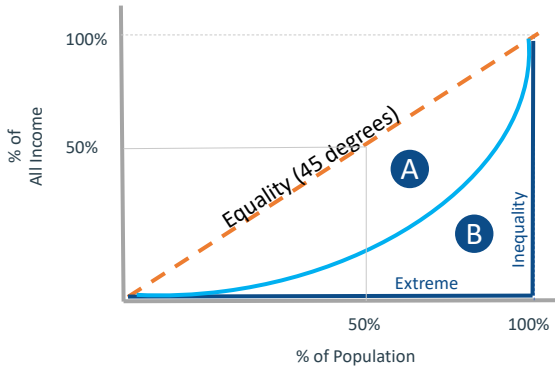
Bottom 90% of Households

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

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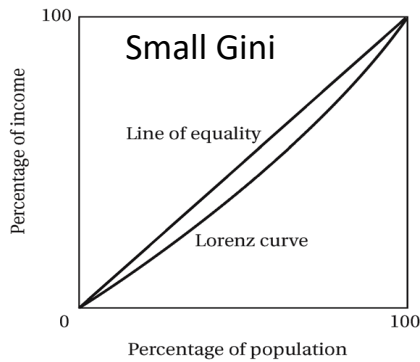
# Measuring Inequality: The Gini Coefficient



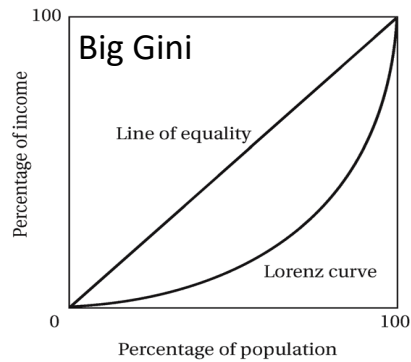
$$\text{Gini} = \frac{A}{A + B} \times 100$$

Bigger A: More inequality  
Smaller A: Less inequality

# Equal, Unequal, & the Gini

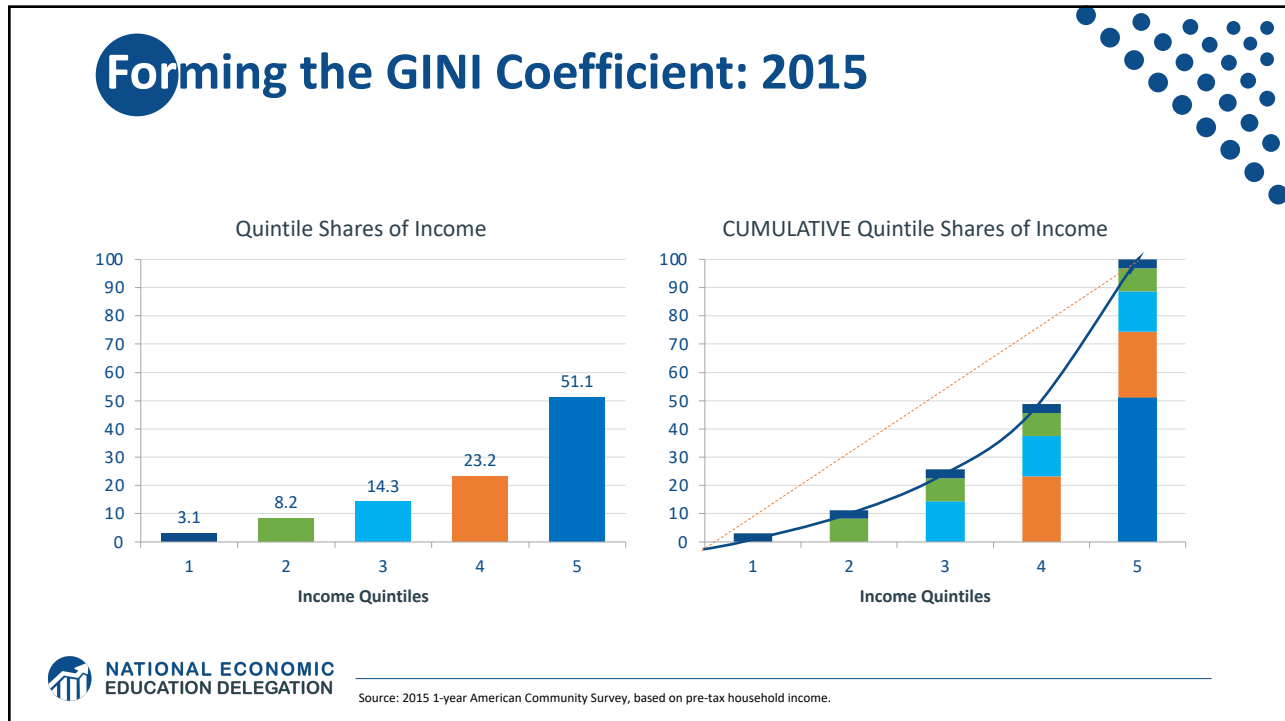


(a) A relatively equal distribution

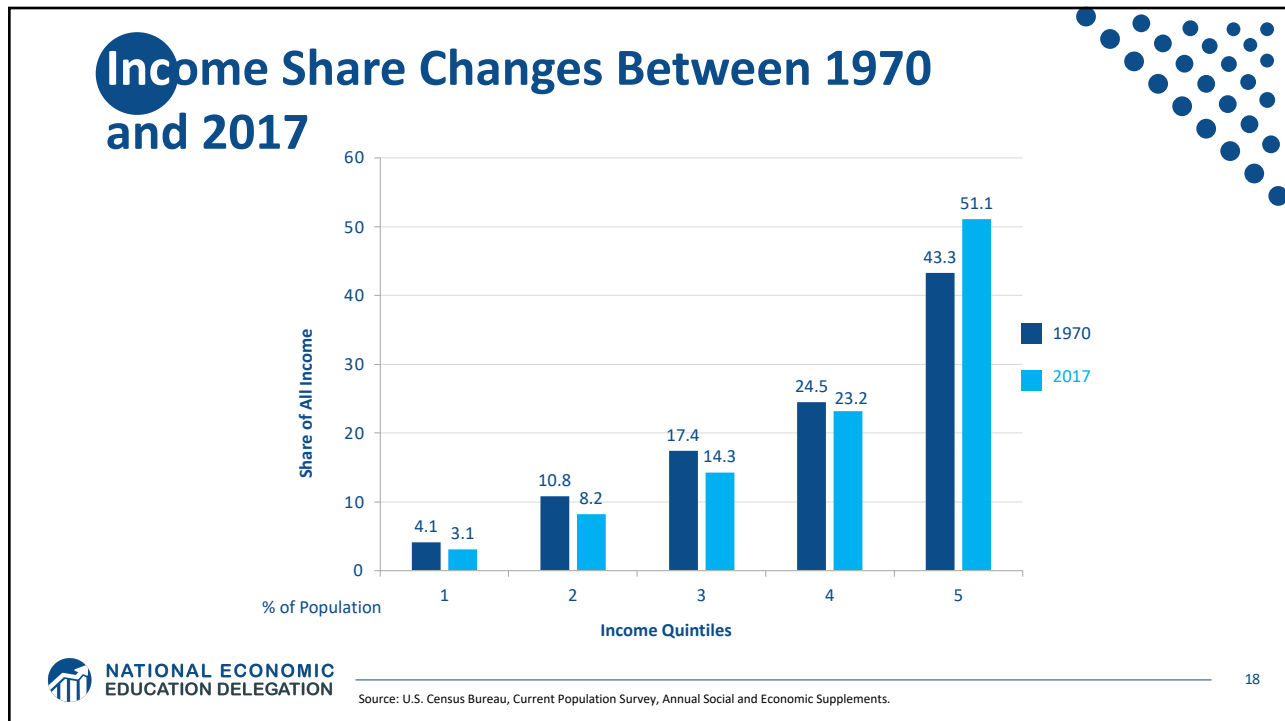


(b) A relatively unequal distribution

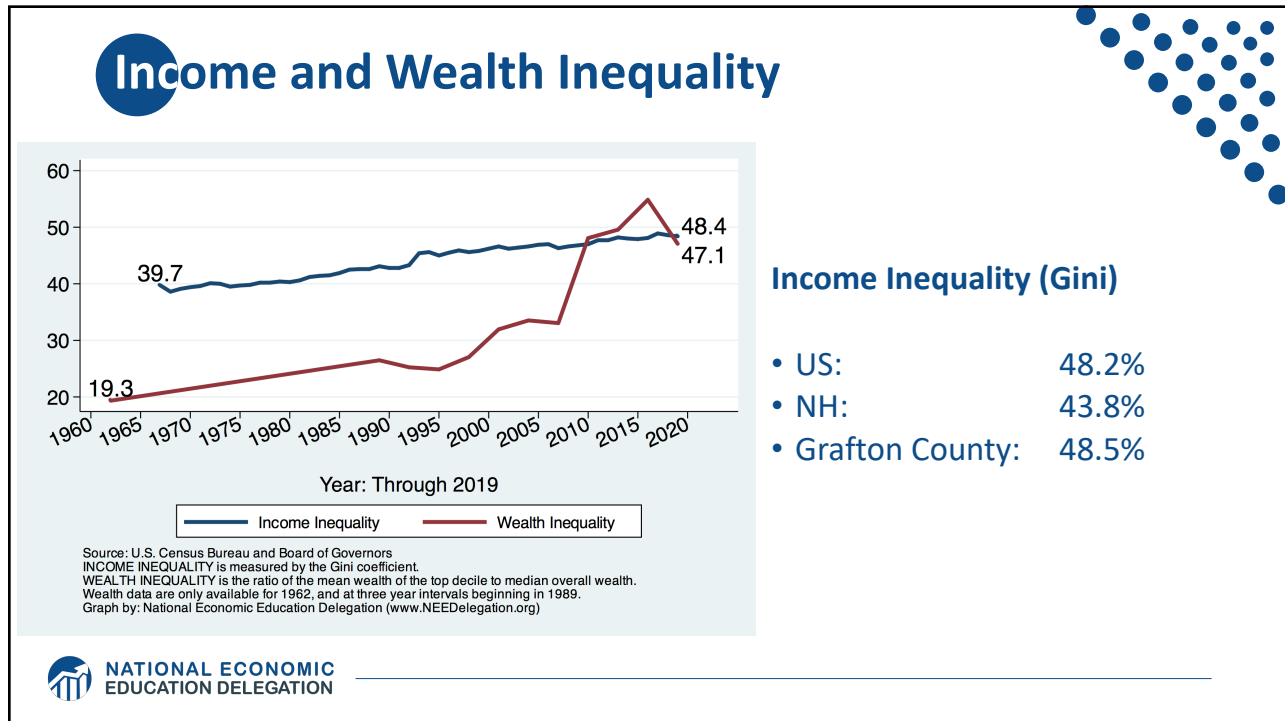




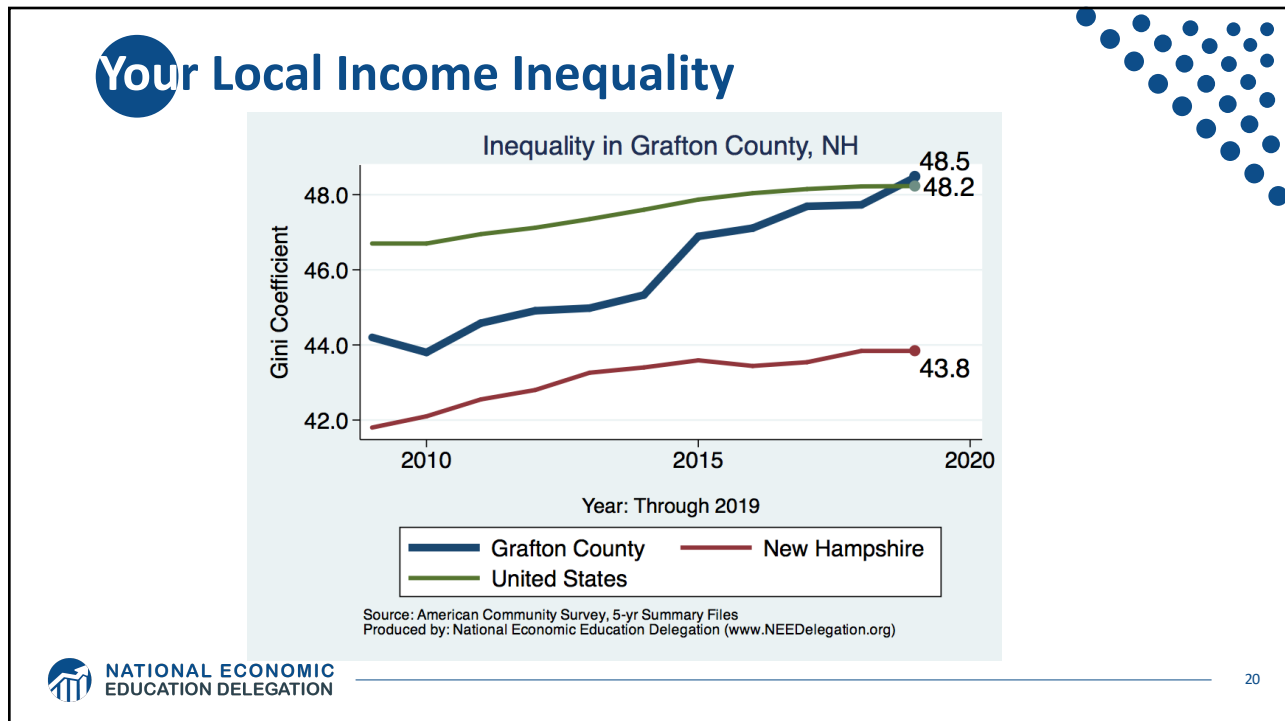
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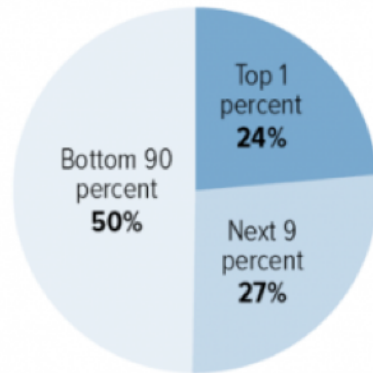
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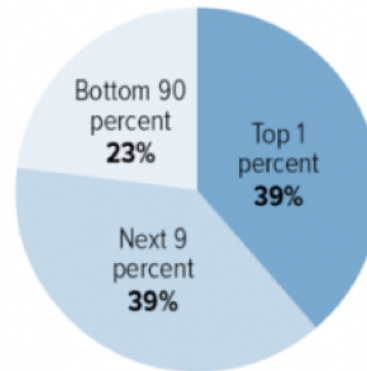
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## Wealth Inequality Exceeds Income Inequality

Distribution of before-tax income, 2016



Distribution of wealth, 2016



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## 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**

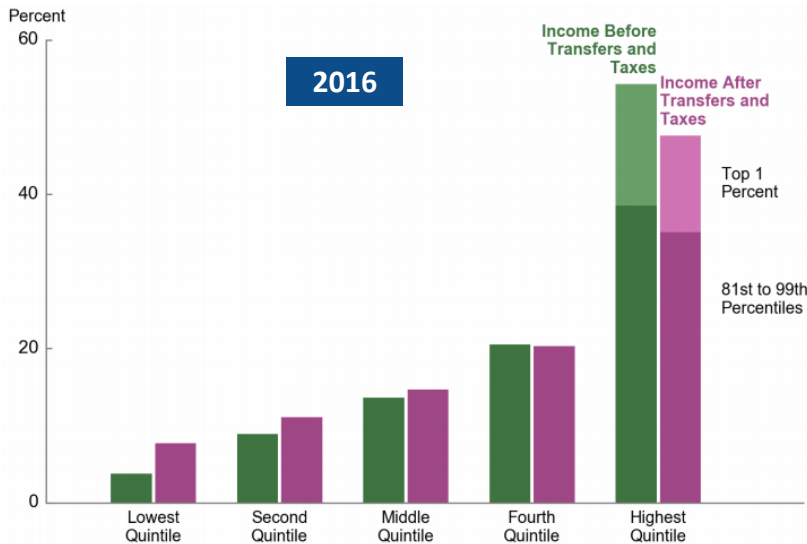
- Characteristics of labor
  - o Access to education
- Effects on labor demand
  - o Market regulation
    - Competition policy
  - o Labor regulations
    - Minimum wage, overtime, health insurance, etc.

- **RE-distribution**

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

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# Tax and Transfer Programs: Income Shares



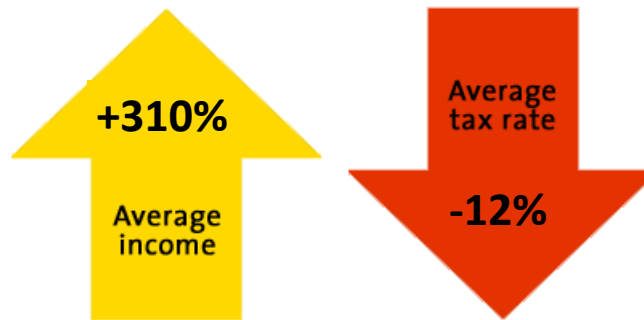
Source: U.S. Congressional Budget Office, "The Distribution of Household Income, 2016", Average Income Before and After Means-Tested Transfers and Federal Taxes, by Income Group, 2016.

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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

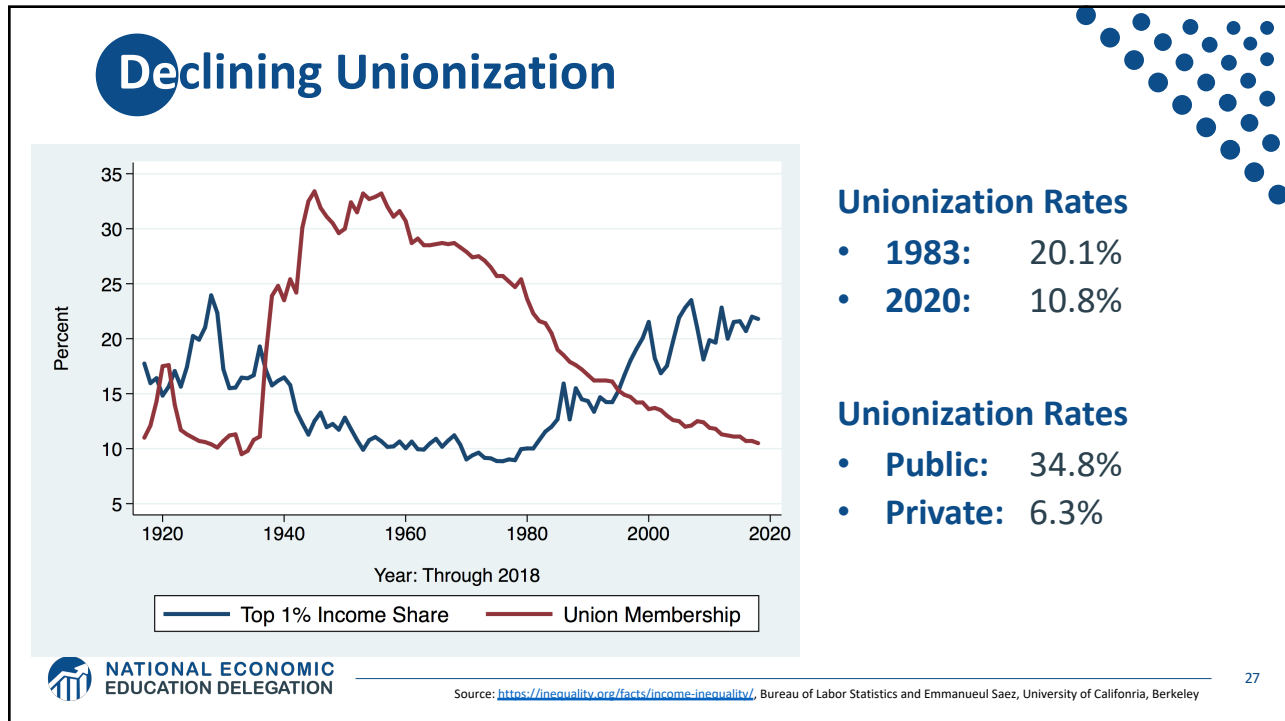
- Unionization
- Market concentration



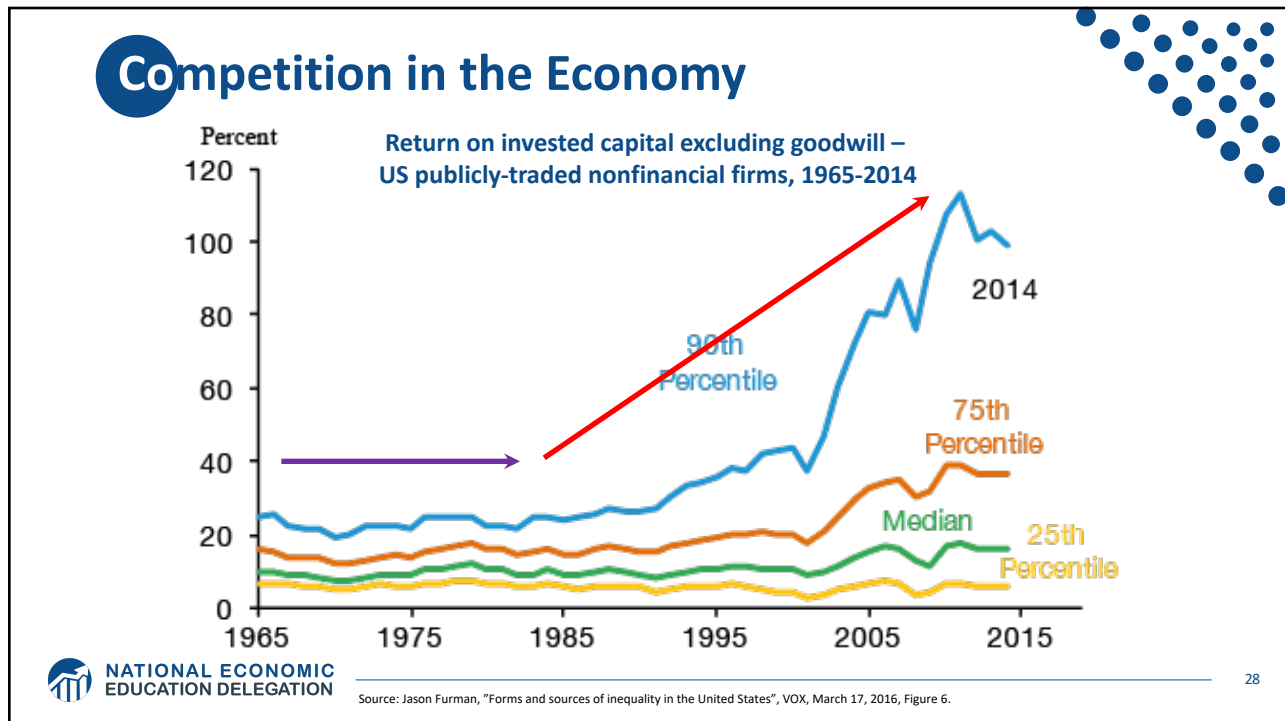
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## Technological Change and Inequality

- **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?**

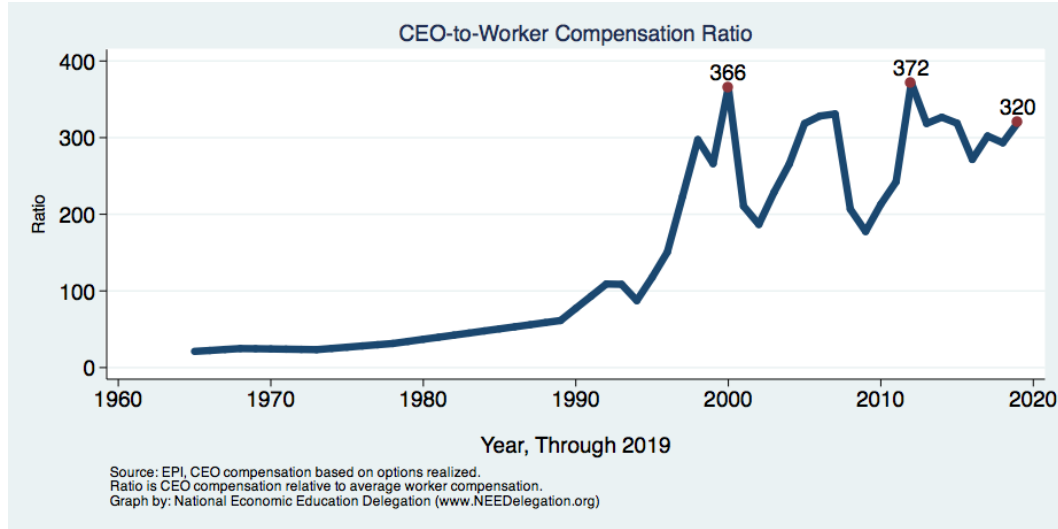
- Through a differential impact on low-skilled workers and hence their wages
- For the United States, globalization is thought to lower the wages of low skilled and hence low-wage workers relative to those of high-skilled workers



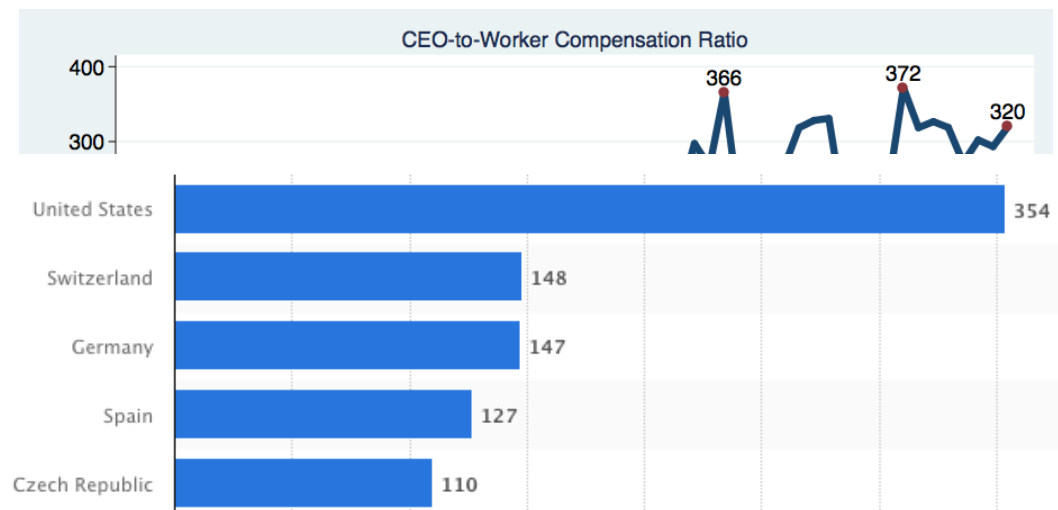
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## CEO Pay Has Been Growing Rapidly



## CEO Pay Has Been Growing Rapidly



## 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
  


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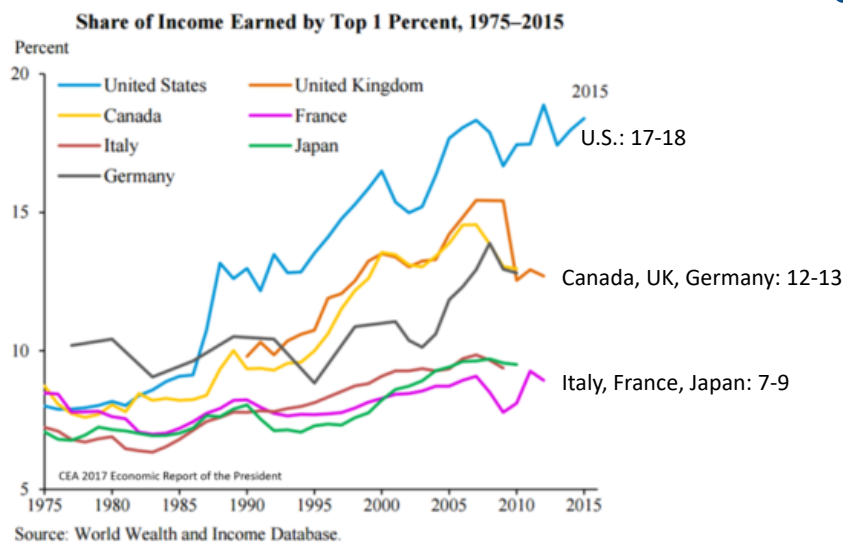
- **Too much inequality may also:**
  - Divide society
  - Distort political environment
  - Reduce political participation
  - Reduce investments in public goods
    - Education
    - Environmental protections



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## An International Perspective: Comparables



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## 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 IS a problem. How might it be addressed?**

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## 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.

## 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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## Summary

- **Income inequality is clearly increasing.**

- The economy is clearly favoring owners of productive resources over labor.

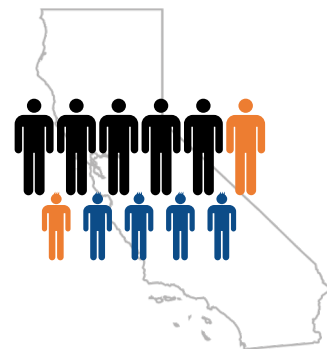
- **The causes appear to be largely driven by:**

- 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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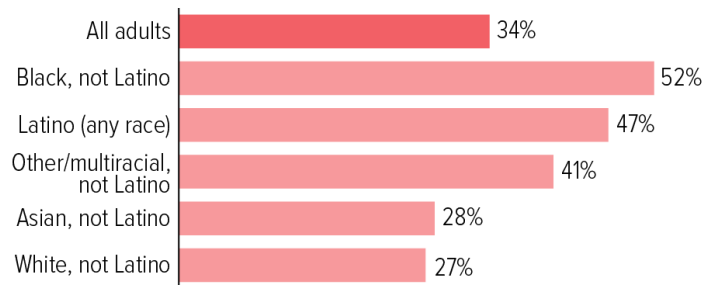
# Coronavirus and Inequality

- Resources to weather the storm.
- Racial inequities.
- Educational inequities.
- Rich are getting richer.

# Low Income Troubles

## 1 in 3 Adults Had Trouble Paying for Usual Household Expenses in Last 7 Days

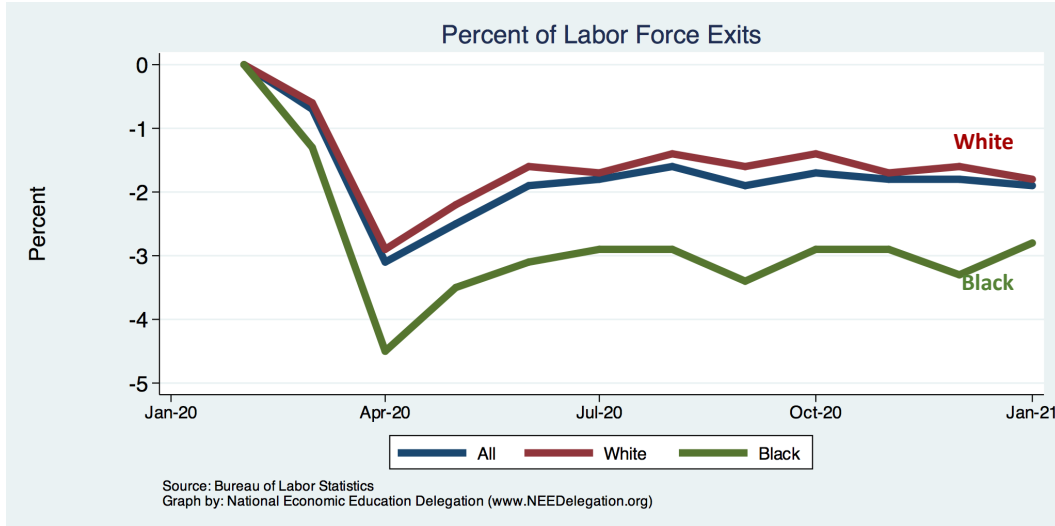
Share of adults reporting that it was somewhat or very difficult for their household to pay for usual expenses



Note: Other/multiracial, not Latino = people identifying as American Indian, Alaska Native, Native Hawaiian or Pacific Islander, or more than one race. Percentages exclude individuals who did not respond to the question.

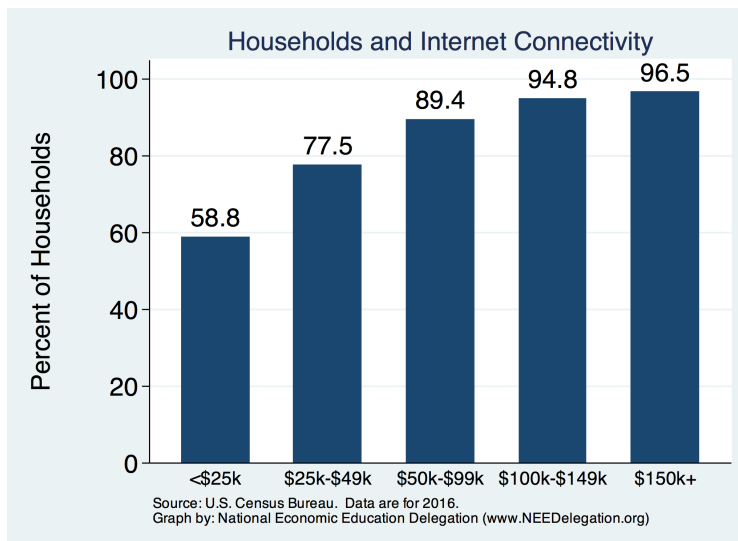
Source: CBPP analysis of Census Bureau Household Pulse Survey tables for October 28 – November 9, 2020

## Affecting Black Workers More than White



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## Home Schooling - Access to the Internet



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## Recovery/Recession for Whom?

Top 10 S&P Stocks:

1. Apple
2. Microsoft
3. Amazon
4. Facebook
5. Alphabet Class A shares
6. Alphabet Class C shares
7. Berkshire Hathaway
8. Johnson & Johnson
9. Visa
10. Procter & Gamble

Top 10 S&P Stocks vs. Bottom 490, Year-to-Date Performance



Source: TrendPlaybook.com, Bloomberg

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## Rich Getting Richer

- As of November 17, the combined wealth of 647 U.S. billionaires **increased by almost \$960 billion** since mid-March, the beginning of the pandemic lockdown.
- Since March, there are **33 new billionaires** in the U.S.
- Driving this exploding inequality are 12 companies whose profits are coming at the expense of workers and communities.
- They include retailers like **Walmart, Amazon, Target, and Dollar Tree** and **Dollar Store**, gig economy companies like **Instacart**, and food producers like **Tyson Foods** and private equity firms like **BlackRock**.

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# Gains by American Billionaires

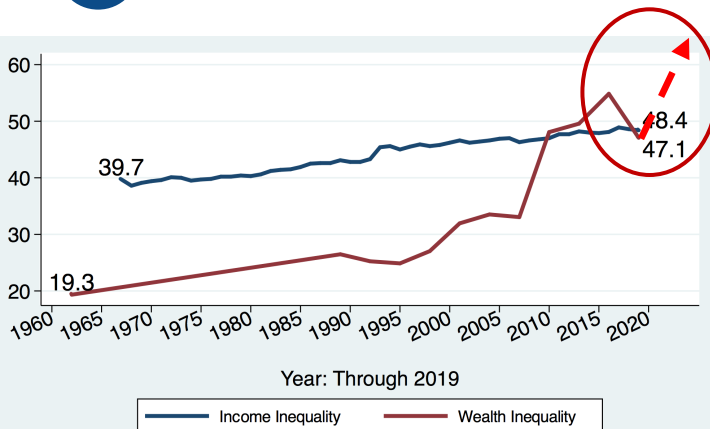
**WEALTH OF U.S. BILLIONAIRES GROWS \$1.06 TRILLION (36%) IN 9 MONTHS**  
March 18, 2020 - December 7, 2020

First Name	Net Worth Mar. 18, 2020 (\$ Billions)	Dec. 7 Real Time Worth (\$ Billions)	Wealth Growth, Mar. 18 to Dec. 7, 2020 (\$ Billions)	% Wealth Growth, Mar. 18 to Dec. 7, 2020	Net Worth Feb. 8, 2019 (\$ Billions)	Wealth Growth, Feb. 8, 2019 to Dec. 7, 2020 (\$ Billions)	% Wealth Growth, Feb. 8, 2019 to Dec. 7, 2020	Source
Jeff Bezos	\$113.0	\$184.4	\$71.4	63.2%	\$131.0	\$53.4	40.8%	Amazon
Elon Musk	\$24.6	\$143.1	\$118.5	481.7%	\$22.3	\$120.8	541.7%	Tesla, SpaceX
Bill Gates	\$98.0	\$118.7	\$20.7	21.1%	\$96.5	\$22.2	23.0%	Microsoft
Mark Zuckerberg	\$54.7	\$104.8	\$50.1	91.7%	\$62.3	\$42.5	68.3%	Facebook
Warren Buffett	\$87.5	\$86.5	\$19.0	28.1%	\$82.5	\$4.0	4.8%	Berkshire Hathaway
Larry Ellison	\$59.0	\$82.0	\$23.0	38.9%	\$62.5	\$19.5	31.1%	Oracle
Larry Page	\$50.9	\$79.8	\$28.9	56.9%	\$50.8	\$29.0	57.2%	Google
Sergey Brin	\$49.1	\$77.6	\$28.5	58.0%	\$49.8	\$27.8	55.8%	Google
Steve Ballmer	\$52.7	\$72.9	\$20.2	38.4%	\$41.2	\$31.7	77.0%	Microsoft
Alice Walton	\$54.4	\$69.0	\$14.6	28.8%	\$44.4	\$24.6	55.4%	Walmart
Jim Walton	\$54.6	\$68.8	\$14.2	25.9%	\$44.6	\$24.2	54.2%	Walmart
Rob Walton	\$54.1	\$68.4	\$14.3	26.5%	\$44.3	\$24.1	54.5%	Walmart
MacKenzie Scott	\$36.0	\$59.8	\$23.8	66.2%	N/A	N/A	N/A	Amazon
Michael Bloomberg	\$48.0	\$54.9	\$6.9	14.4%	\$55.5	-\$0.6	-1.1%	Bloomberg LP
Phil Knight	\$29.5	\$52.1	\$22.6	76.5%	\$33.4	\$18.7	55.9%	Nike
<b>SUBTOTAL</b>	<b>\$846.1</b>	<b>\$1,322.8</b>	<b>\$476.7</b>	<b>56.3%</b>	<b>\$821.1</b>	<b>\$501.7</b>	<b>61.1%</b>	
<b>ALL OTHERS</b>	<b>\$2,101.4</b>	<b>\$2,689.0</b>	<b>\$587.6</b>	<b>28.0%</b>	<b>\$2,289.9</b>	<b>\$399.1</b>	<b>17.43%</b>	
<b>TOTAL</b>	<b>\$2,947.5</b>	<b>\$4,011.8</b>	<b>\$1,064.3</b>	<b>36.1%</b>	<b>\$3,111.0</b>	<b>\$900.8</b>	<b>29.0%</b>	

Sources: All data in table is from Forbes and available here. March 18, 2020 data: Forbes, "Forbes Publishes 34th Annual List Of Global Billionaires", March 18, 2020; Dec. 7, 2020 data: Forbes, "The World's Real-Time Billionaires: Today's Winners and Losers" accessed Dec. 9, 2020; Feb. 8, 2020 data: Forbes 2020 World



# Income and Wealth Inequality



Because of the pandemic.

## Income Inequality (Gini)

- US: 48.2%
- NH: 43.8%
- Grafton County: 48.5%

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



**Thank you!**

## Any Questions?

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

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