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# Economic Inequality


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Michael Bremer and Lynn Sieben's Cocktail Party  
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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

- **Definition & measurement**
- **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.

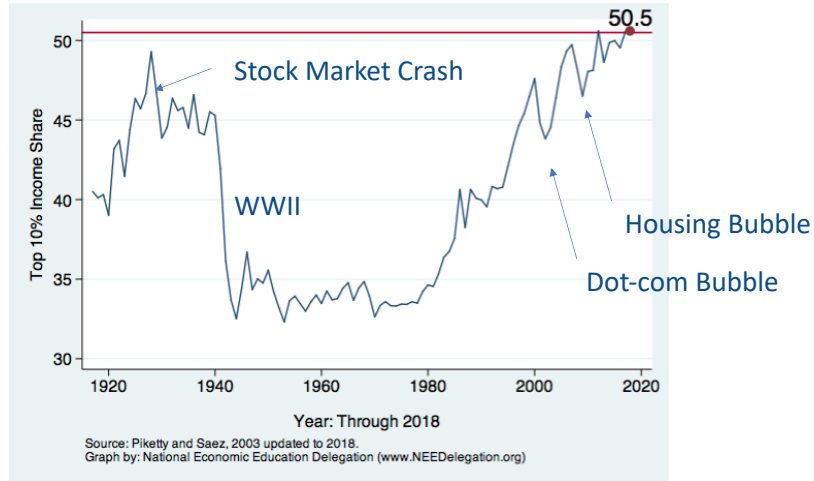


## Different Ways of Thinking About Inequality

- **Income Inequality**
  - Before taxes and transfers
  - After taxes and transfers
- **Wealth Inequality**



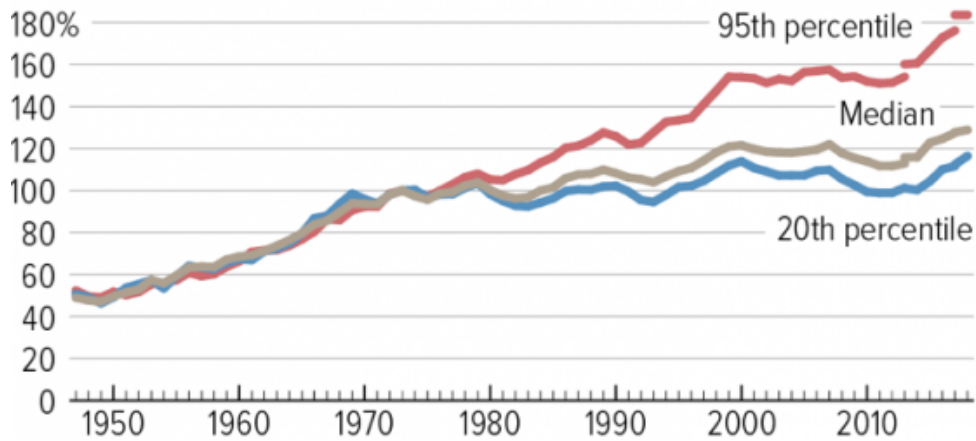
## National Income Inequality: Share of Top 10%



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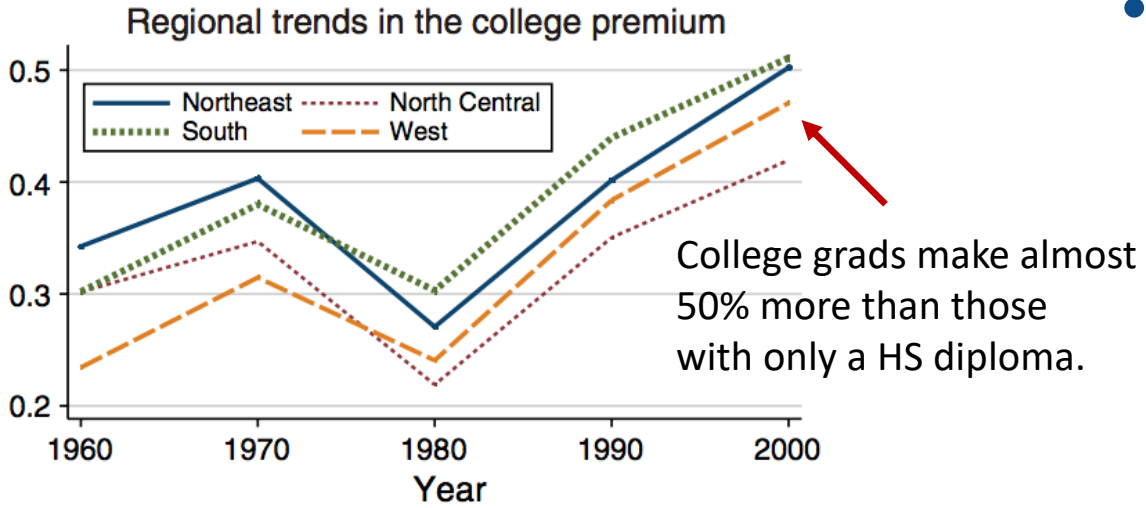
## The Abrupt Increase in Inequality

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

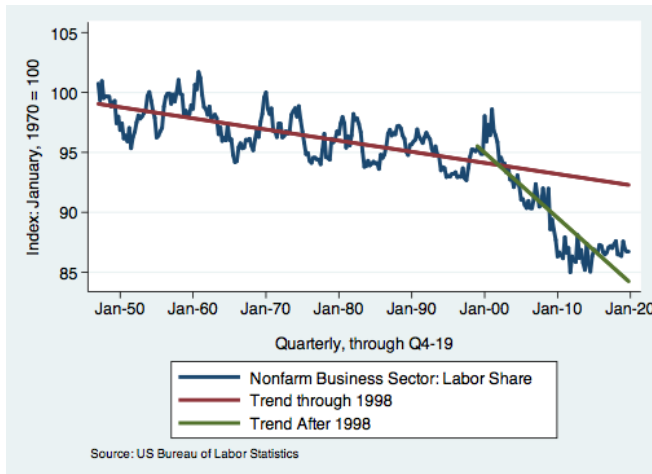


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## Returns to Education



## Effects of the Unhinging?

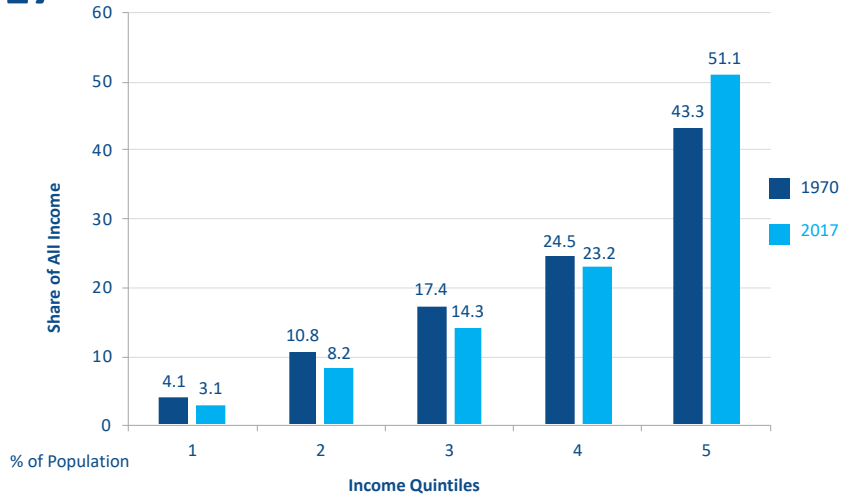


### Labor's Share of Income

1960: 66%

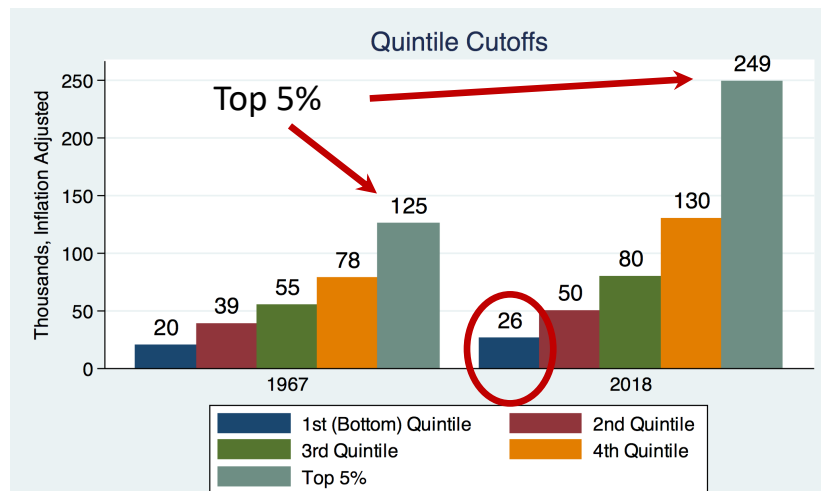
2016: 58%

## Income Share Changes Between 1970 and 2017

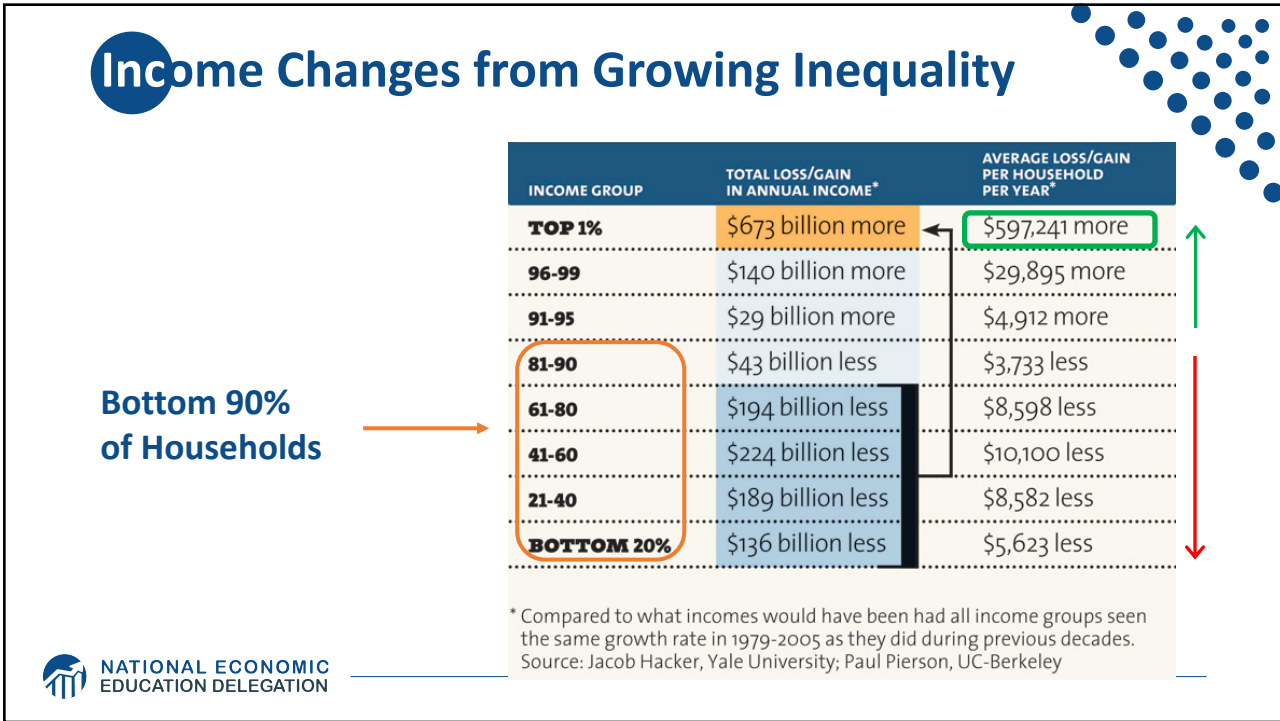


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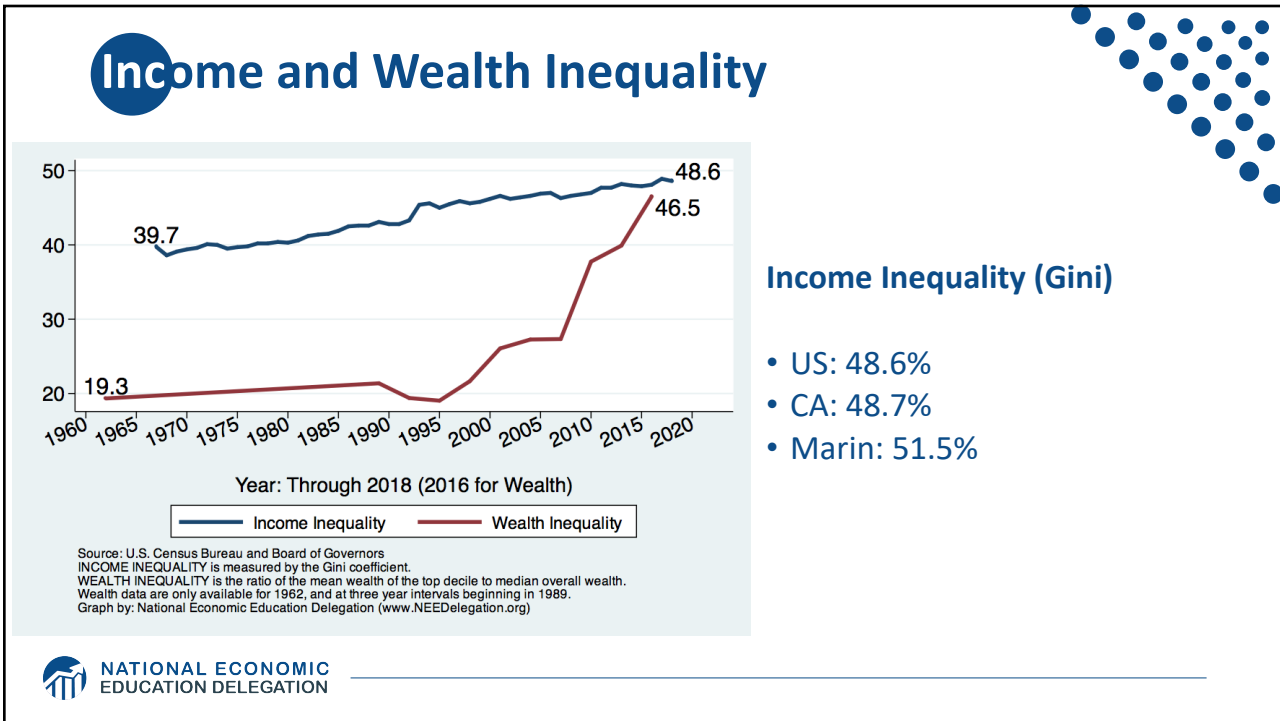
## Quintile Income Cutoffs



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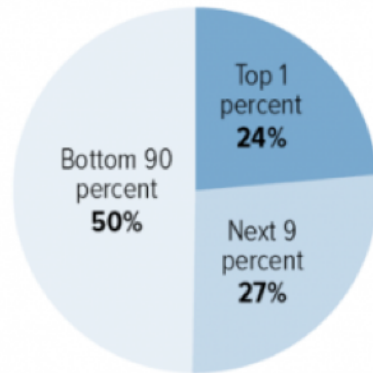
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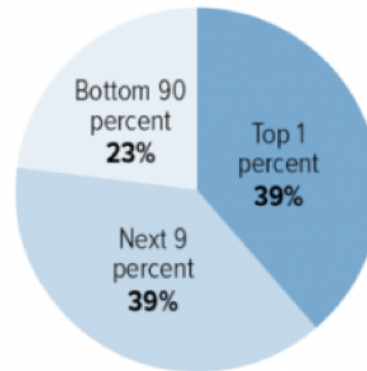
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## Wealth Inequality Exceeds Income Inequality

Distribution of before-tax income, 2016



Distribution of wealth, 2016



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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**

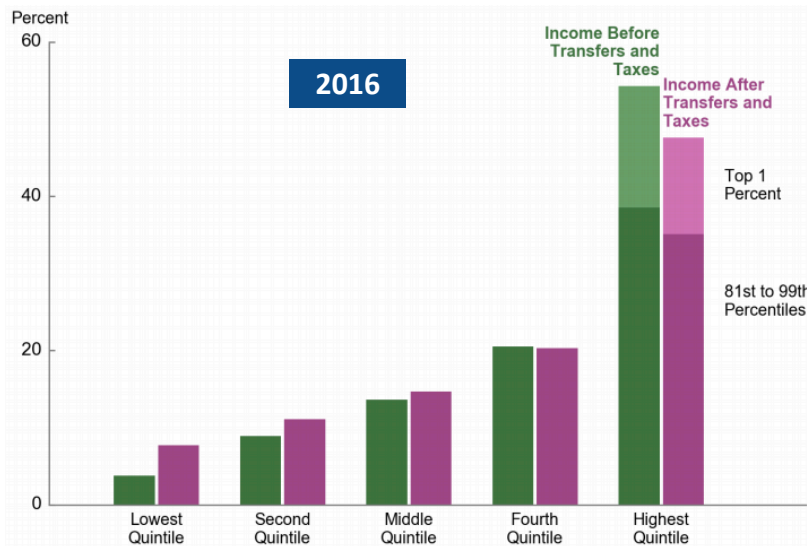
- Characteristics of labor
  - o Access to education
- Effects on labor demand
  - o Market regulation
    - Competition policy
  - o Labor regulations
    - Minimum wage, overtime, health insurance, etc.

- **RE-distribution**

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

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# Tax and Transfer Programs: Income Shares



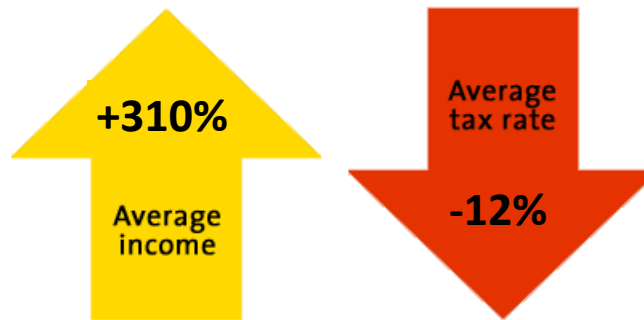
Source: U.S. Congressional Budget Office, "The Distribution of Household Income, 2016", Average Income Before and After Means-Tested Transfers and Federal Taxes, by Income Group, 2016.

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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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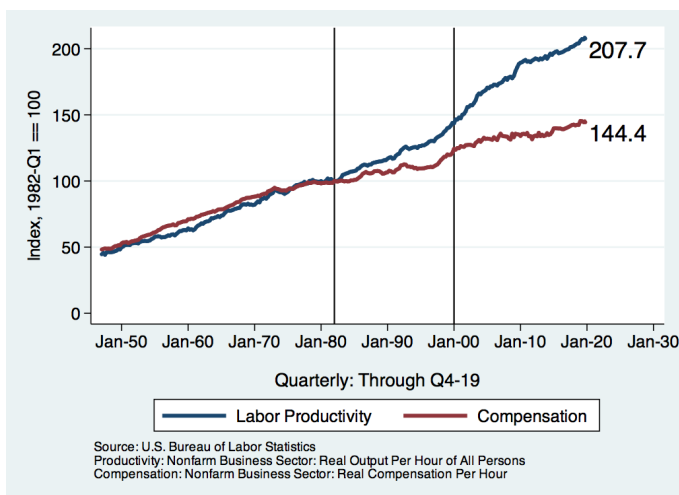
## Where Does Inequality Come From? Summary

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



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## Labor Income is Unhinged from Productivity

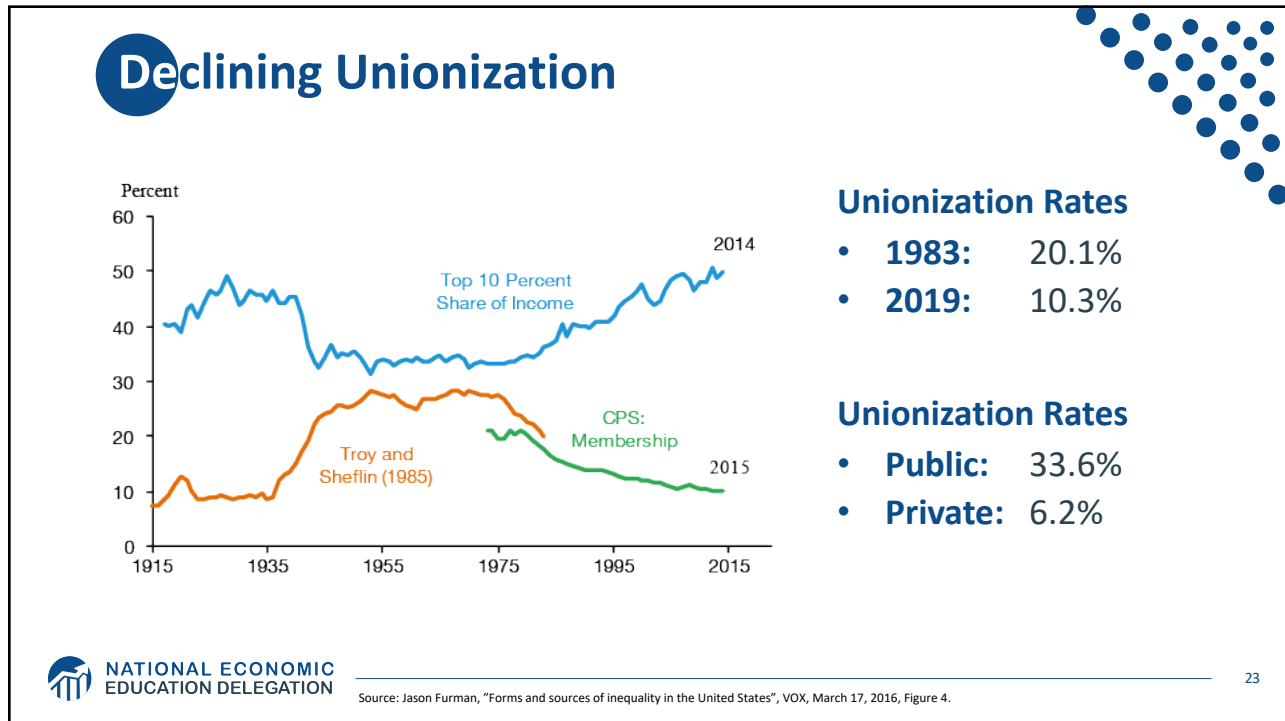


### Why?

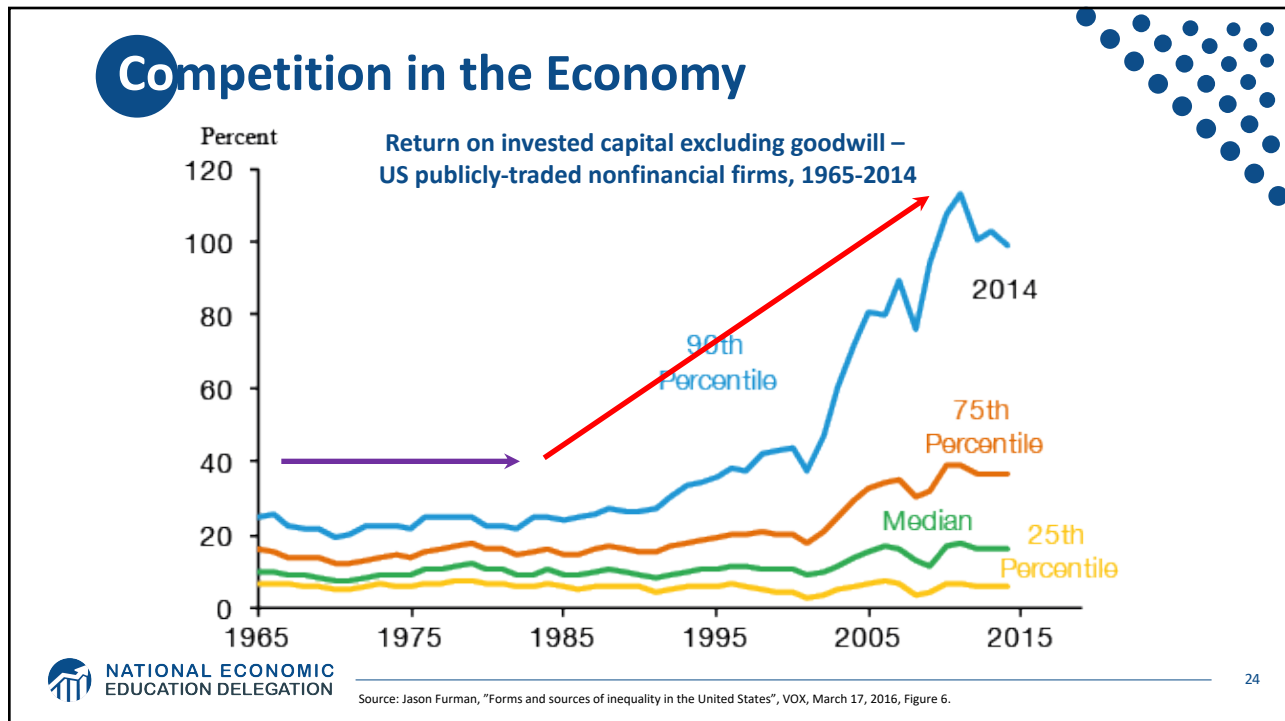
- Declining unionization
- Globalization
- Competition policy
- Cheap technology



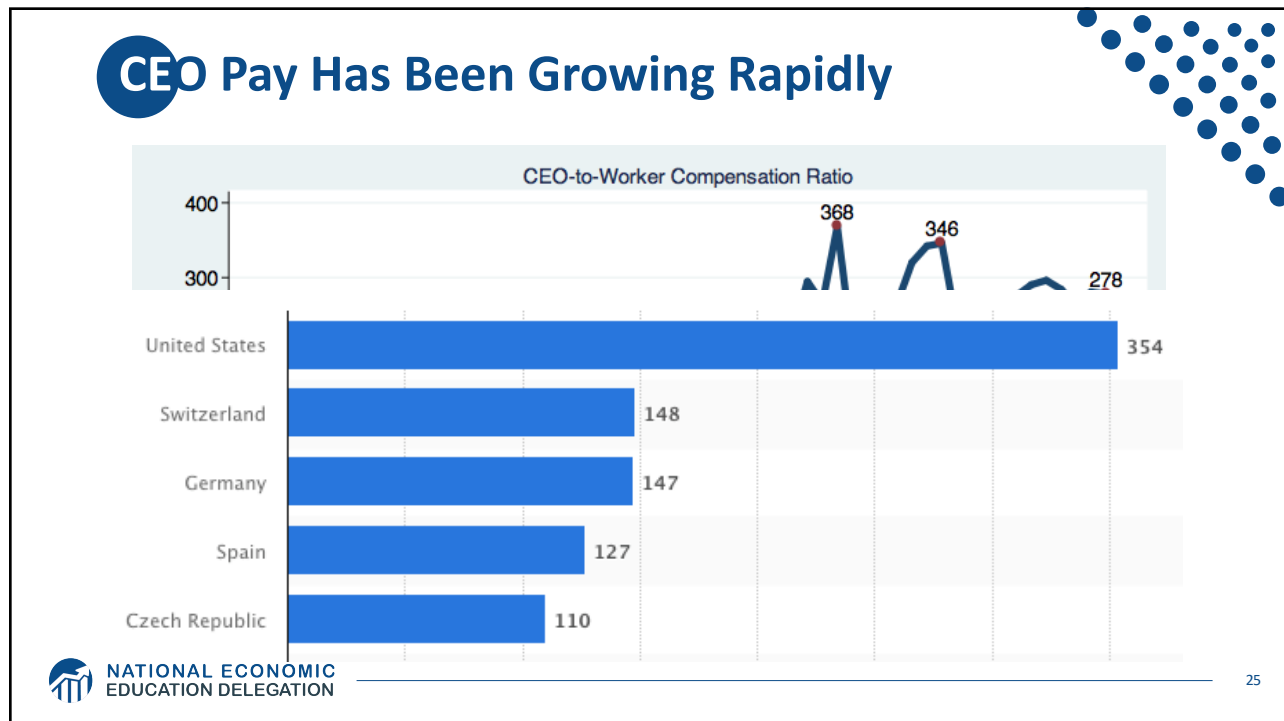
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## Technological Change and Inequality

- **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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## 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

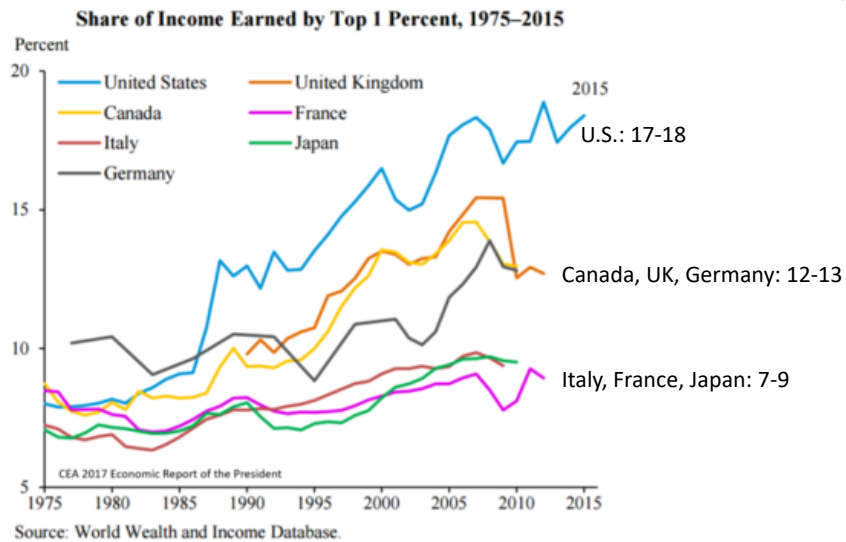
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- **Too much inequality may also:**

- Divide society
- Distort political environment
- Reduce political participation
- Reduce investments in public goods
  - 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

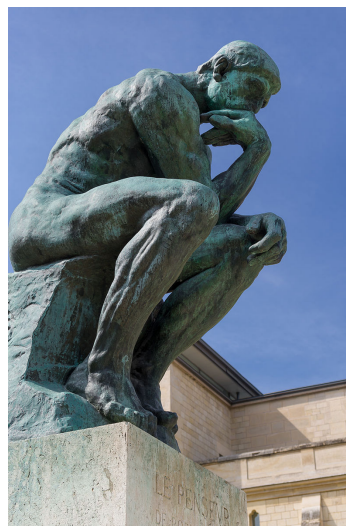


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## What to do About Inequality?

- Nothing?
- Redistribution?
- PRE-distribution?
- Access to resources?



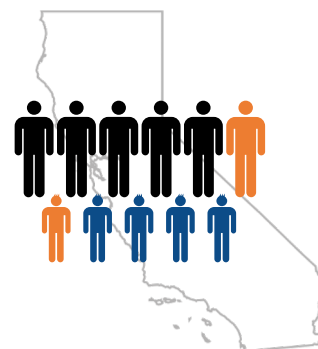
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## Summary

- **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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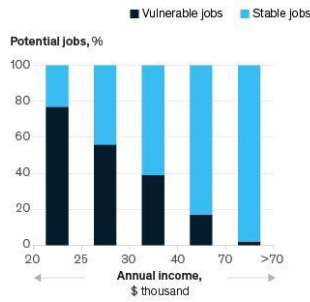
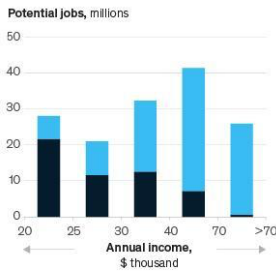
Source: The Federal Reserve, Survey of Household Economics and Decisionmaking,

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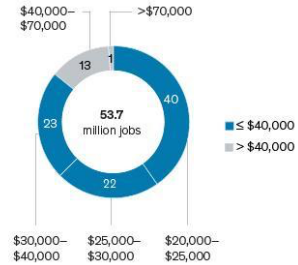
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## Eighty-six percent of vulnerable jobs paid less than \$40,000 a year.

Level of job vulnerability,<sup>1</sup> by income band



Vulnerable jobs by annual income band<sup>1</sup> %

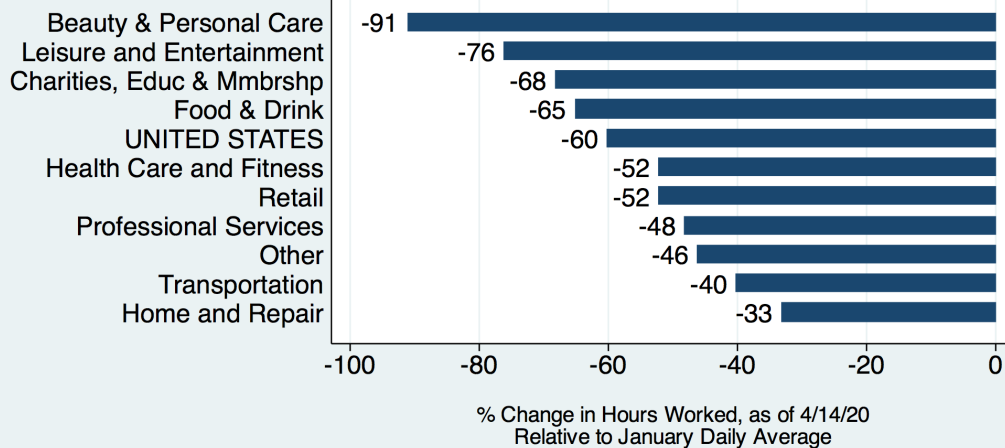


Note: Data may not sum to 100, because of rounding.  
<sup>1</sup>Vulnerable\* jobs are subject to furloughs, layoffs, or being rendered unproductive (for example, workers kept on payroll but not working) during periods of high physical distancing.  
 Source: LaborCube; McKinsey Global Institute analysis

McKinsey & Company

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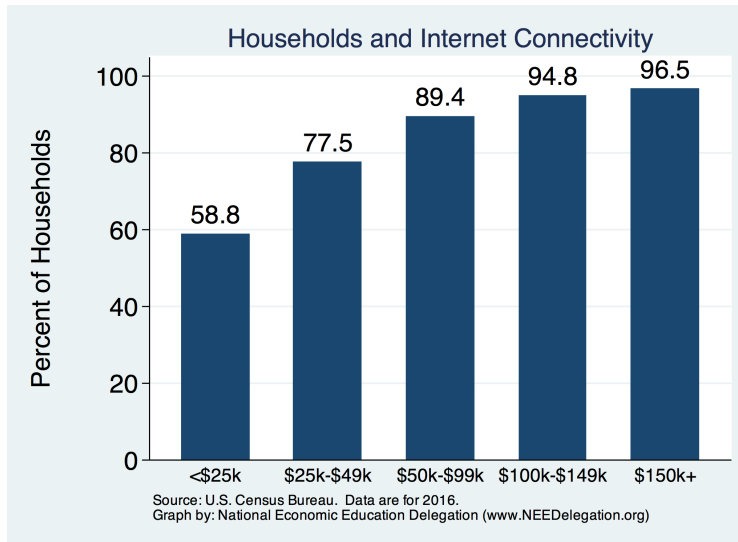
## Percent Change Hours Worked



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

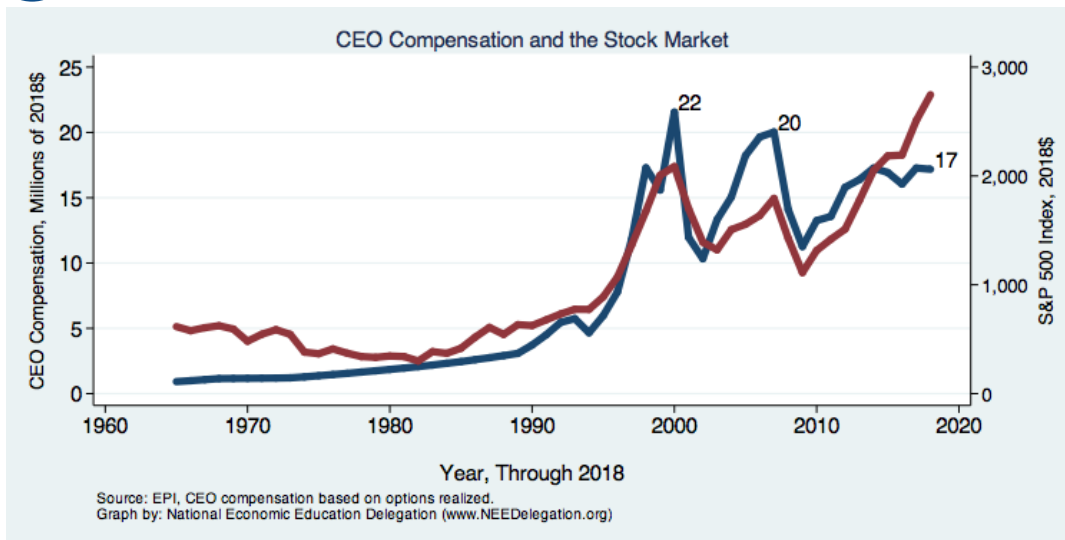
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## Home Schooling - Access to the Internet



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## CEO Compensation – Tied to Stock Prices



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**Thank you!**

# Any Questions?

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