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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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- **This slide deck was reviewed by:**
 - Timothy Smeeding, University of Wisconsin
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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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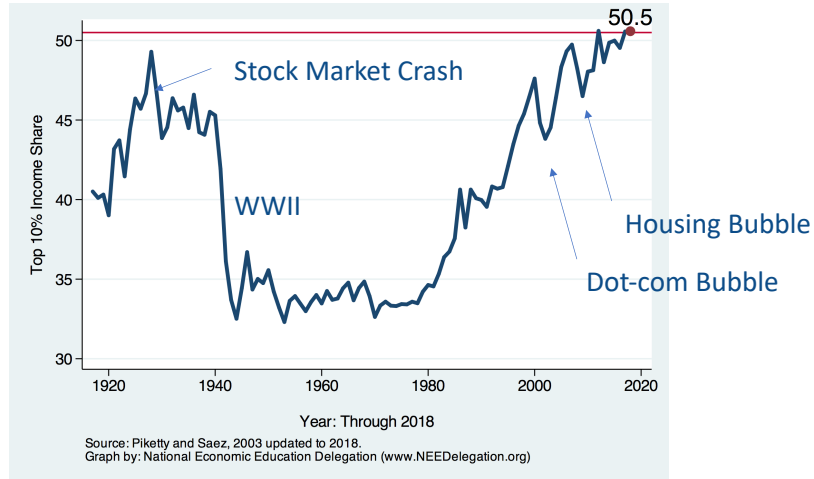
Outline: Economic Inequality

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



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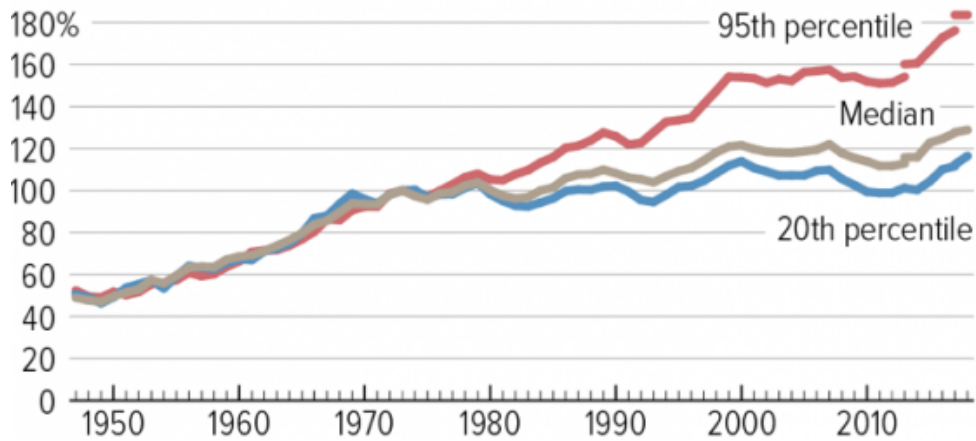
National Income Inequality: Share of Top 10%



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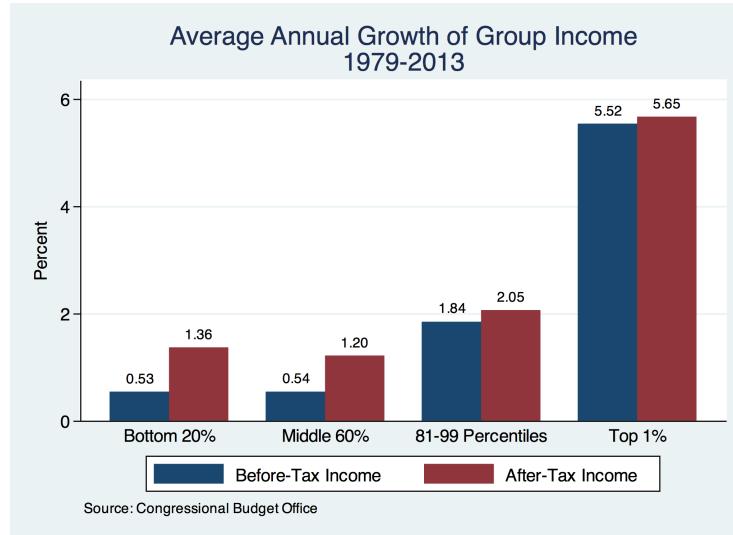
The Abrupt Increase in Inequality

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



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Growth Has Been Primarily at the Very Top



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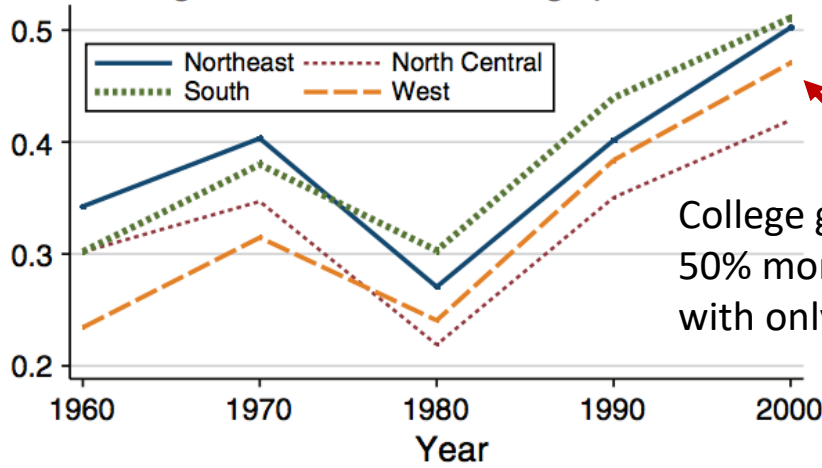
Tale of Two Periods

- **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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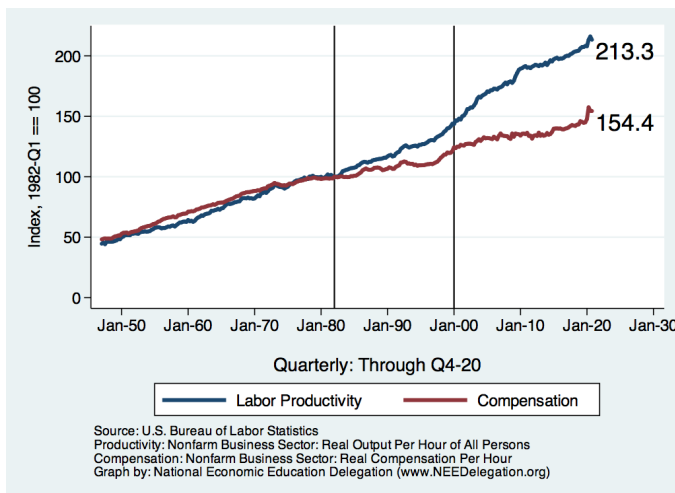
Returns to Education

Regional trends in the college premium



College grads make almost 50% more than those with only a HS diploma.

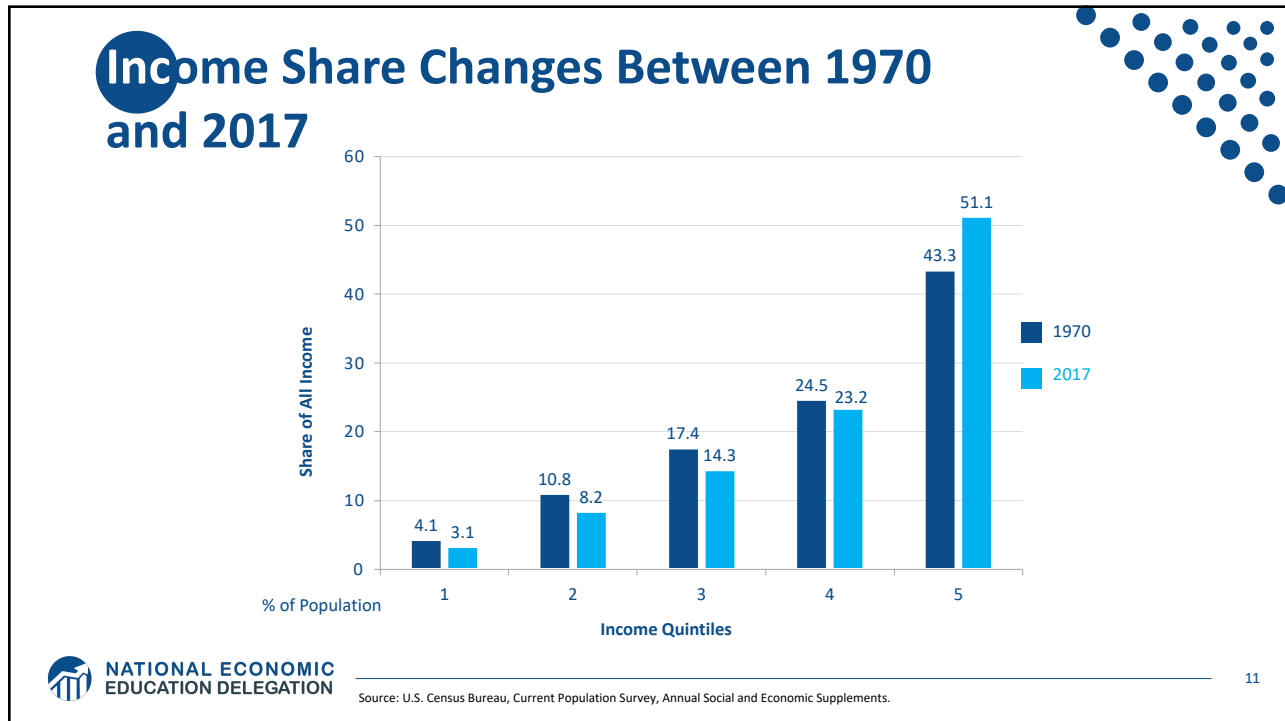
Labor Income is Unhinged from Productivity



Why?

- Declining unionization
- Globalization
- Competition policy
- Cheap technology

Source: U.S. Bureau of Labor Statistics
 Productivity: Nonfarm Business Sector; Real Output Per Hour of All Persons
 Compensation: Nonfarm Business Sector; Real Compensation Per Hour
 Graph by: National Economic Education Delegation (www.NEEDelegation.org)



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Income Changes from Growing Inequality

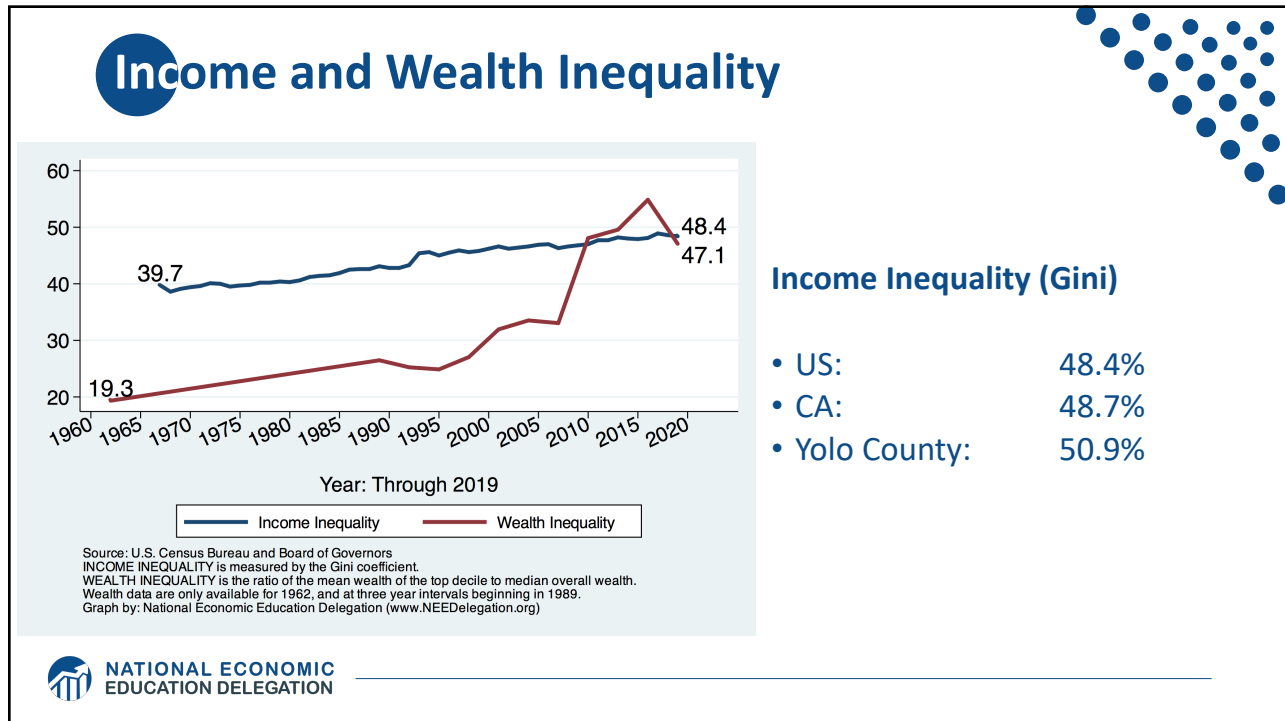
INCOME GROUP	TOTAL LOSS/GAIN IN ANNUAL INCOME*	AVERAGE LOSS/GAIN PER HOUSEHOLD PER YEAR*
TOP 1%	\$673 billion more	\$597,241 more
96-99	\$140 billion more	\$29,895 more
91-95	\$29 billion more	\$4,912 more
81-90	\$43 billion less	\$3,733 less
61-80	\$194 billion less	\$8,598 less
41-60	\$224 billion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

Bottom 90% of Households →

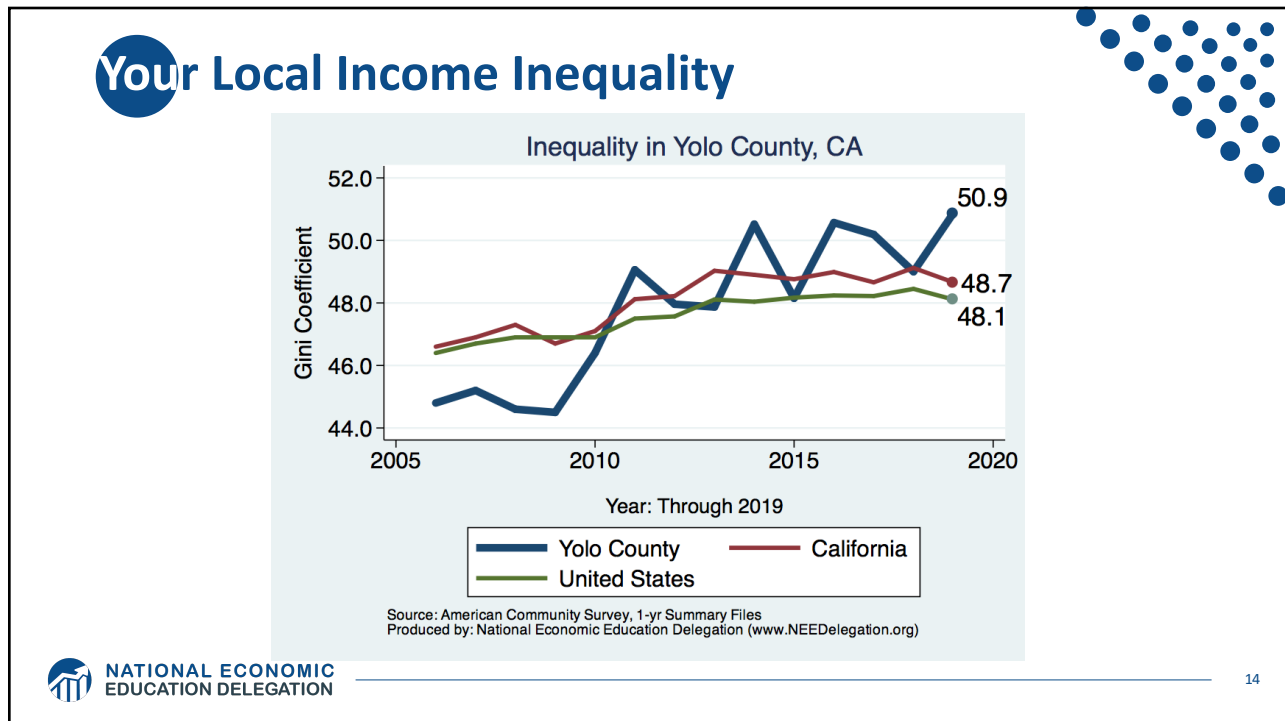
* Compared to what incomes would have been had all income groups seen the same growth rate in 1979-2005 as they did during previous decades.
 Source: Jacob Hacker, Yale University; Paul Pierson, UC-Berkeley

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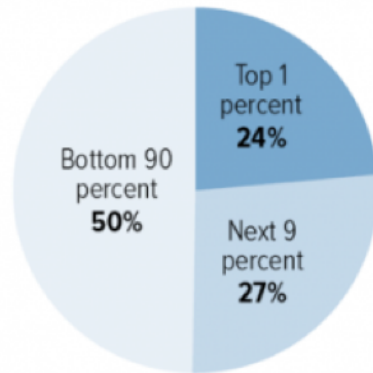
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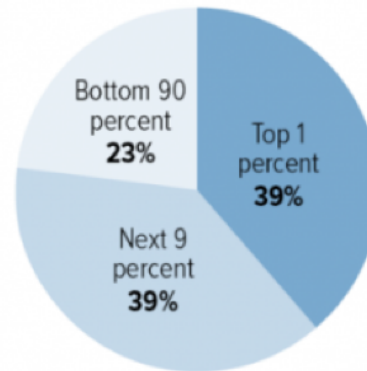
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Wealth Inequality Exceeds Income Inequality

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

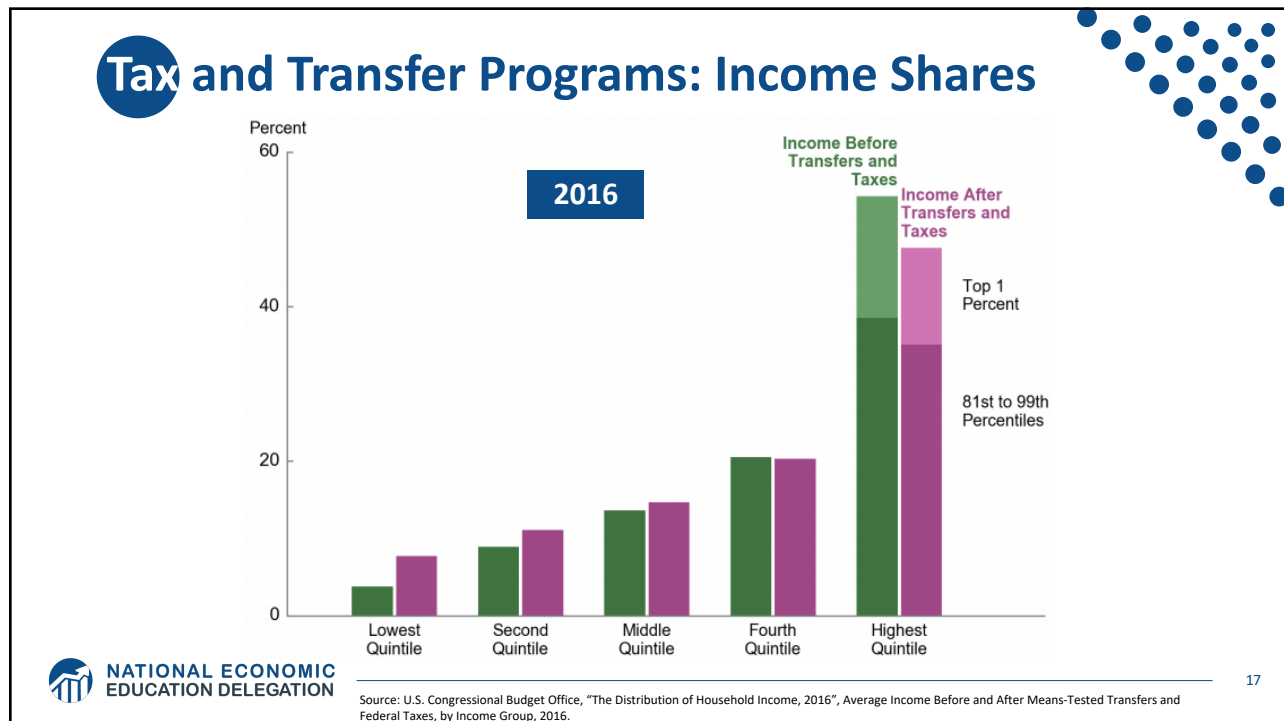
• Market Forces

- Technology
- Changing demand patterns
- Competition for labor

• Government Policy

- Market influence
- Redistribution

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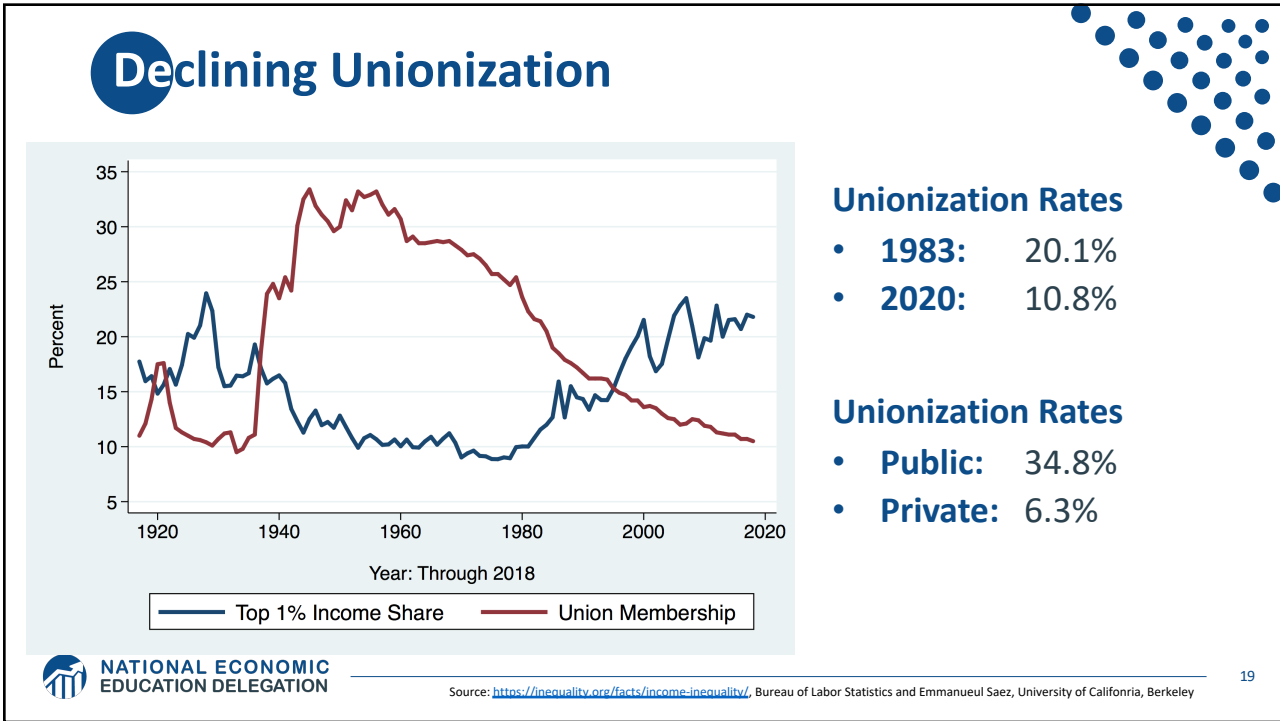


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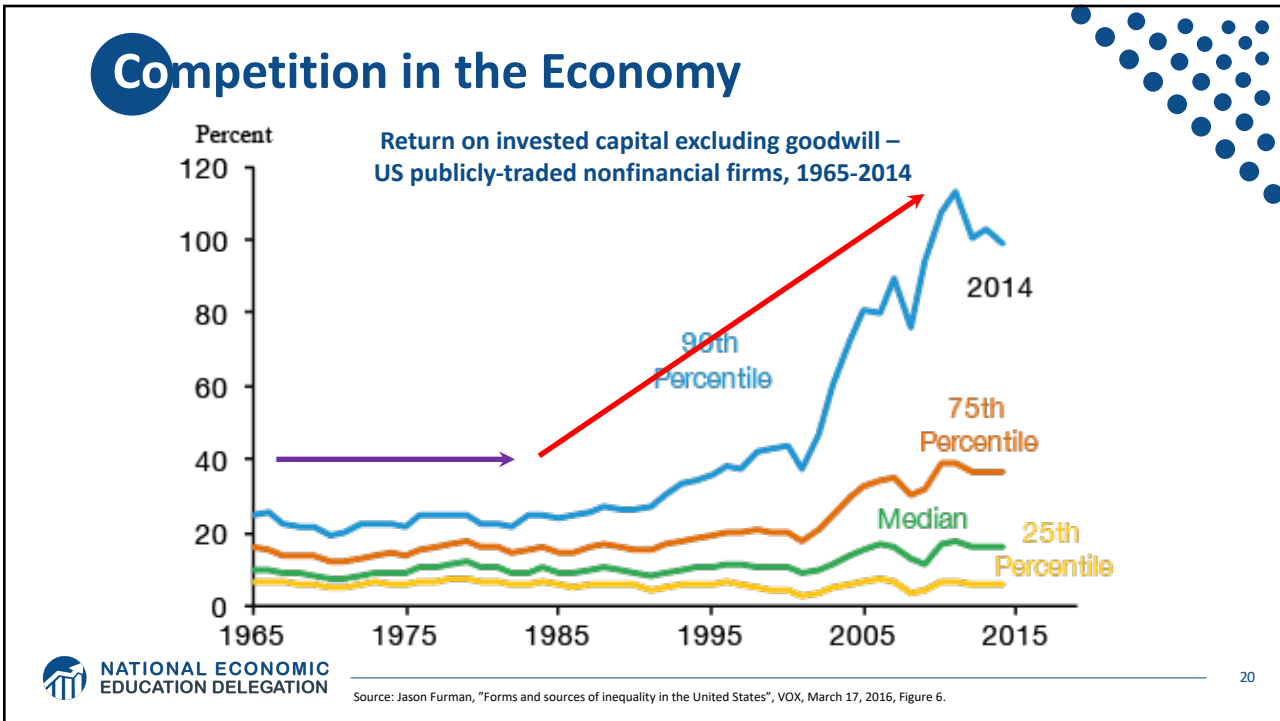
Market Forces and Inequality

- **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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Globalization

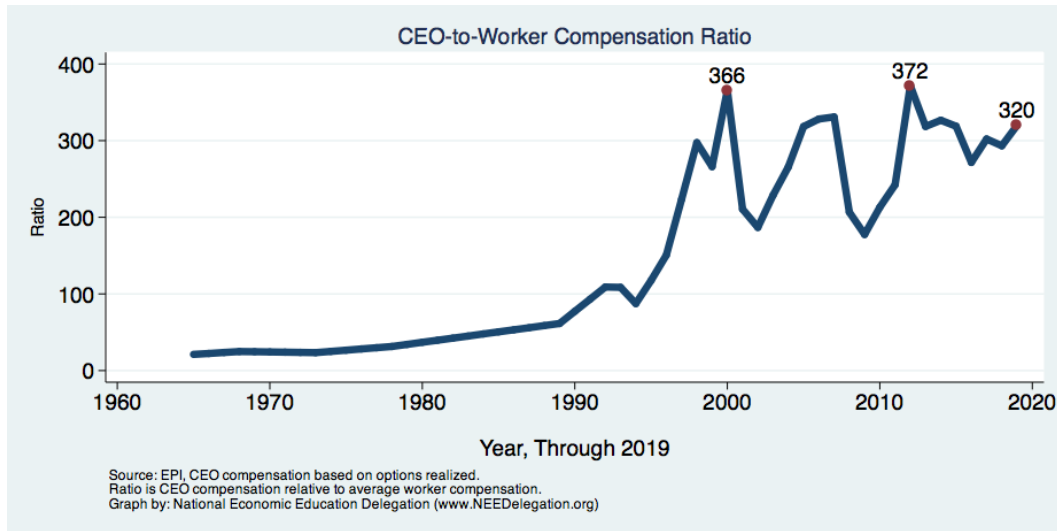
- **What is globalization?**
 - Flow of goods, services, capital, and labor across international borders.

- **How does it affect inequality?**
 - Through a differential impact on low-skilled workers and hence their wages

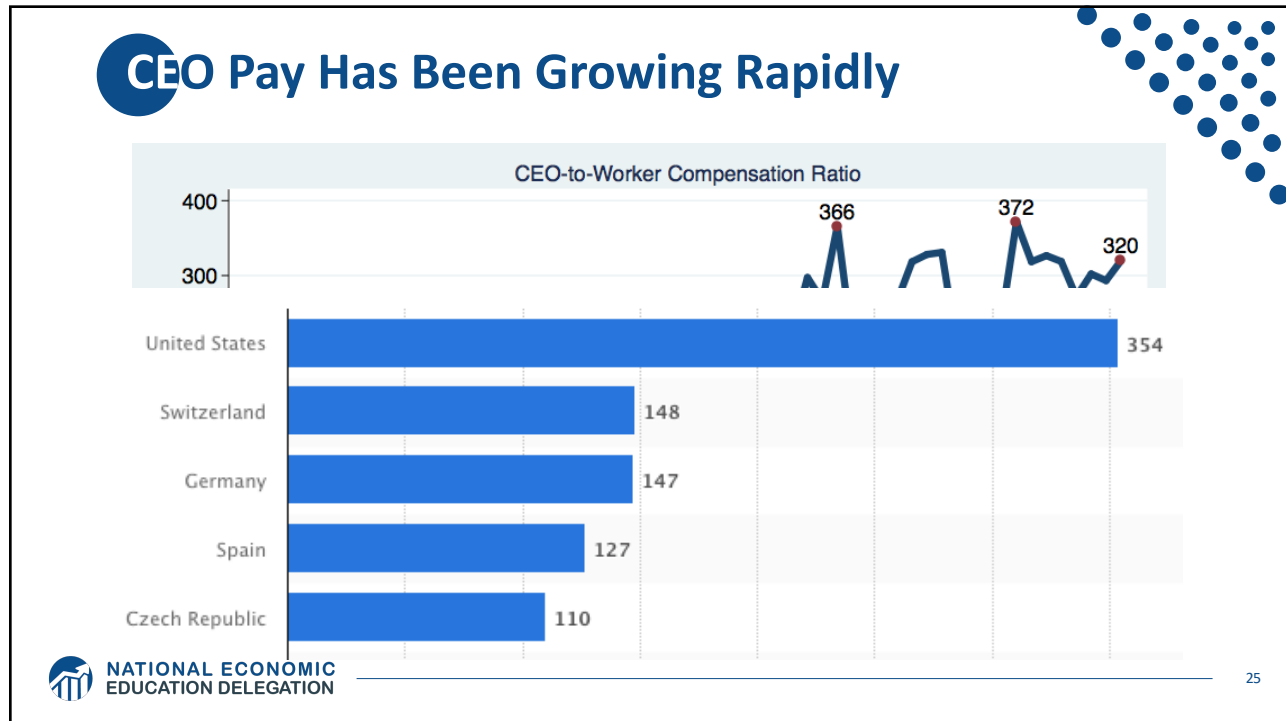
 - For the United States, globalization is thought to lower the wages of low skilled and hence low-wage workers relative to those of high-skilled workers

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CEO Pay Has Been Growing Rapidly



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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:**

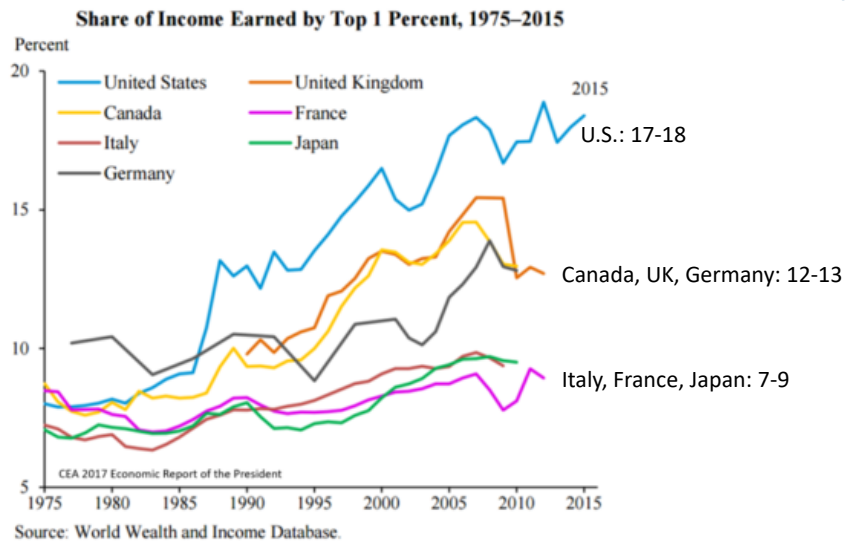
- Reduce individual motivation
- Slow economic growth

- **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: 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.

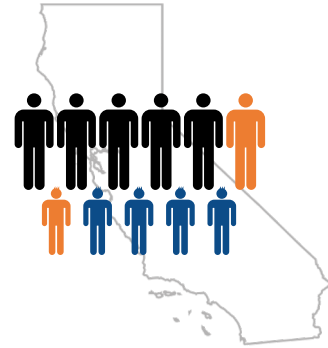


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Summary

- **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

- **Job losses primarily among low-wage workers.**
- **Resources to weather the storm.**
- **Racial inequities.**
- **Educational inequities.**
- **Rich are getting richer.**



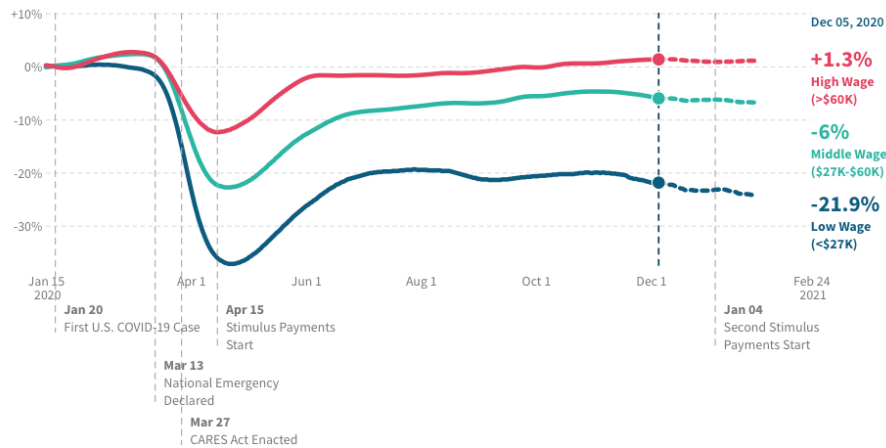
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Spending Patterns Since First US Case

In the United States, as of December 05 2020, employment rates among workers in the bottom wage quartile decreased by **21.9%** compared to January 2020 (not seasonally adjusted).

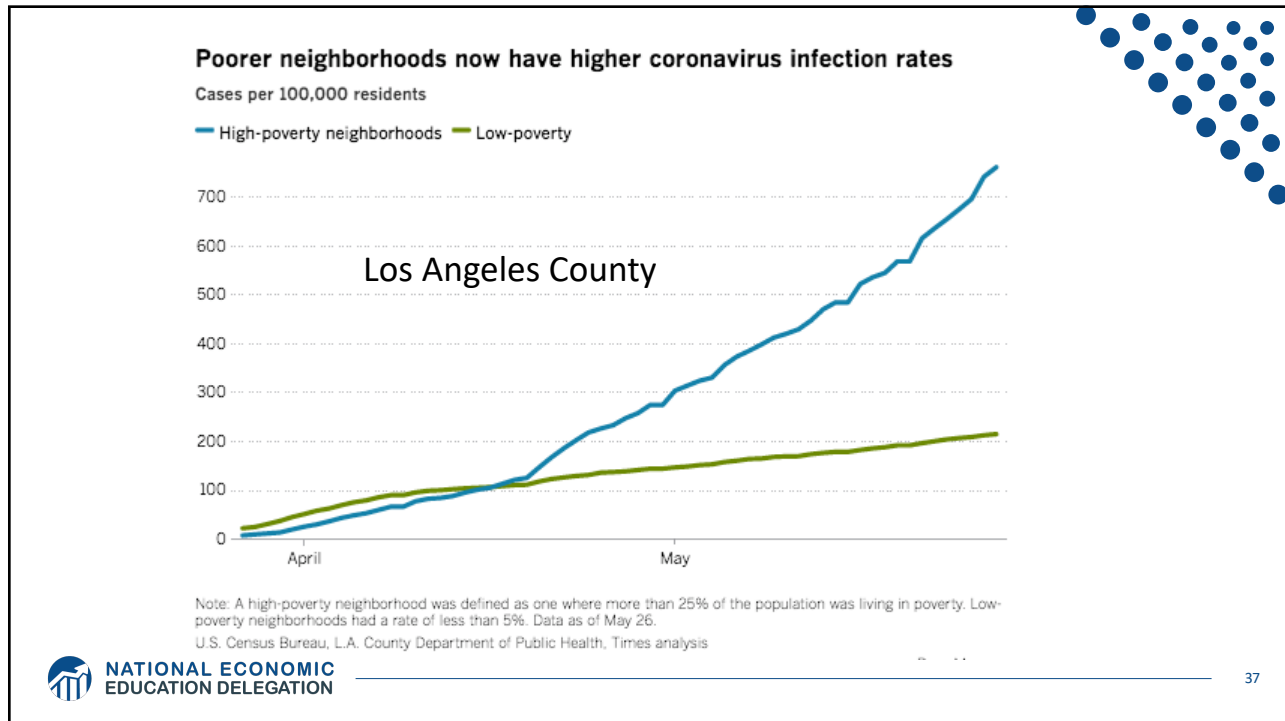


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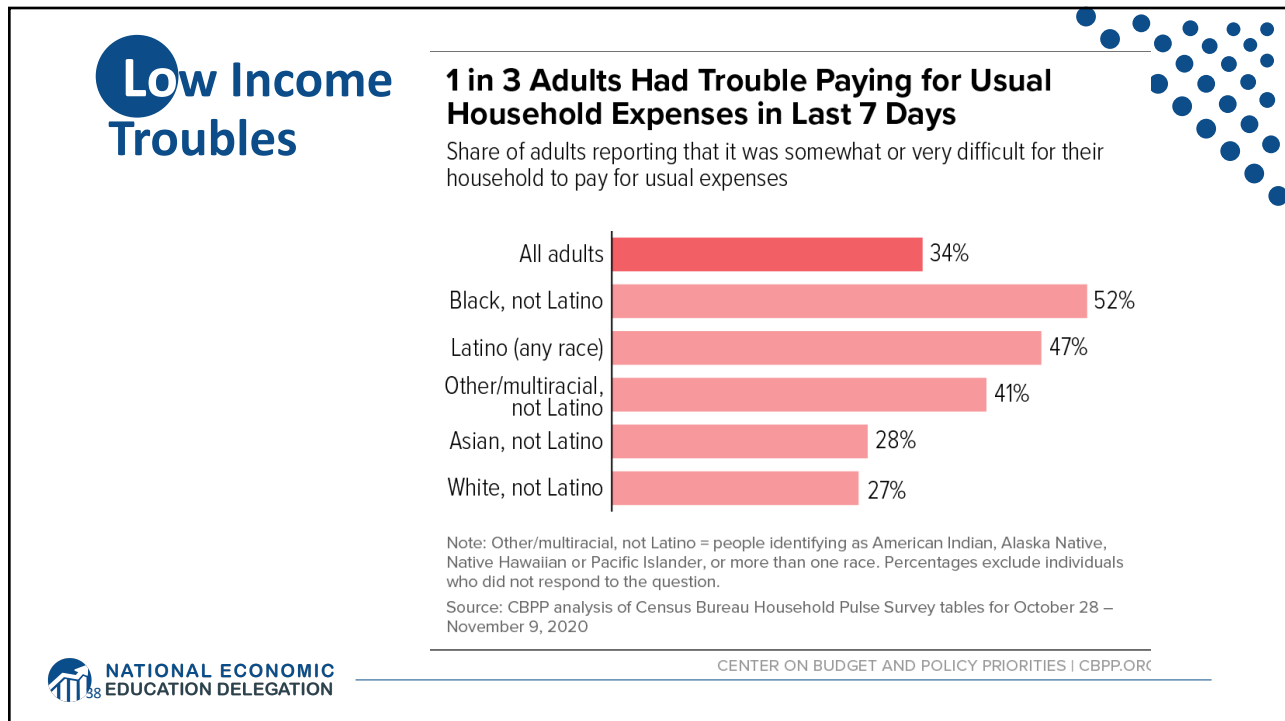
Financial Insecurity Before Coronavirus

- 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

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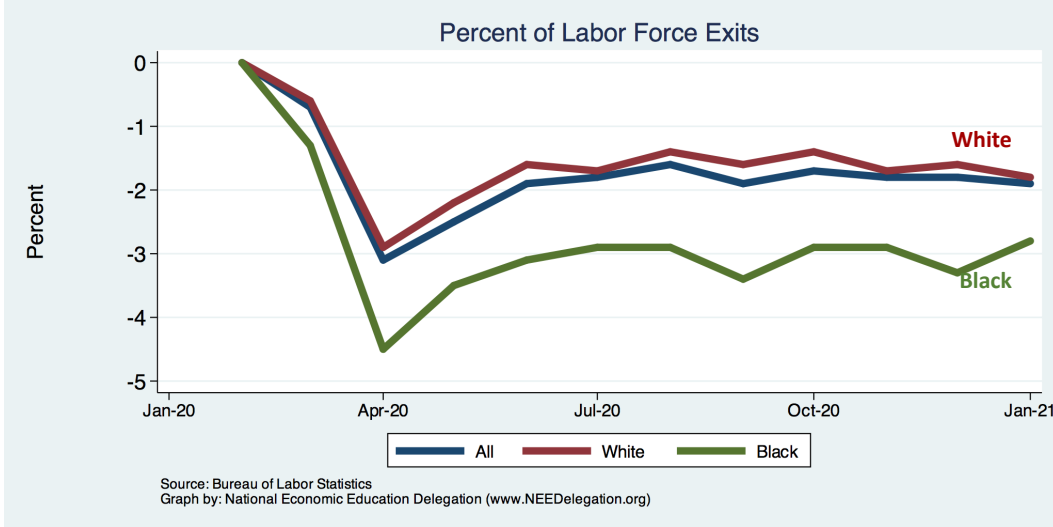


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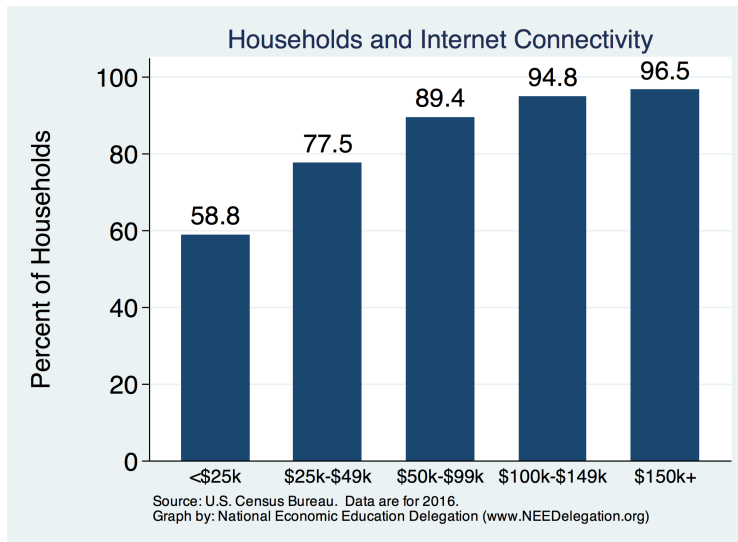
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Affecting Black Workers More than White



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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



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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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Source: Inequality.org

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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

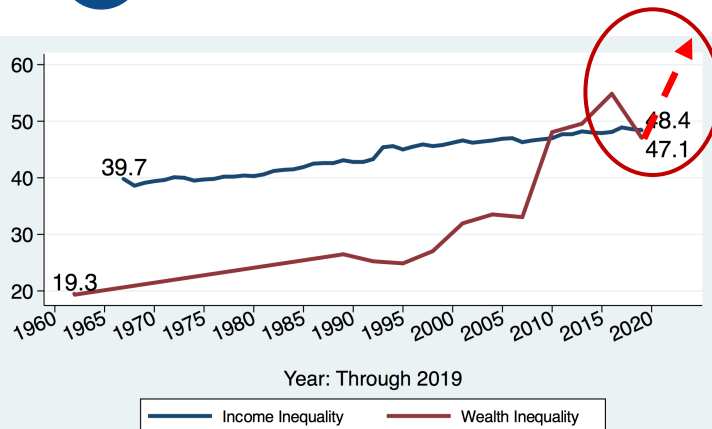
First Name	Net Worth Mar. 18, 2020 (\$ Billions)	Dec. 7 Real Time Worth (\$ Billions)	Wealth Growth, Mar. 18 to Dec. 7, 2020 (\$ Billions)	% Wealth Growth, Mar. 18 to Dec. 7, 2020	Net Worth Feb. 8, 2019 (\$ Billions)	Wealth Growth, Feb. 8, 2019 to Dec. 7, 2020 (\$ Billions)	% Wealth Growth, Feb. 8, 2019 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
SUBTOTAL	\$846.1	\$1,322.8	\$476.7	56.3%	\$821.1	\$501.7	61.1%	
ALL OTHERS	\$2,101.4	\$2,689.0	\$587.6	28.0%	\$2,289.9	\$399.1	17.43%	
TOTAL	\$2,947.5	\$4,011.8	\$1,064.3	36.1%	\$3,111.0	\$900.8	29.0%	

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



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Income and Wealth Inequality



Because of the pandemic.

Income Inequality (Gini)

- US: 48.4%
- CA: 48.7%
- Yolo County: 50.9%

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)



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Thank you!

Any Questions?

www.NEEDelegation.org

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Quintile Income Cutoffs

