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Inequality in the United States


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Inequality: Income and Wealth

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



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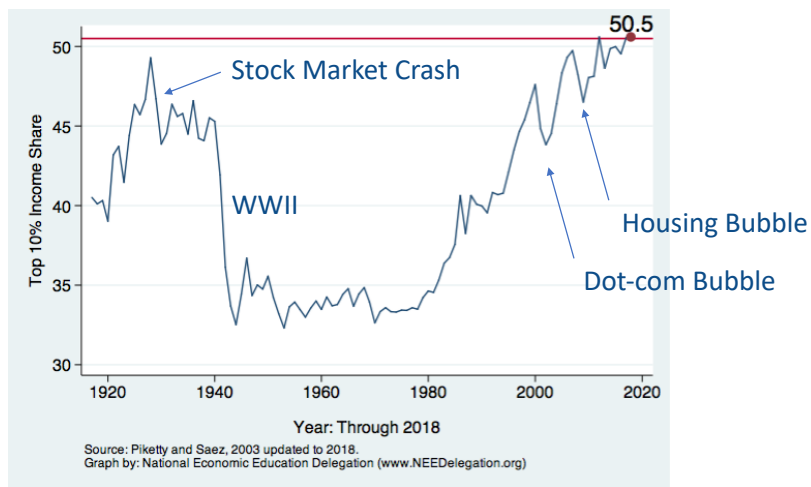
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Outline

- Data
- Why?
- Why is it important?
- Policy solutions

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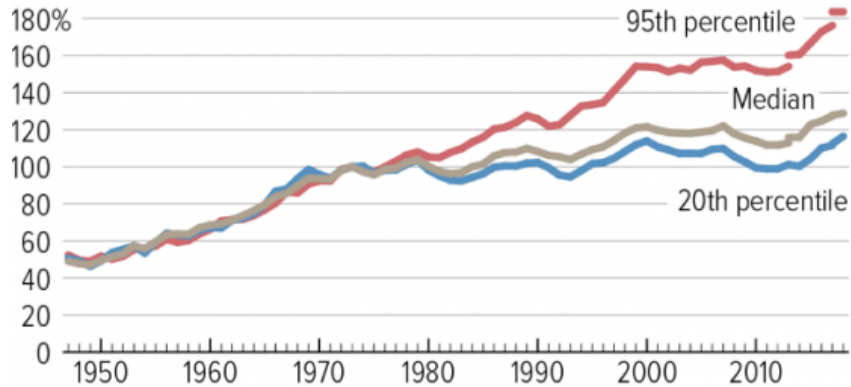
National Income Inequality: Share of Top 10%



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The Abrupt Increase in Inequality

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



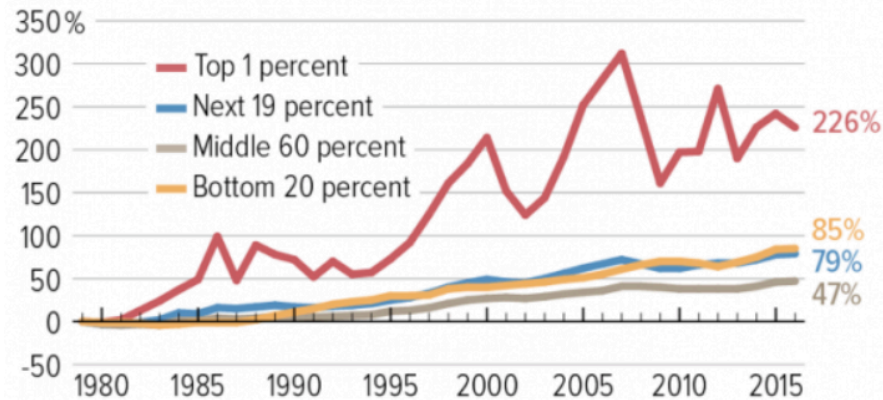
Source: Chad Stone, Danilo Trisi, Arloc Sherman, and Roderick Taylor, "A Guide to Statistics on Historical Trends in Income Inequality," Center on Budget and Policy Priorities, Policy Futures, May 15, 2018, page 10.

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Most of the Action Is at the Very Top

Percent change in income after transfers and taxes since 1979



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 11.

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Income Changes from Growing Inequality

Bottom 90% of Households

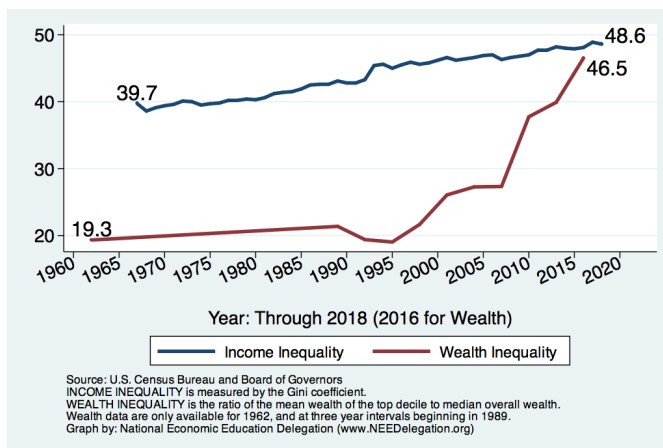
INCOME GROUP	TOTAL LOSS/GAIN IN ANNUAL INCOME*	AVERAGE LOSS/GAIN PER HOUSEHOLD PER YEAR*
TOP 1%	\$673 billion more	\$597,241 more
96-99	\$140 billion more	\$29,895 more
91-95	\$29 billion more	\$4,912 more
81-90	\$43 billion less	\$3,733 less
61-80	\$194 billion less	\$8,598 less
41-60	\$224 billion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



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Income and Wealth Inequality



Income Inequality (Gini)

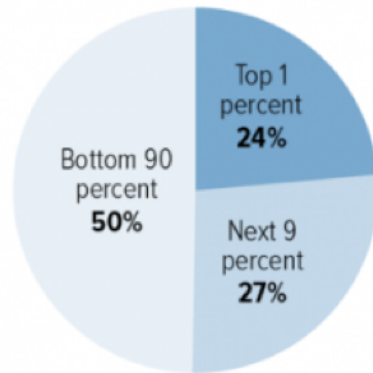
- US: 48.6%
- CA: 48.7%
- Sonoma: 45.9%



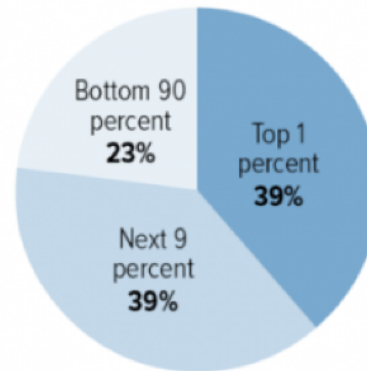
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Wealth Inequality Exceeds Income Inequality

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

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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

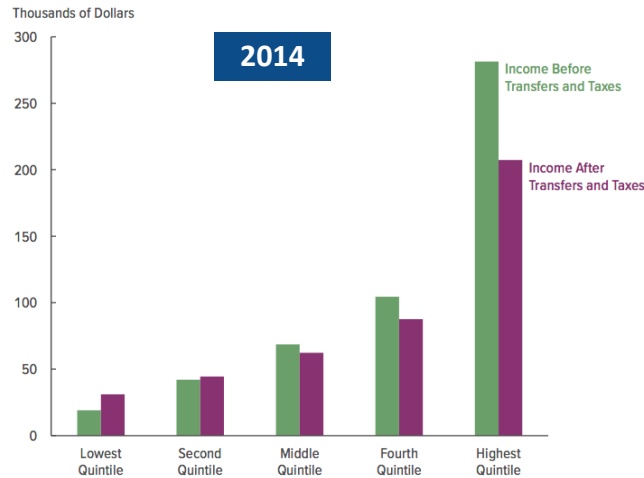
- Market influence
- Redistribution



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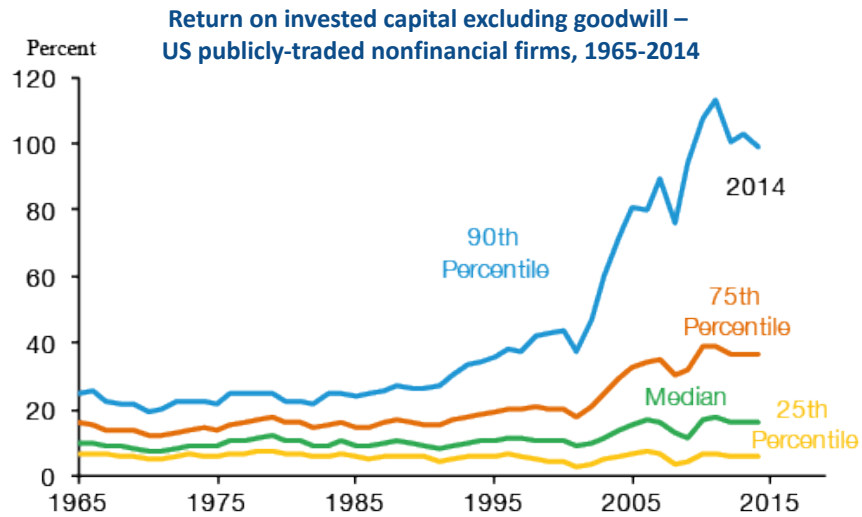
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Tax and Transfer Programs and Inequality

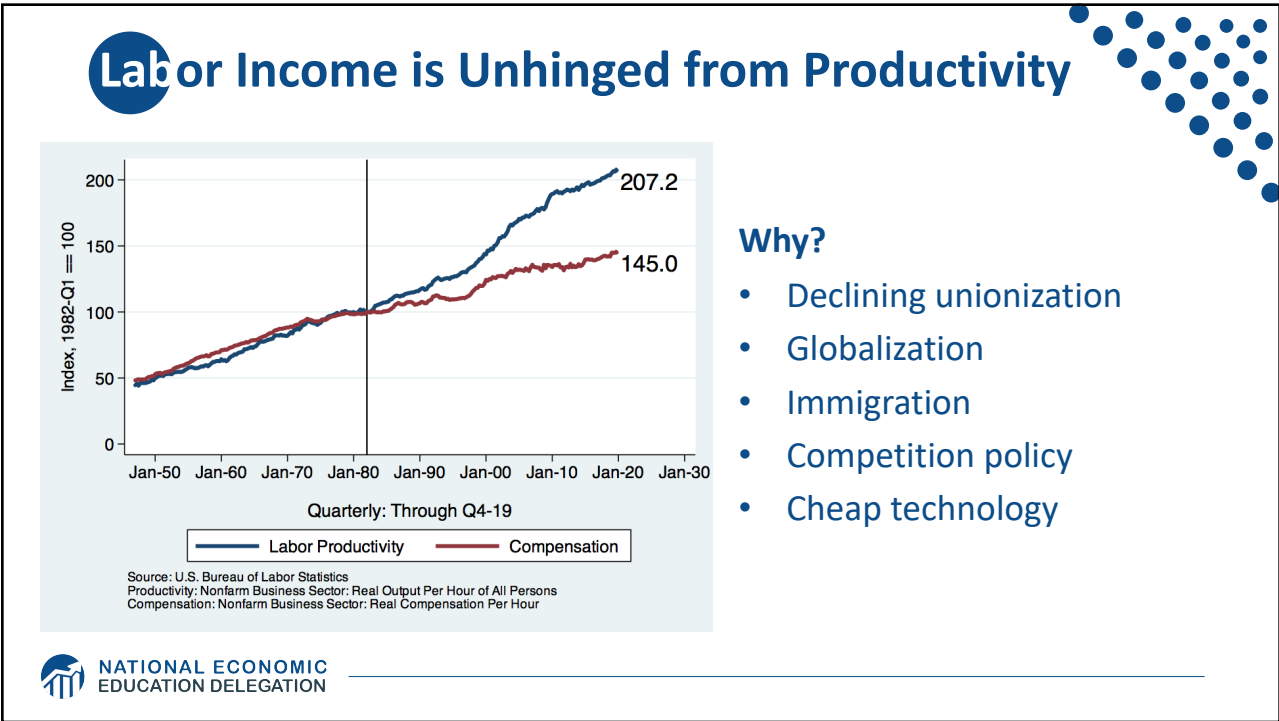


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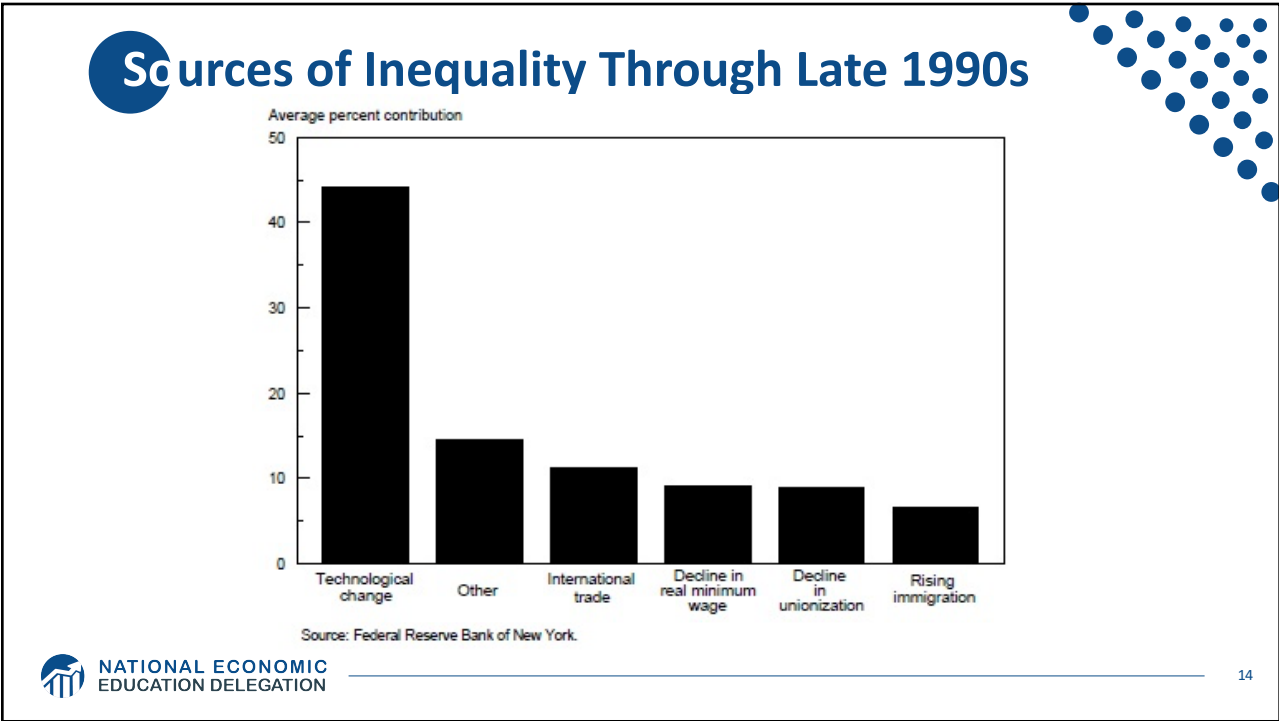
Competition in the Economy



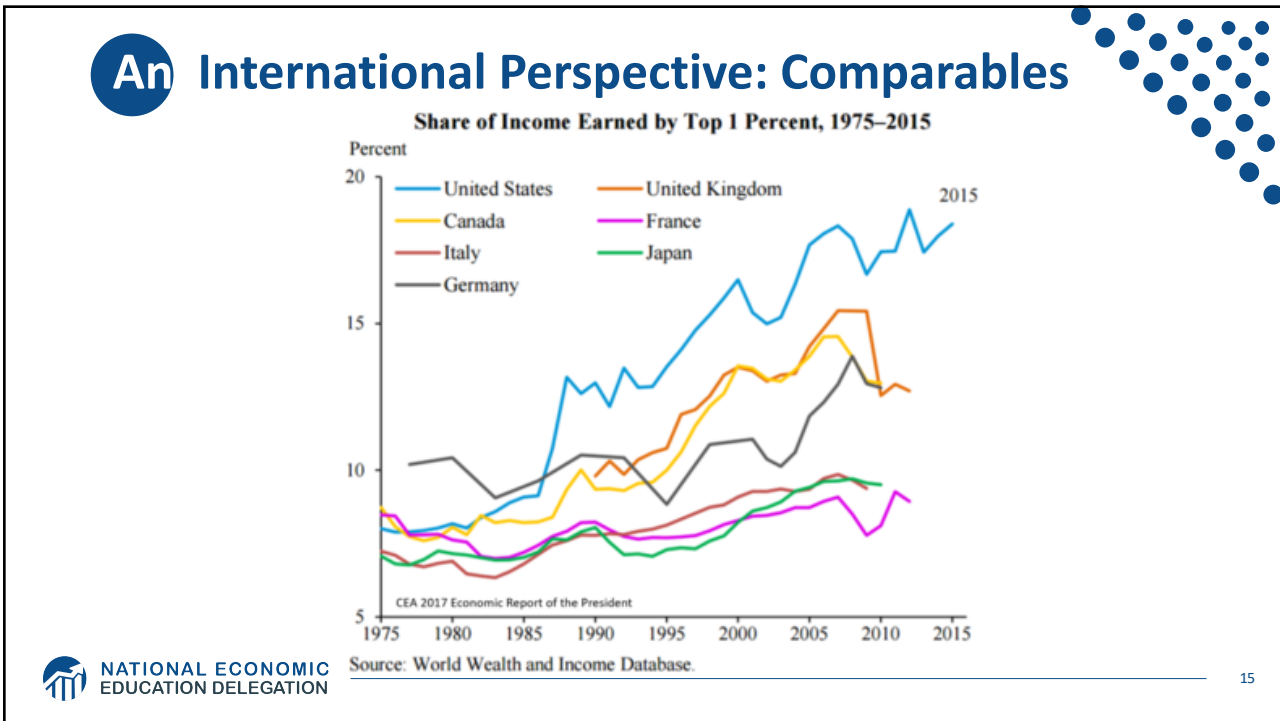
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Why Does Inequality Matter?

- **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
 - Education
 - Environmental protections

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

- **Redistribution**
 - Tax and transfer programs
- **PRE-distribution**
 - Strengthen labor unions
 - Minimum wages
 - Collective bargaining
 - Other policies that favor labor over business owners



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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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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.



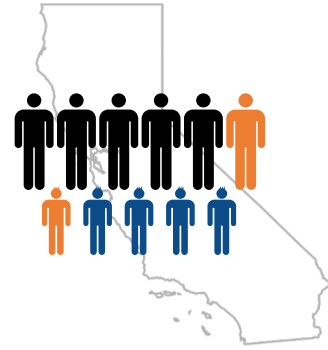
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Summary

- **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, trade, and competition
 - Changing institutions
- **Open questions are:**
 - To act or not to act?
 - If so, how?



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