

**NATIONAL ECONOMIC
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Economic Inequality


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Ann Tepovich's Econ Class, Redwood 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:**
 - Jon Haveman, Executive Director of NEED
- **This slide deck was reviewed by:**
 - Timothy Smeeding, University of Wisconsin
 - Robert Wright, Augustana University
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 - It is, however, inevitable that the presenter will be asked for and will provide their own views
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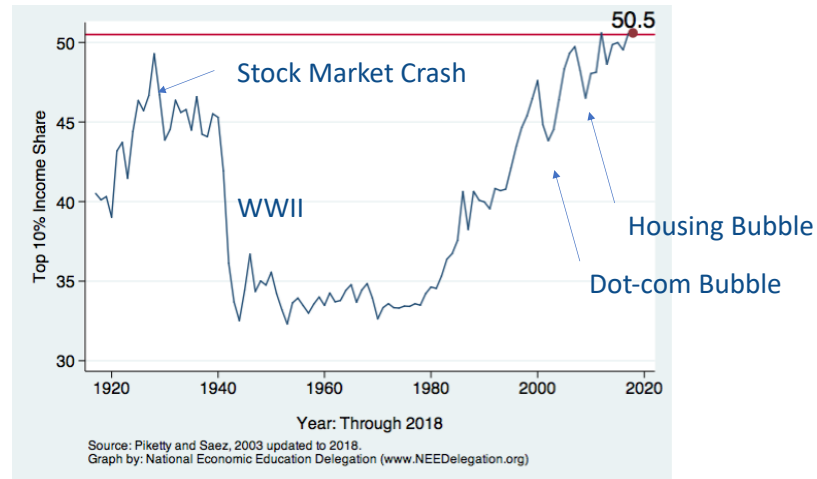
Outline

- 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%



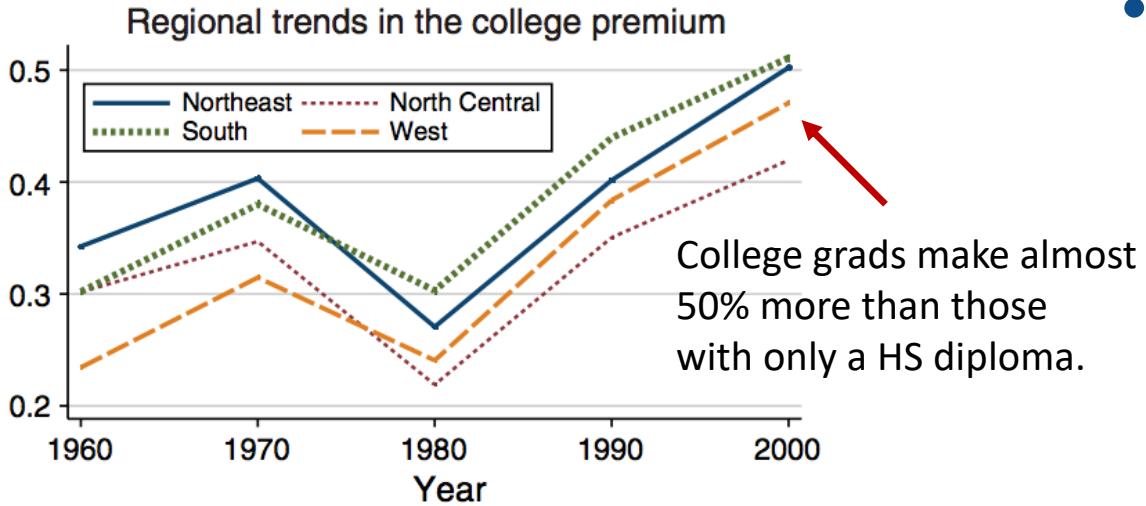
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Tale of Two Periods

- **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.

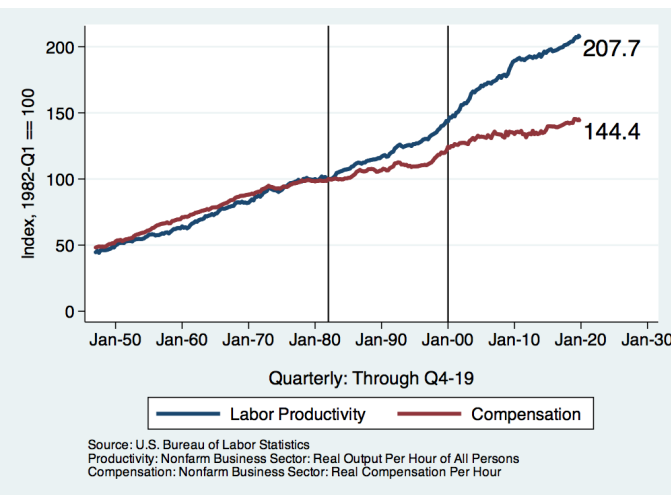
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Returns to Education



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Labor Income is Unhinged from Productivity

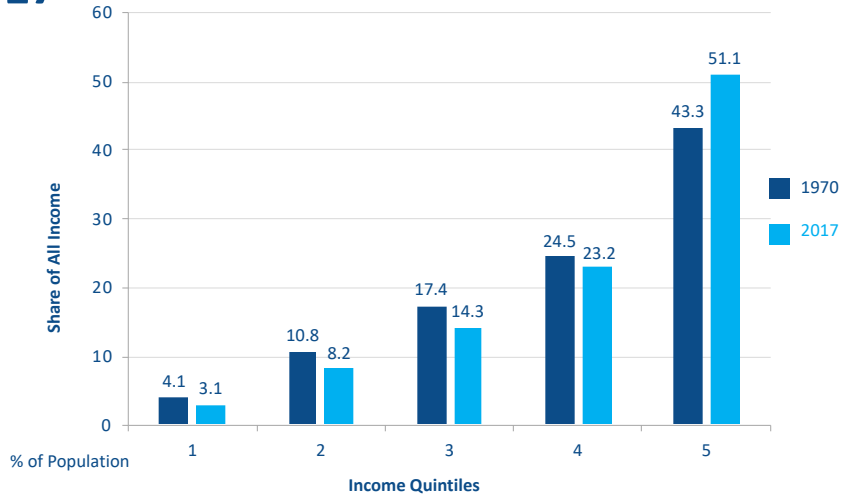


Why?

- Declining unionization
- Globalization
- Competition policy
- Cheap technology

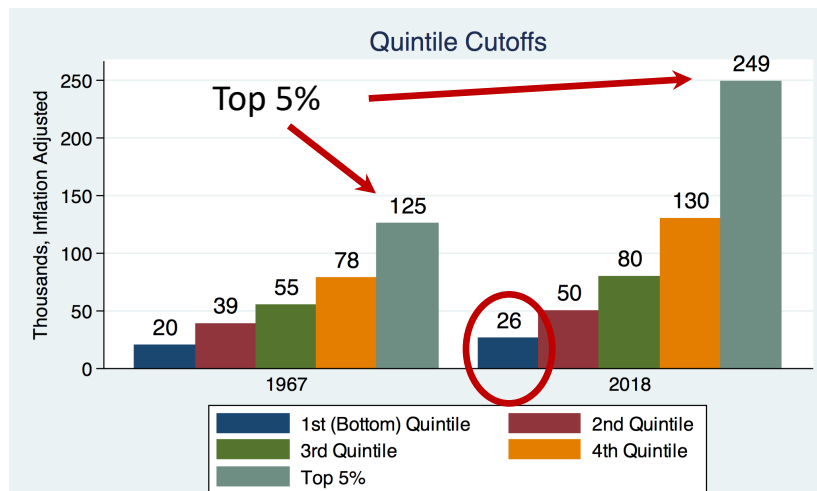
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Income Share Changes Between 1970 and 2017



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Quintile Income Cutoffs



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Income Changes from Growing Inequality

Bottom 90% of Households

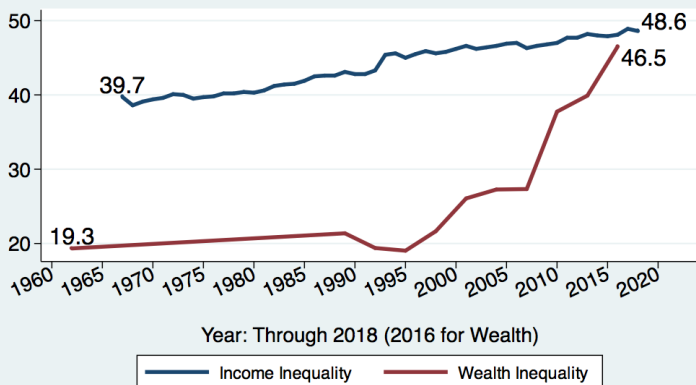
INCOME GROUP	TOTAL LOSS/GAIN IN ANNUAL INCOME*	AVERAGE LOSS/GAIN PER HOUSEHOLD PER YEAR*
TOP 1%	\$673 billion more	\$597,241 more
96-99	\$140 billion more	\$29,895 more
91-95	\$29 billion more	\$4,912 more
81-90	\$43 billion less	\$3,733 less
61-80	\$194 billion less	\$8,598 less
41-60	\$224 billion 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%
- Marin: 51.5%

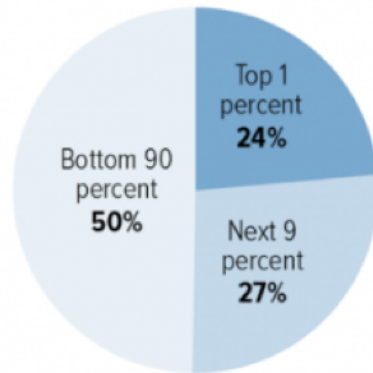
Source: U.S. Census Bureau and Board of Governors
INCOME INEQUALITY is measured by the Gini coefficient.
WEALTH INEQUALITY is the ratio of the mean wealth of the top decile to median overall wealth.
Wealth data are only available for 1962, and at three year intervals beginning in 1989.
Graph by: National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



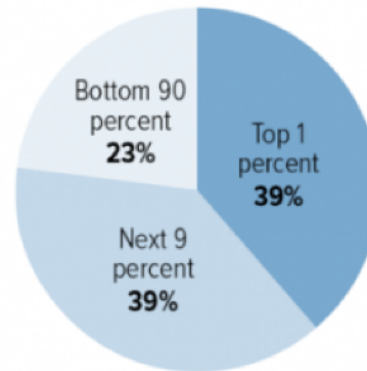
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Wealth Inequality Exceeds Income Inequality

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, Dec. 11, 2018.

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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**

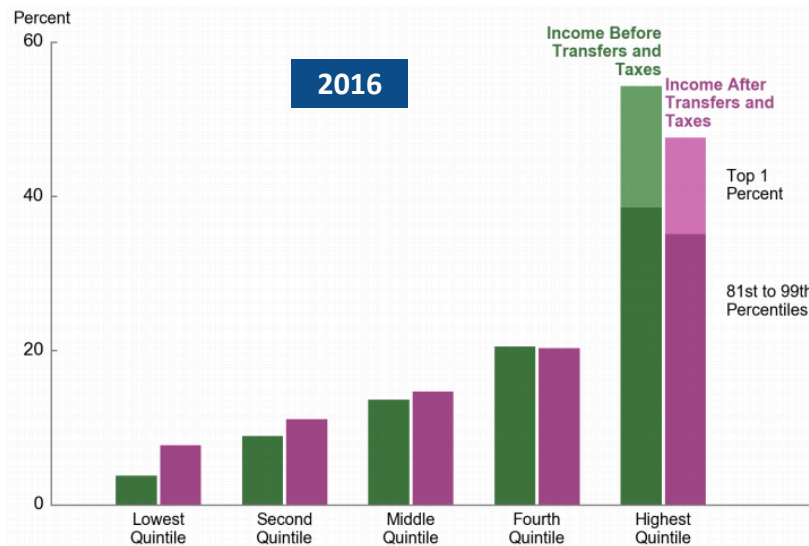
- Characteristics of labor
 - o Access to education
- Effects on labor demand
 - o Market regulation
 - Competition policy
 - o Labor regulations
 - Minimum wage, overtime, health insurance, etc.

- **RE-distribution**

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

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Tax and Transfer Programs: Income Shares



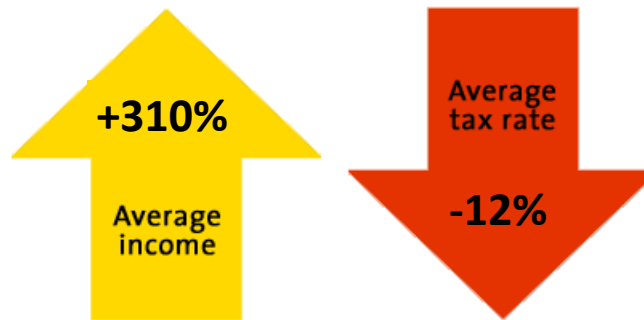
Source: U.S. Congressional Budget Office, "The Distribution of Household Income, 2016", Average Income Before and After Means-Tested Transfers and Federal Taxes, by Income Group, 2016.

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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

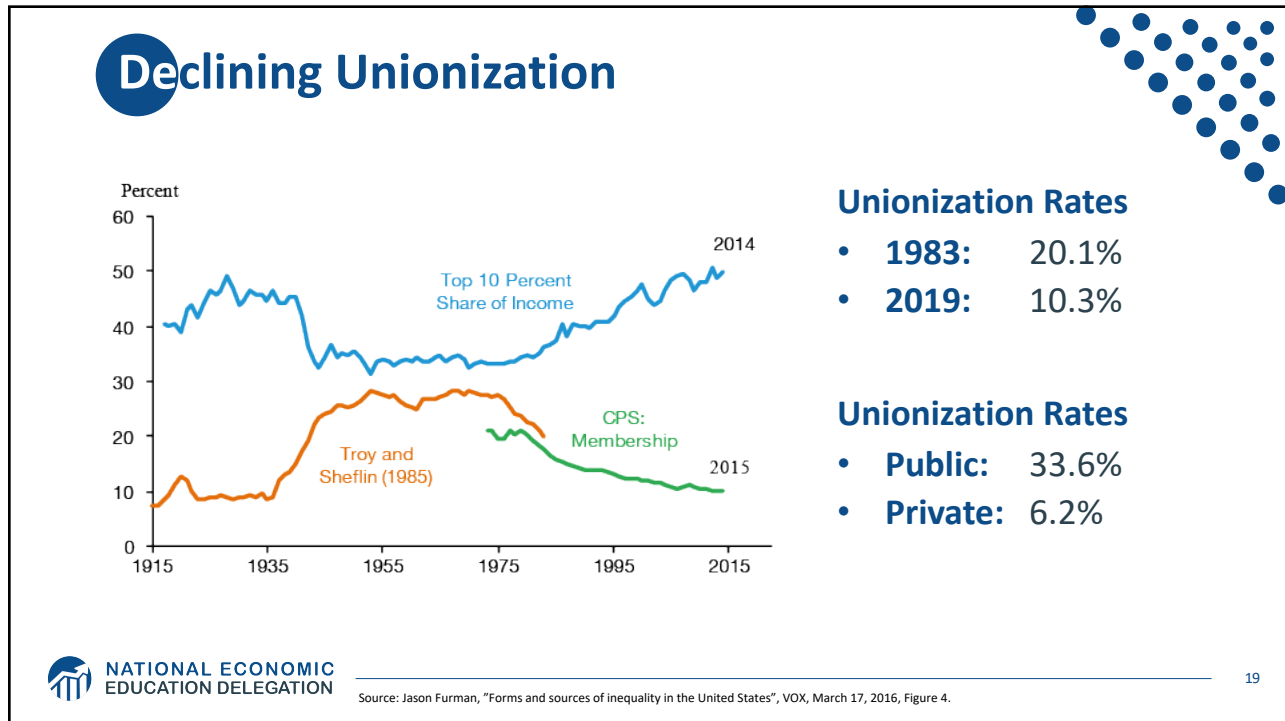
- Unionization
- Market concentration



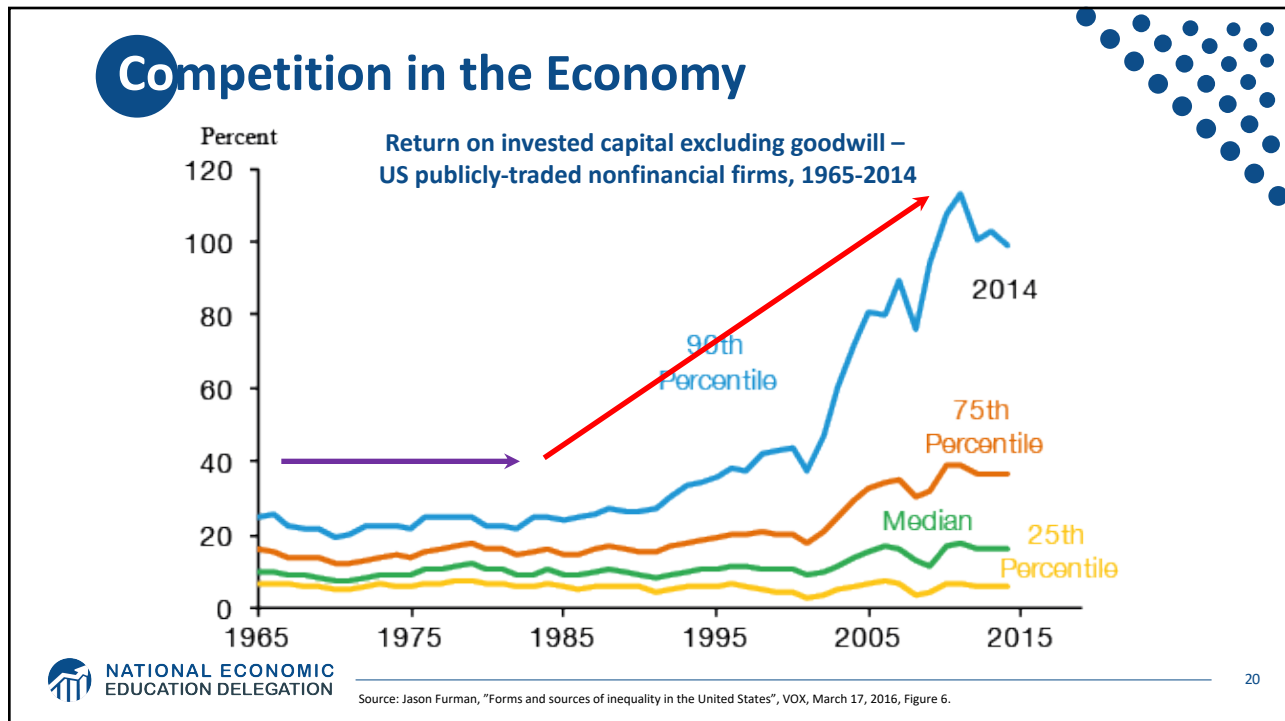
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Technological Change and Inequality

- **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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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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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.
 - o 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:**

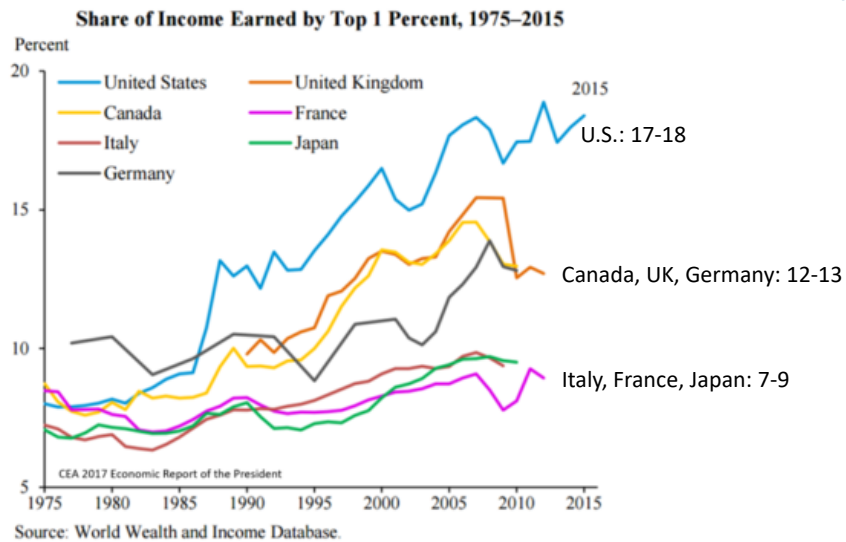
- Reduce individual motivation
- Slow economic growth

- **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

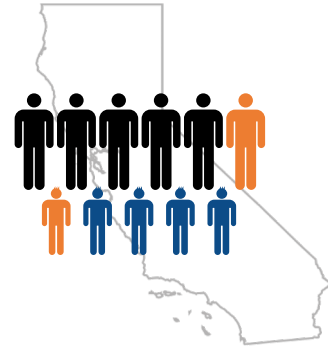


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Summary

- **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

- **Resources to weather the storm.**
- **Jobs at risk.**
- **Racial inequities.**
- **Educational inequities**
- **Health insurance at risk.**
- **Telecommuting**
- **Restrictions on the use of government funds.**



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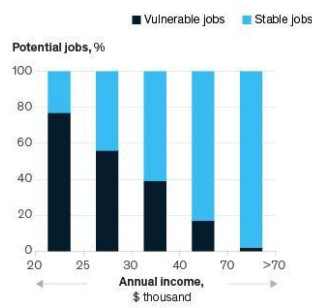
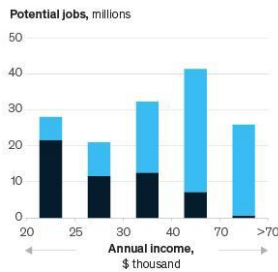
Financially Insecure Before Coronavirus

- 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

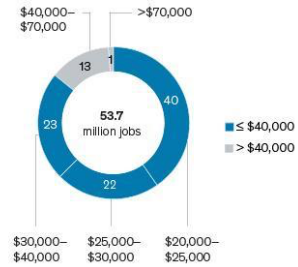
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Eighty-six percent of vulnerable jobs paid less than \$40,000 a year.

Level of job vulnerability,¹ by income band



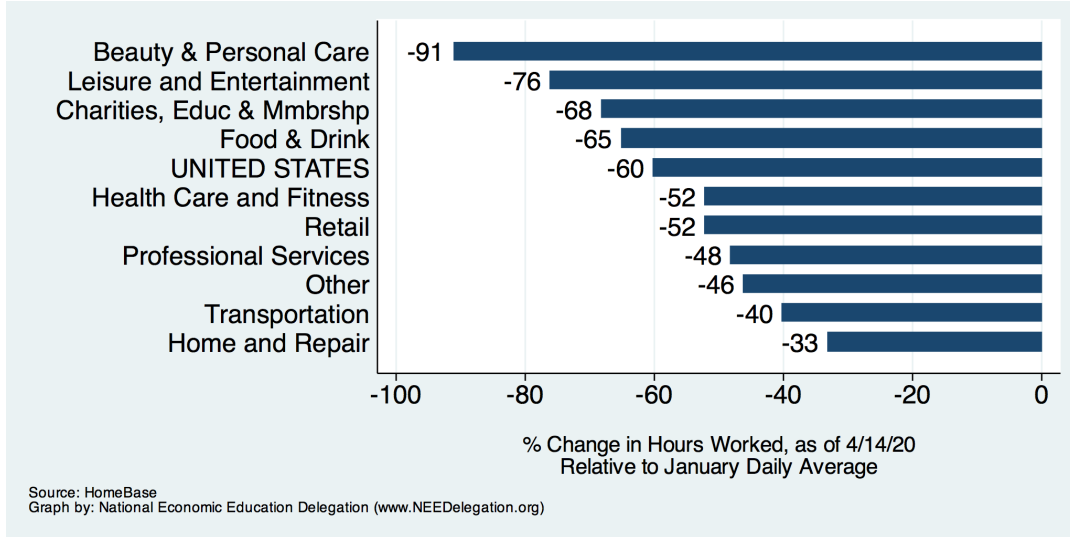
Vulnerable jobs by annual income band¹ %



Note: Data may not sum to 100, because of rounding.
¹Vulnerable* jobs are subject to furloughs, layoffs, or being rendered unproductive (for example, workers kept on payroll but not working) during periods of high physical distancing.
 Source: LaborCube; McKinsey Global Institute analysis

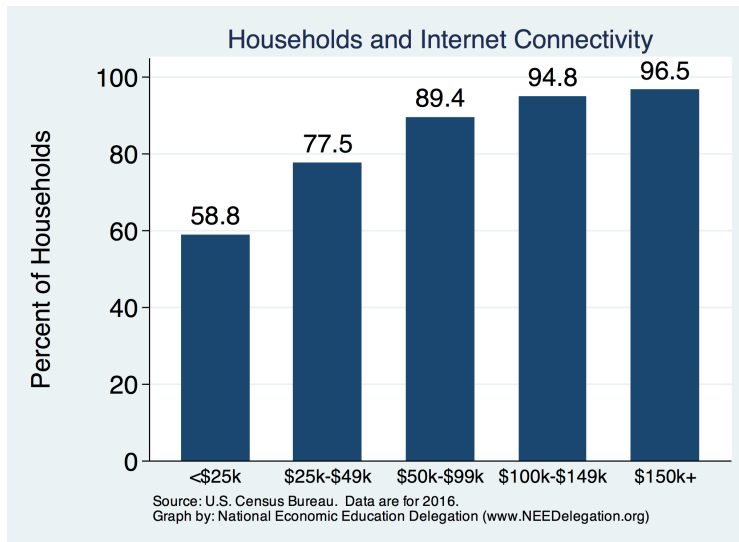
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Percent Change Hours Worked



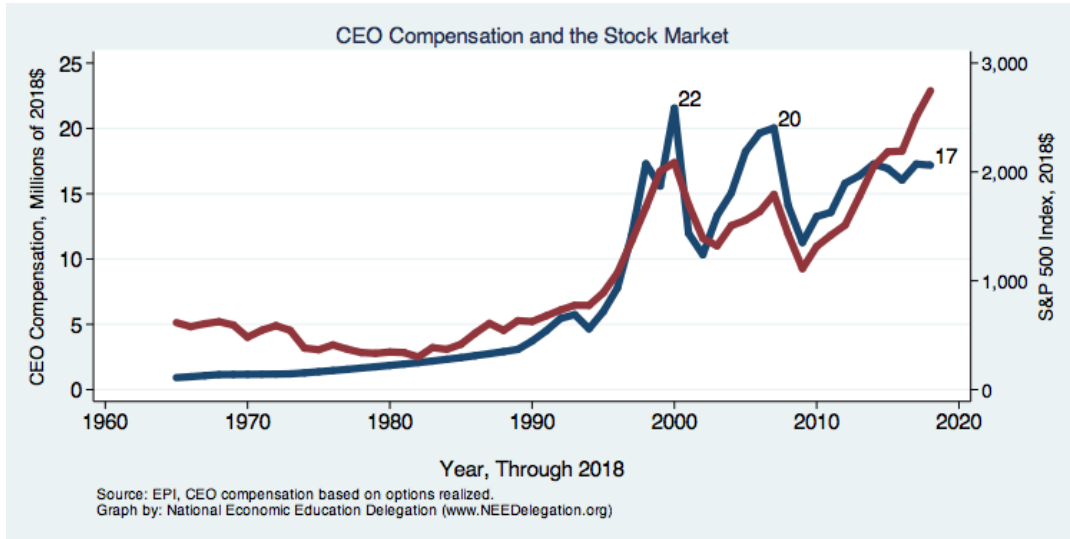
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Home Schooling - Access to the Internet



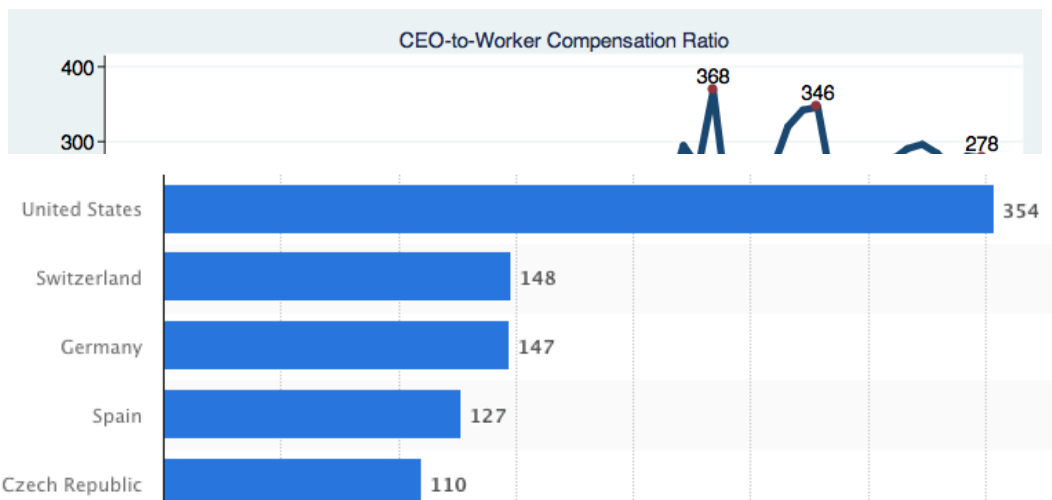
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CEO Compensation – Tied to Stock Prices



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CEO Pay Has Been Growing Rapidly



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Thank you!

Any Questions?

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