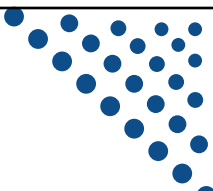



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National Economic Education Delegation

- **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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Who Are We?

- **Honorary Board: 48 members**

- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 6 Chairs Council of Economic Advisers
 - o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
 - o Akerlof, Smith, Maskin

- **Delegates: 500+ members**

- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

- **Global Partners: 45 Ph.D. Economists**

- Aid in slide deck development

Available NEED Topics Include:

- **Coronavirus Economics**
- **US Economy**
- **Climate Change**
- **Economic Inequality**
- **Economic Mobility**
- **Trade and Globalization**
- **Trade Wars**
- **Immigration Economics**
- **Housing Policy**
- **Federal Budgets**
- **Federal Debt**
- **2017 Tax Law**
- **Autonomous Vehicles**
- **US Social Policy**

Credits and Disclaimer

- **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
- **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

- **Definition**
- **Measurement**
- **How does it happen?**
- **Does it matter?**
- **Is it a problem?**
- **What to do about it**



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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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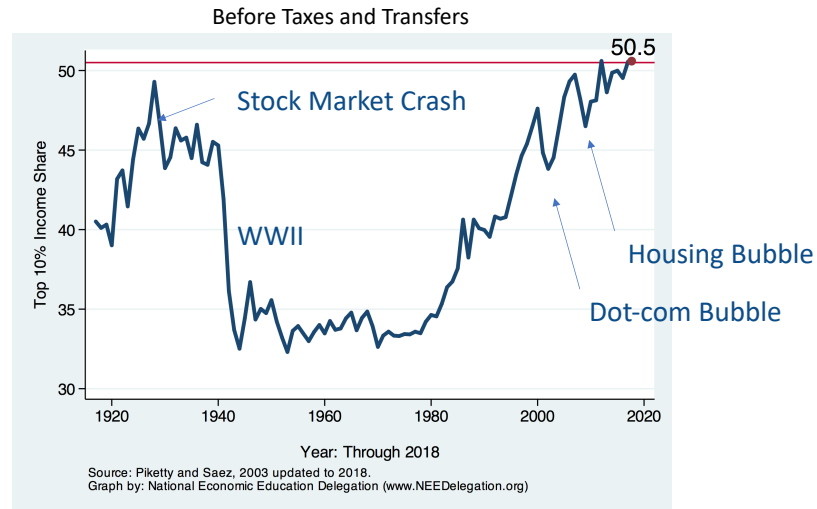
Different Ways of Thinking About Inequality

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



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National Income Inequality: Share of Top 10%

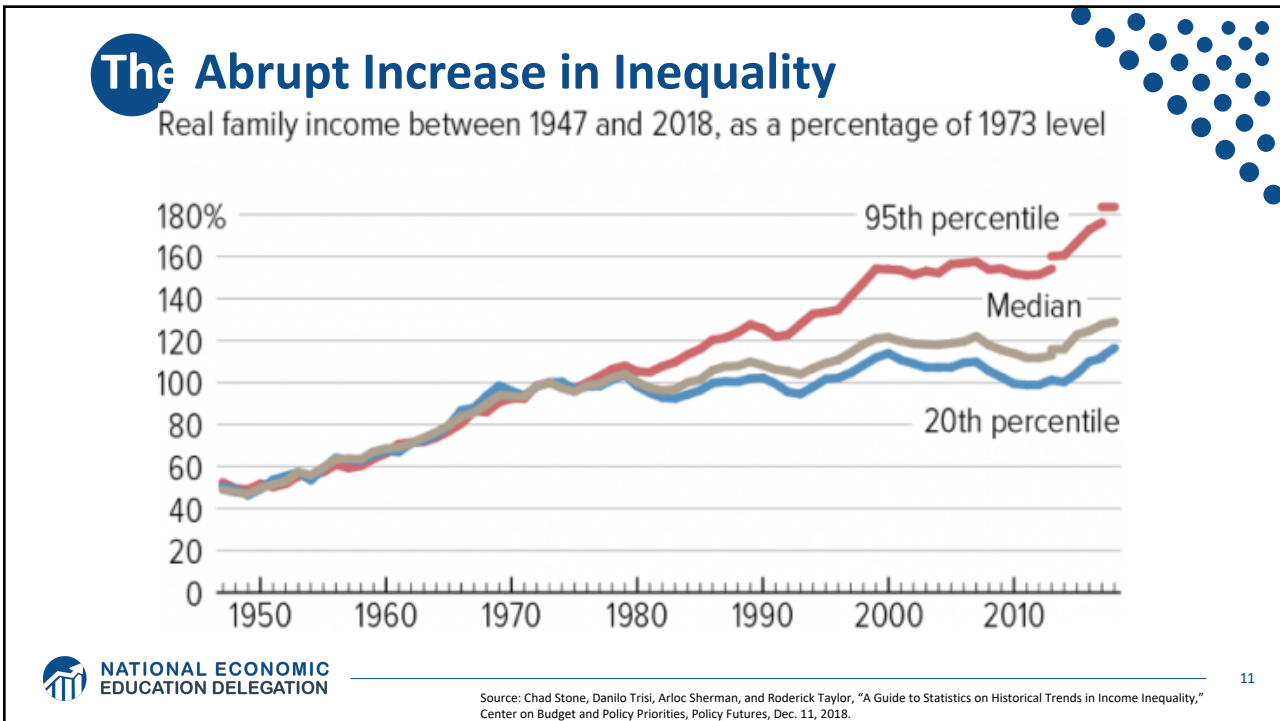


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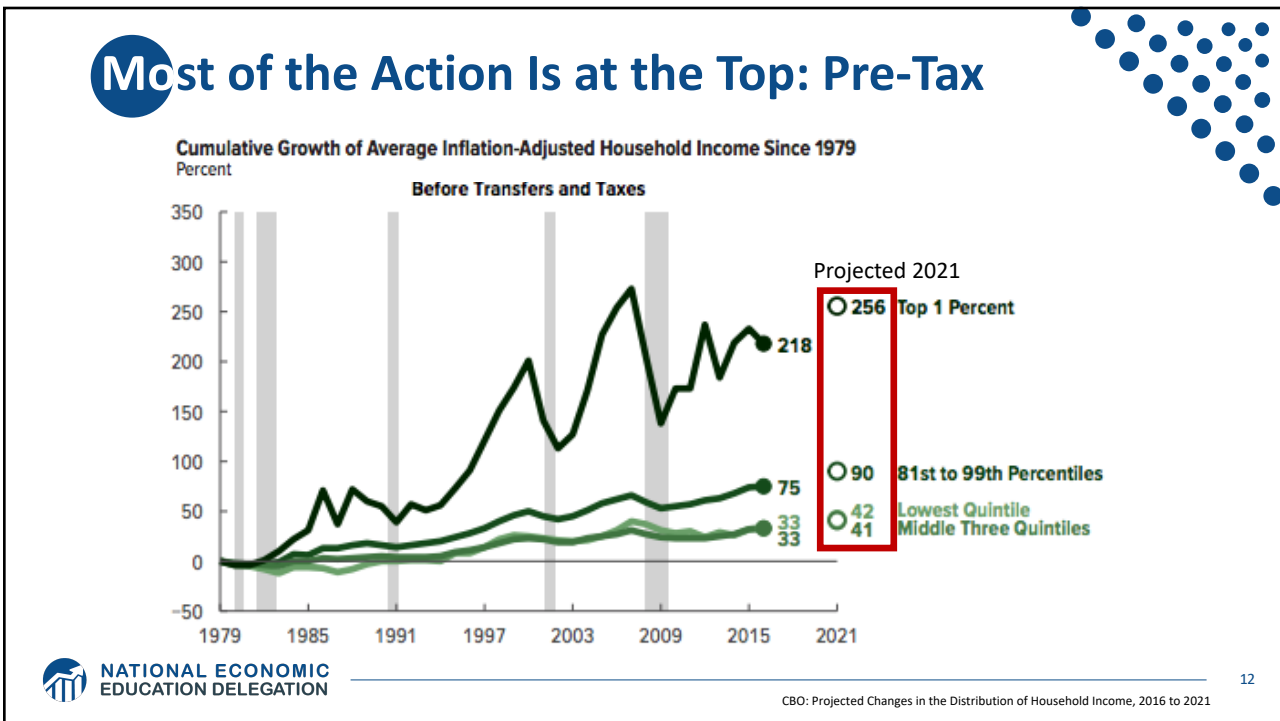
Recent Facts on Income Inequality

- **Beginning in the 1970s, the income gap widened.**
 - Income in the middle and lower parts of the distribution slowed.
 - Incomes at the top continued to grow strongly.
 - Income shares at the very top of the distribution rose to levels last seen more than 80 years ago.

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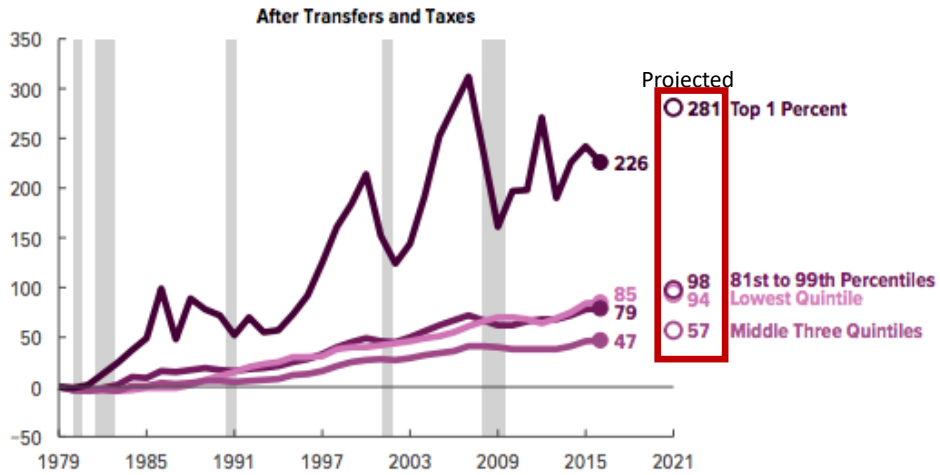
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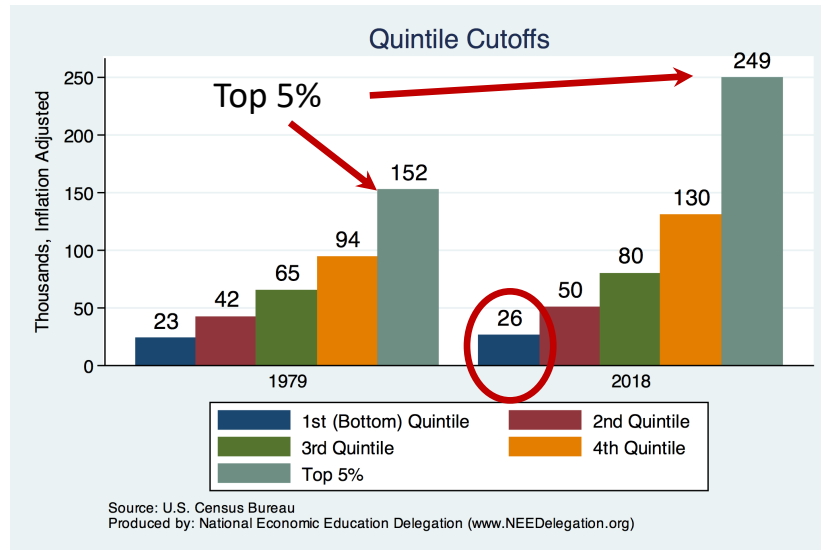
Most of the Action Is at the Top: Pre-Tax

Cumulative Growth of Average Inflation-Adjusted Household Income Since 1979
Percent



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Quintile Income Cutoffs



Source: U.S. Census Bureau
Produced by: National Economic Education Delegation (www.NEEDelegation.org)

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Income Changes from Growing Inequality

Bottom 90% of Households

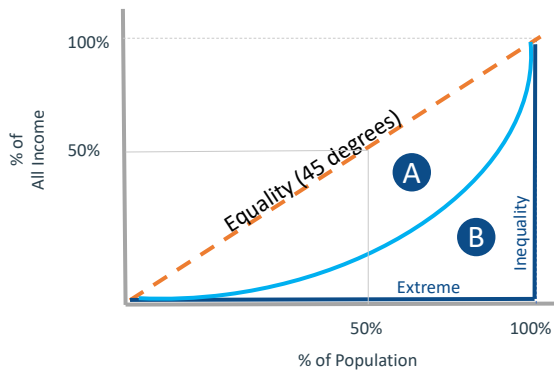
INCOME GROUP	TOTAL LOSS/GAIN IN ANNUAL INCOME*	AVERAGE LOSS/GAIN PER HOUSEHOLD PER YEAR*
TOP 1%	\$673 billion more	\$597,241 more
96-99	\$140 billion more	\$29,895 more
91-95	\$29 billion more	\$4,912 more
81-90	\$43 billion less	\$3,733 less
61-80	\$194 billion less	\$8,598 less
41-60	\$224 billion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



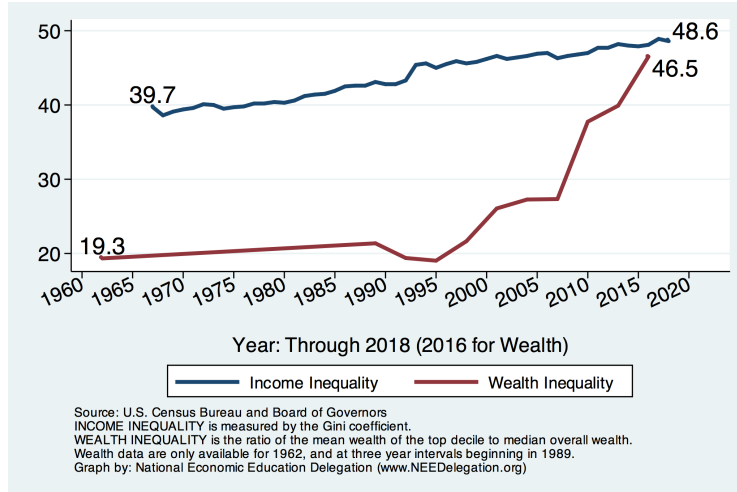
$$\text{Gini} = \frac{A}{A + B} \times 100$$

Bigger A: More inequality
Smaller A: Less inequality



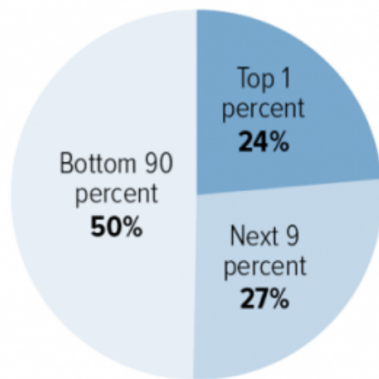
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Income and Wealth Inequality

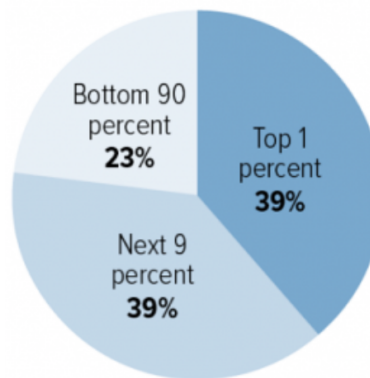


Wealth Inequality Exceeds Income Inequality

Distribution of before-tax income, 2016



Distribution of wealth, 2016



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.

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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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**

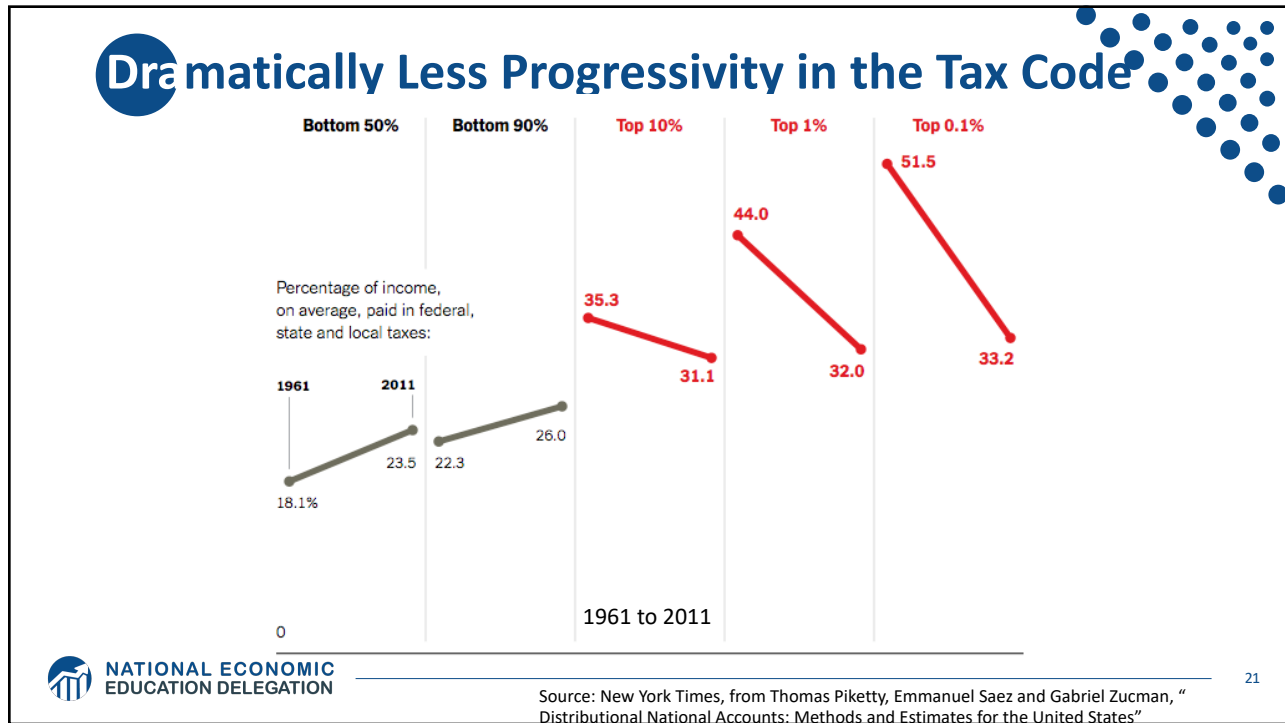
- Tax Rates
- Income support
 - o Direct aid
 - o Food stamps



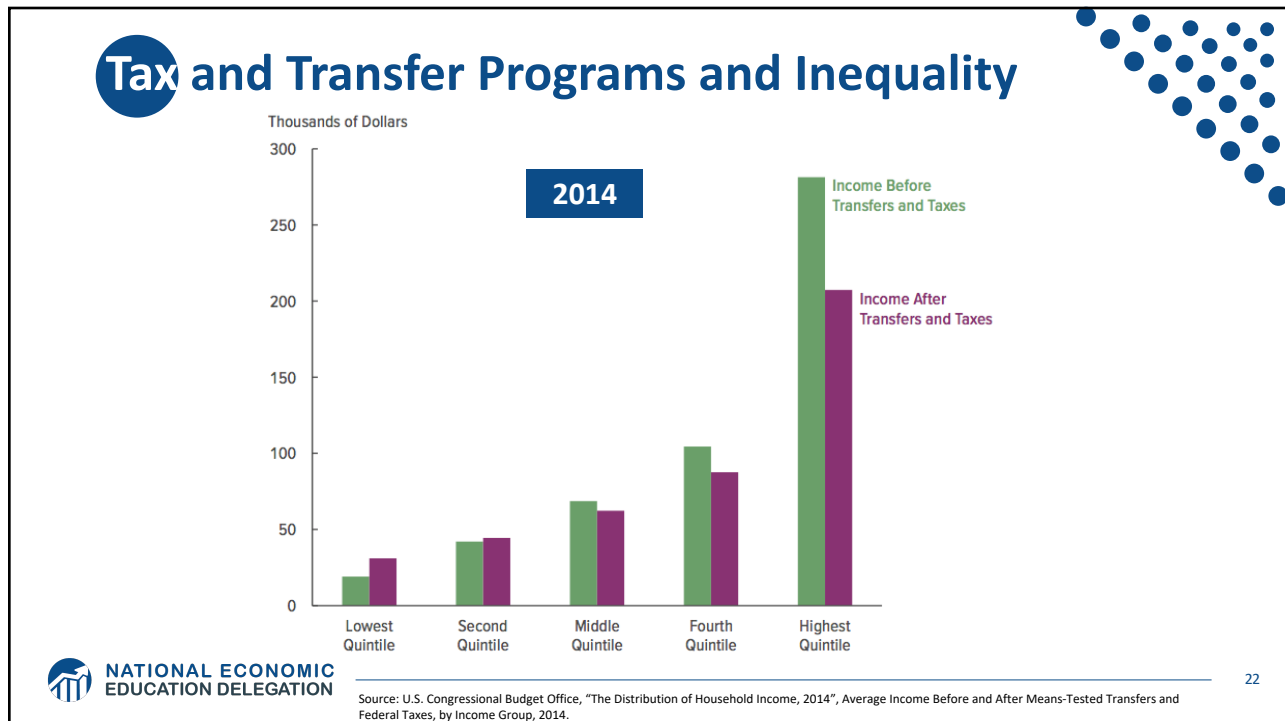
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Market Forces and Inequality

- **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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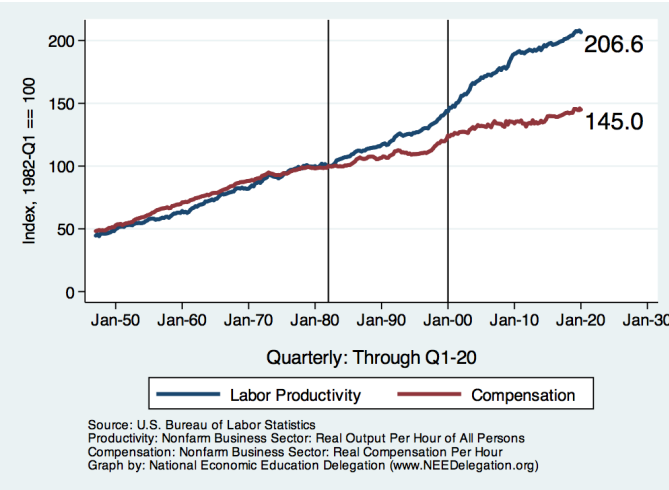
Where Does Inequality Come From? Summary

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



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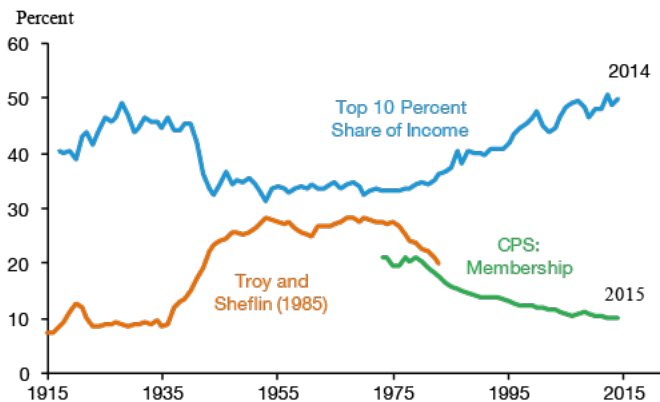
Labor Income is Unhinged from Productivity



Why?

- Declining unionization
- Globalization
- Competition policy
- Cheap technology

Declining Unionization

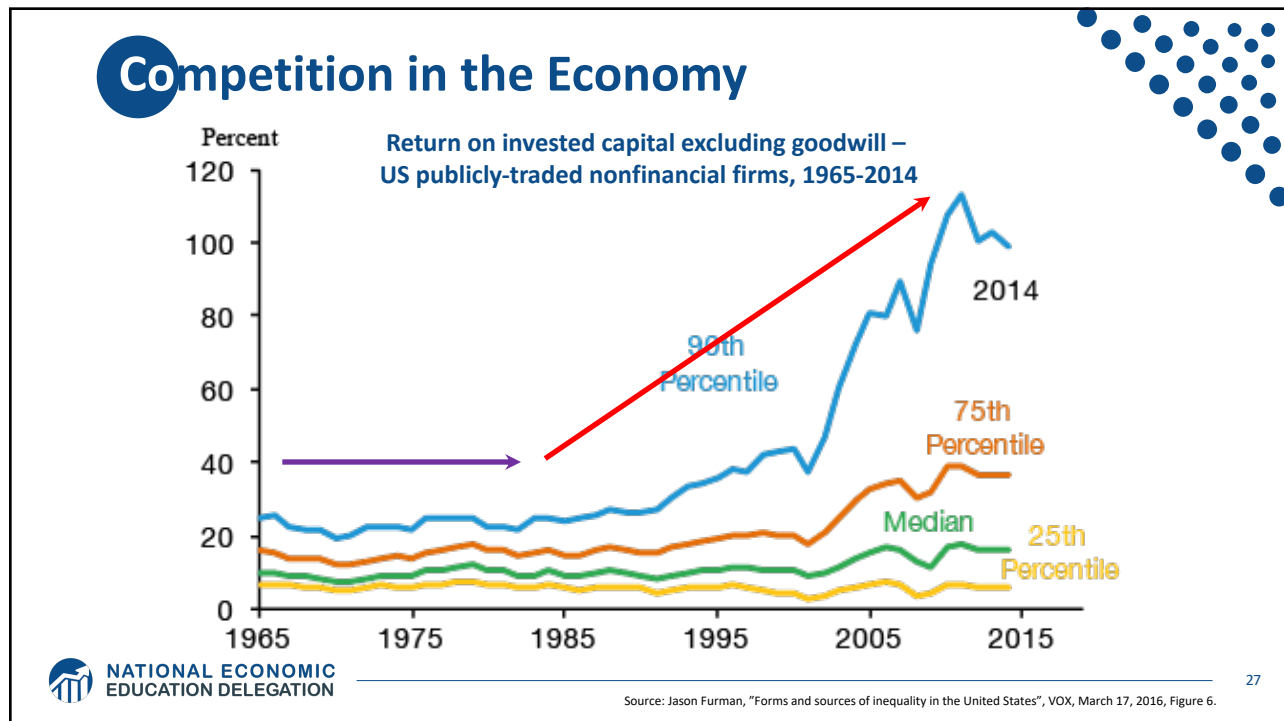


Unionization Rates

- **1983:** 20.1%
- **2019:** 10.3%

Unionization Rates

- **Public:** 33.6%
- **Private:** 6.2%



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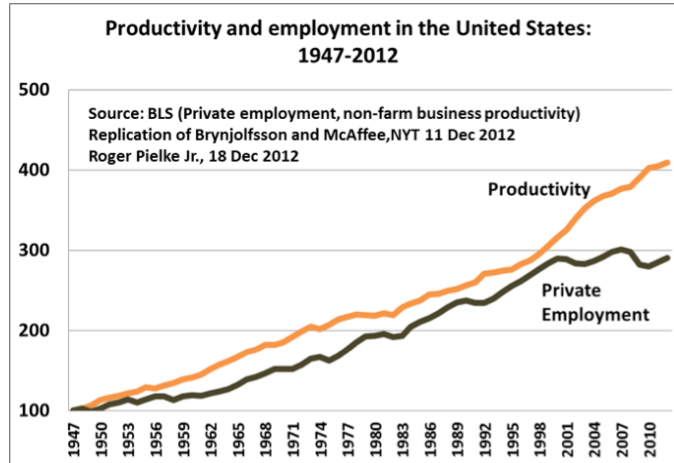
Technological Change and Inequality

- **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 technology-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 Benefits Ownership over Labor



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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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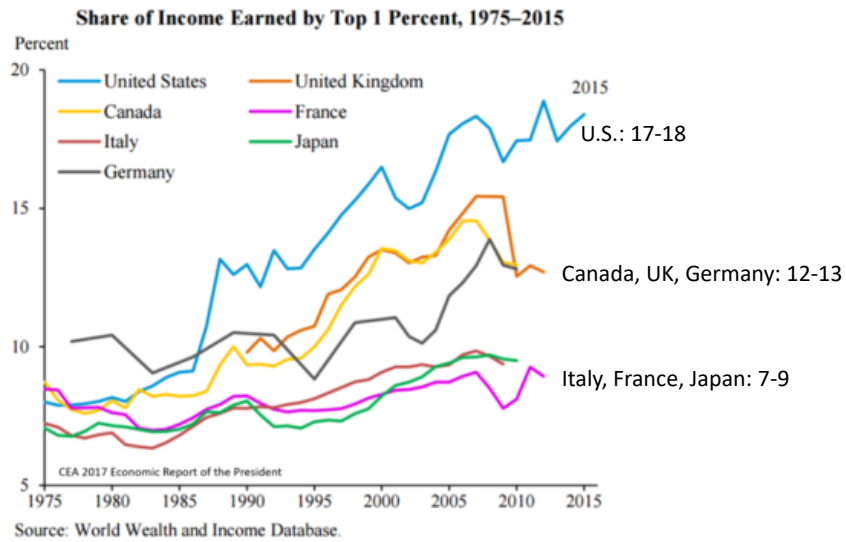
What is driving increasing inequality?

- **Primary drivers:**
 - Technology
 - Globalization
 - Institutions
- **These drivers can also influence personal choices in ways that affect measured income inequality.**
 - For example, educational choices or labor force participation



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An International Perspective: Comparables



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Why Does Inequality Matter?

- **Too little inequality can:**

- Reduce individual motivation
- Slow economic growth

- **Too much inequality can:**

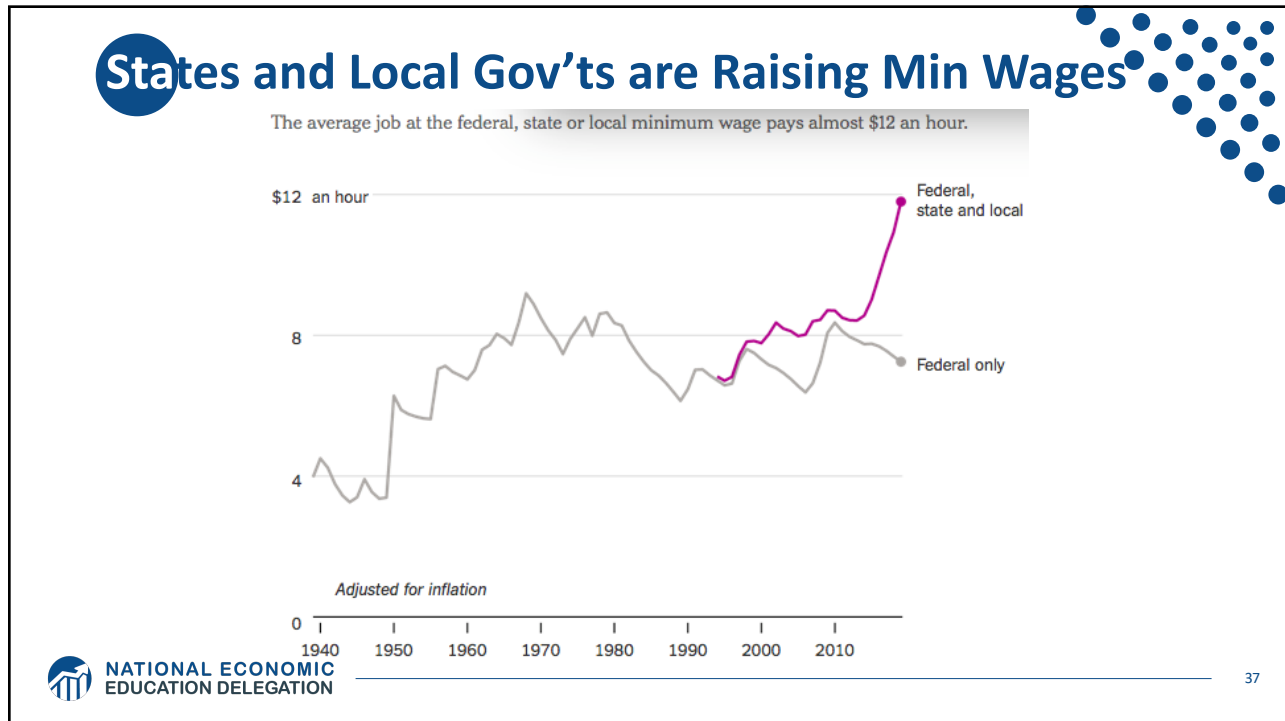
- Reduce individual motivation
- Slow economic growth

- **Too much inequality may also:**

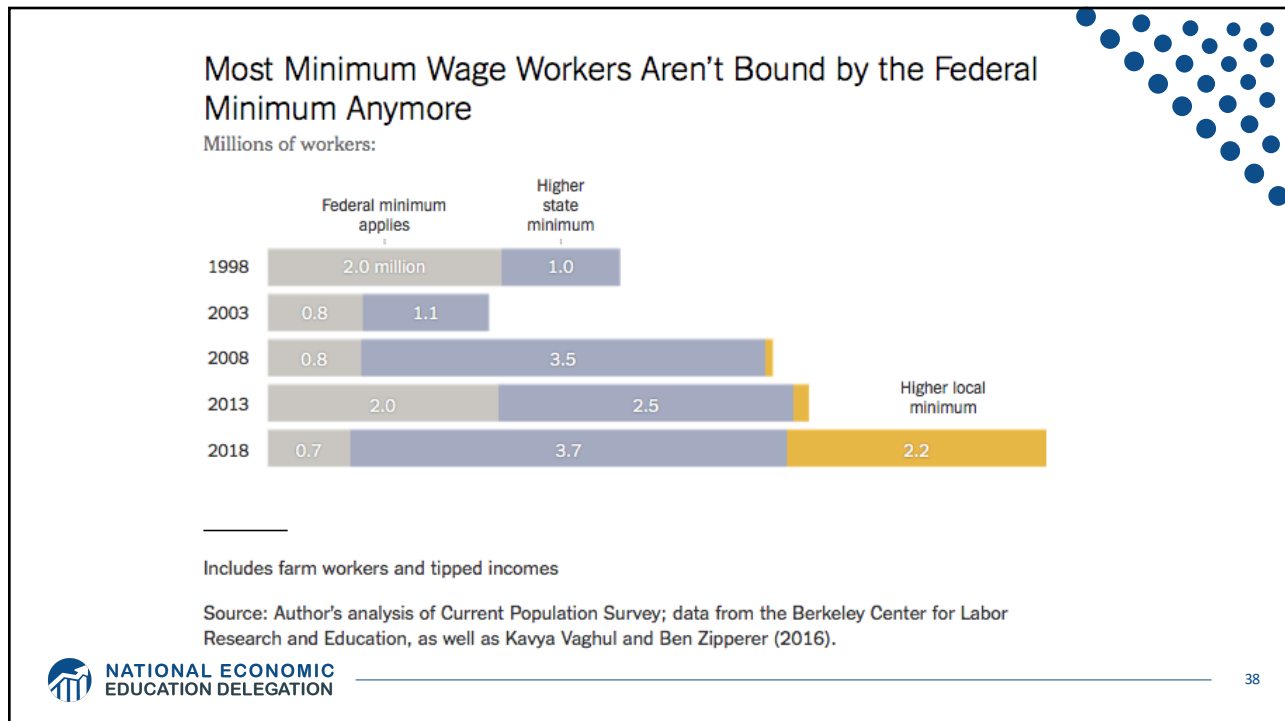
- Divide society
- Distort political environment
- Reduce political participation
- Reduce investments in public goods
 - o Education
 - o Environmental protections



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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

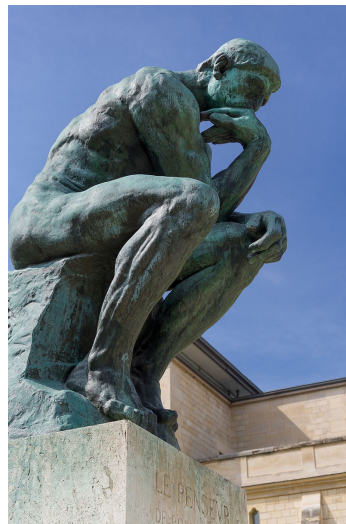


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What to do About Inequality?

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



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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.



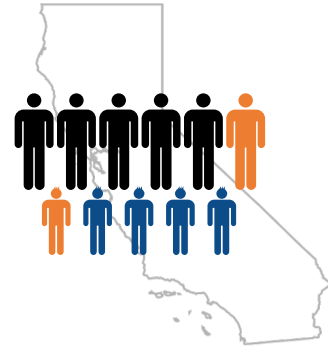
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Summary

- **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, 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

- **Racial inequities**
- **Telecommuting**
- **Primarily low wage jobs are at risk**
- **Resources to weather the storm**
- **Educational inequities**
- **Pandemics tend to exacerbate inequality**



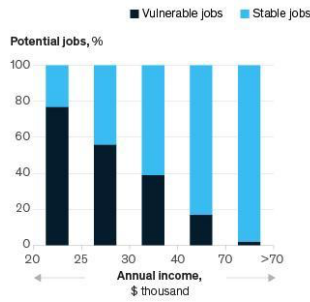
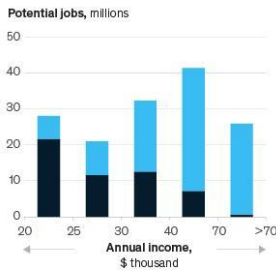
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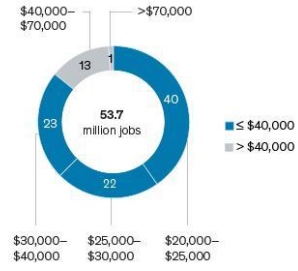
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Eighty-six percent of vulnerable jobs paid less than \$40,000 a year.

Level of job vulnerability,¹ by income band



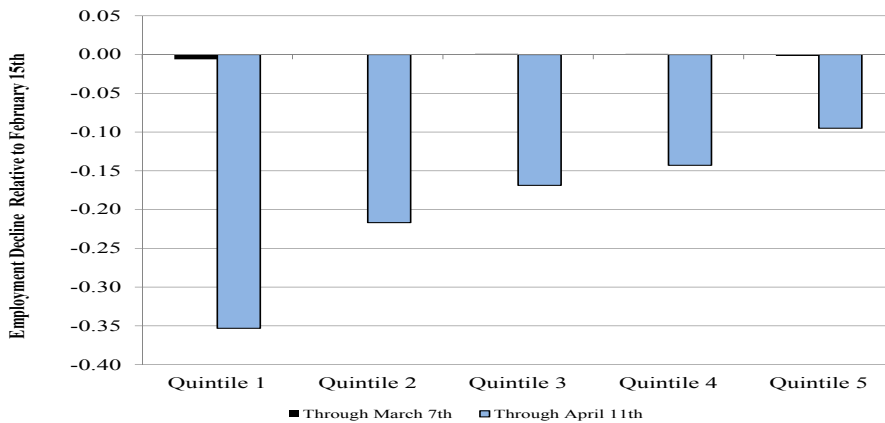
Vulnerable jobs by annual income band¹ %



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



Employment Change by Income Quintile



Powell: 40% of workers losing their jobs earned less than \$40,000/year.

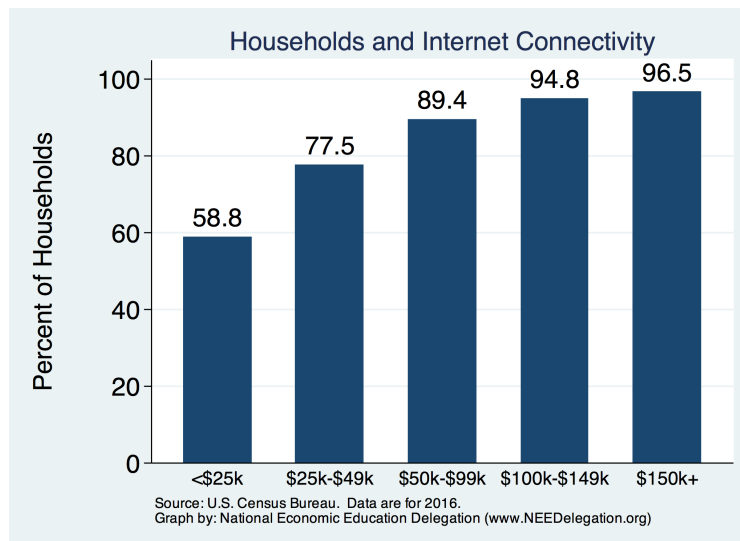


Source: Cajner, Crain, Dexter, Grigsby, Hamins-Puertolas, Hurst, Kurtz, and Yidirmaz

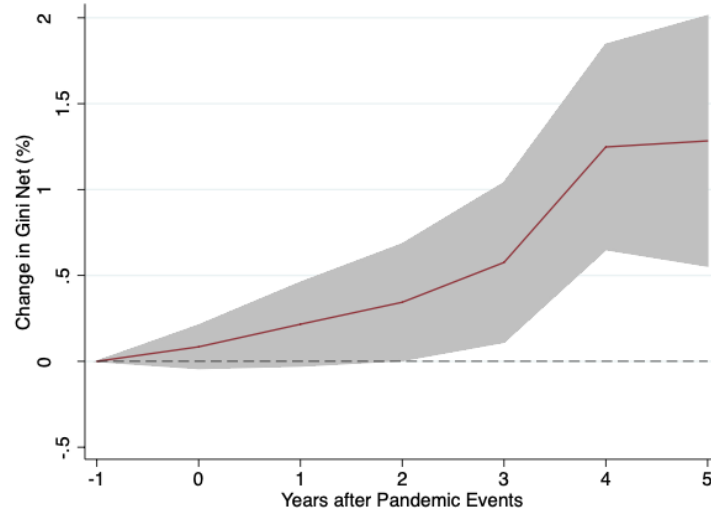
Financial Insecurity Before Coronavirus

- 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

Home Schooling – The Digital Divide Issue



Pandemics Tend to Increase Inequality

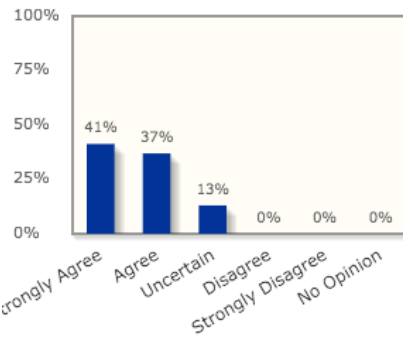


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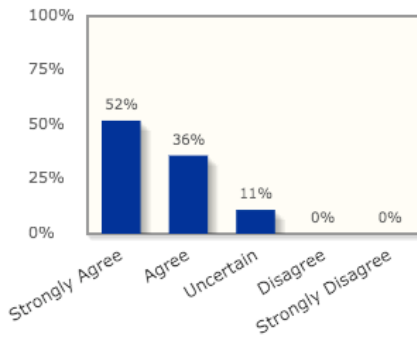
Economists Worry About COVID & Inequality

Question A: Even with the support policies implemented by European governments in response to the crisis, low-income workers will suffer a relatively bigger hit to their incomes than those further up the distribution.

Responses



Responses weighted by each expert's confidence



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Thank you!

Any Questions?

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