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# Current Issues in Economic Policy

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*NEED*

American University OLLI  
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1

## Ground Rules

- Co-host Steve Wattenmaker

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2

2

## 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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3

3

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- **This slide deck was authored by:**

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4

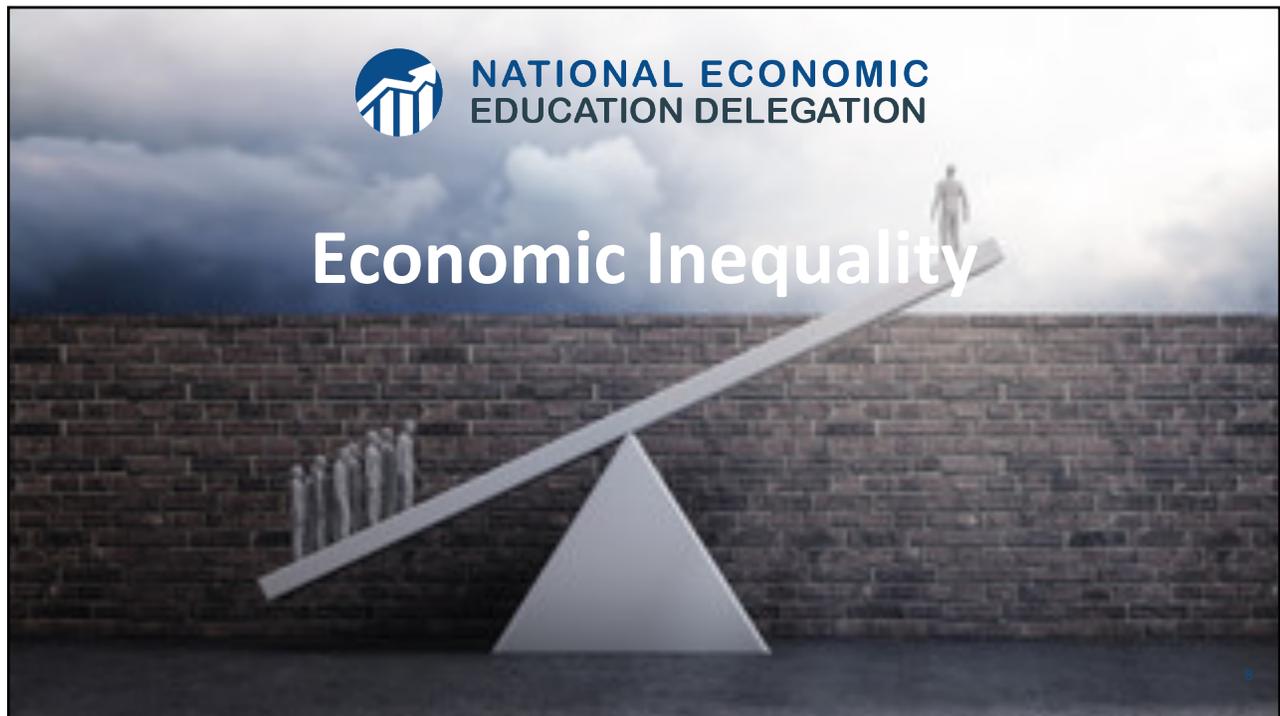
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# Schedule

- Day 1: Economic Inequality
- Day 2: Trade and Globalization
- Day 3: Climate Change

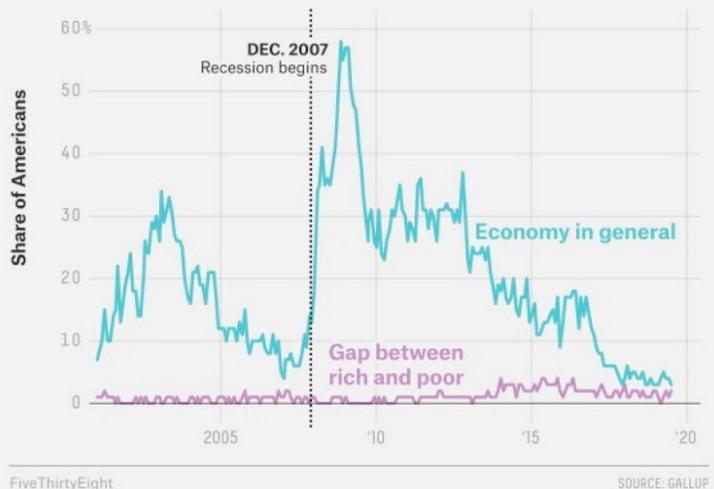
7



8

### Few Americans prioritize economic inequality

Share of Americans who said the “economy in general” or the “gap between rich and poor” was the most important issue facing the country



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9

9

## Poll

There is \_\_\_ economic inequality in the country these days.

- Too much
- The right amount
- Too little

If you answered that there is too much economic inequality, \_ of economic inequality is acceptable.

- Some amount
- No amount



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10

10

## Outline

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



11

## Economic Inequality: Income

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



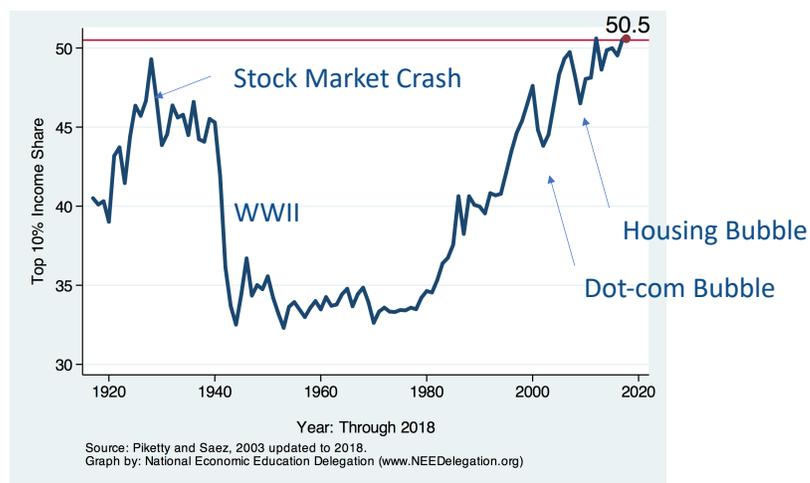
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## Different Ways of Thinking About Inequality

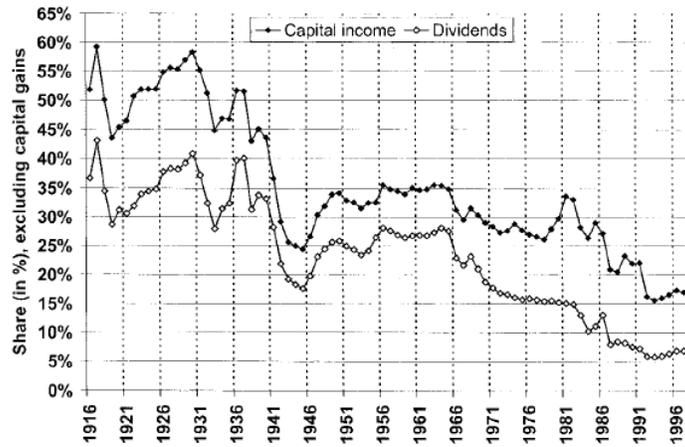
- **Income Inequality**
  - Before taxes and transfers
  - After taxes and transfers
- **Wealth Inequality**
- **Consumption Inequality**

13

## National Income Inequality: Share of Top 10%

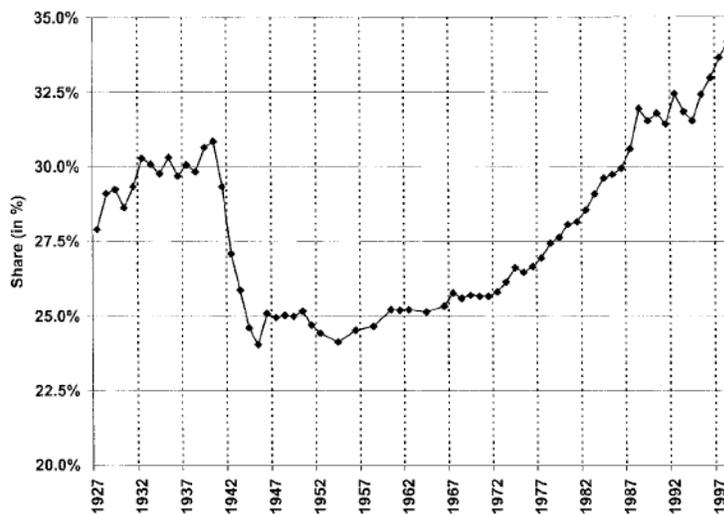


14



**FIGURE V**  
**The Capital Income Share in the Top 0.5 Percent, 1916–1998**  
 Series display the share of capital income (excluding capital gains) and dividends in total income (excluding capital gains) for the top 0.5 percent income quantile.  
*Source:* Authors' computations are based on income tax returns statistics (series reported in Piketty and Saez [2001], Table A7, column P99.5–100).

15



**FIGURE VIII**  
**The Top Decile Wage Income Share, 1927–1998**  
*Source:* Table IV, column P90–100.

16

## Recent Facts on Income Inequality

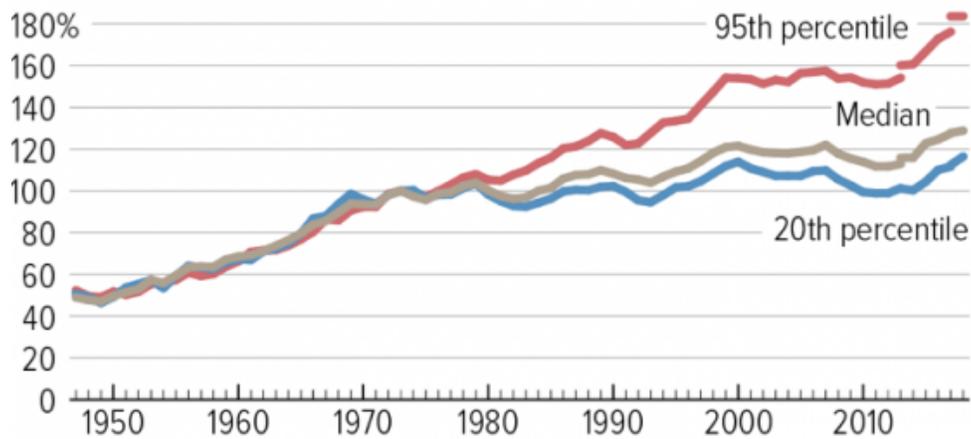
- **Beginning in the 1970s, the income gap widened.**
  - Income in the middle and lower parts of the distribution slowed
  - Incomes at the top continued to grow strongly
  - Income shares at the very top of the distribution rose to levels last seen more than 80 years ago



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.

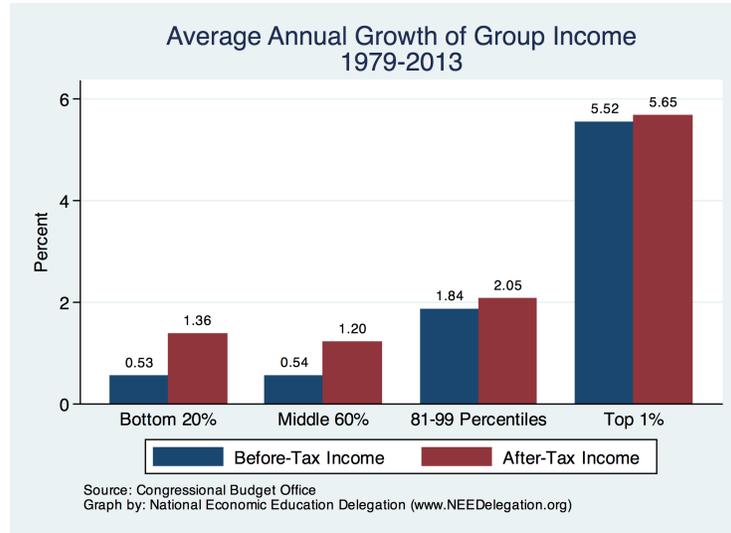
## The Abrupt Increase in Inequality

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, Dec. 11, 2018.

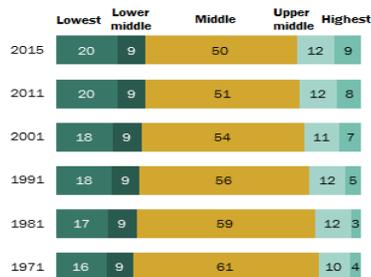
## Growth Has Been Primarily at the Very Top



## Disappearing Middle Class

### Share of adults living in middle-income households is falling

% of adults in each income tier



Note: Adults are assigned to income tiers based on their size-adjusted household income in the calendar year prior to the survey year. Figures may not add to 100% due to rounding.

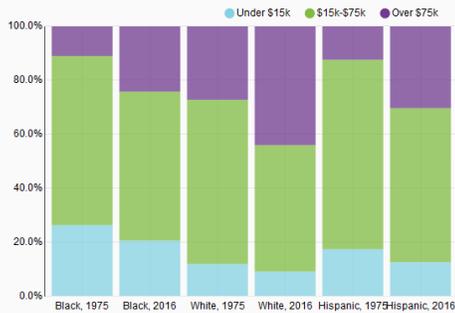
Source: Pew Research Center analysis of the Current Population Survey, Annual Social and Economic Supplements

PEW RESEARCH CENTER

In this report, “middle-income” households are defined as those with an income that is 67% to 200% (two-thirds to double) of the overall median household income, after incomes have been adjusted for household size.

# Inequality across Race/Ethnic Groups

Share of households with at least \$75,000 increasing across race/ethnic group, but more so for whites



Source: US Census, Historical Income Tables, Table H-17: Households by Total Money Income, Race, and Hispanic Origin of Householder

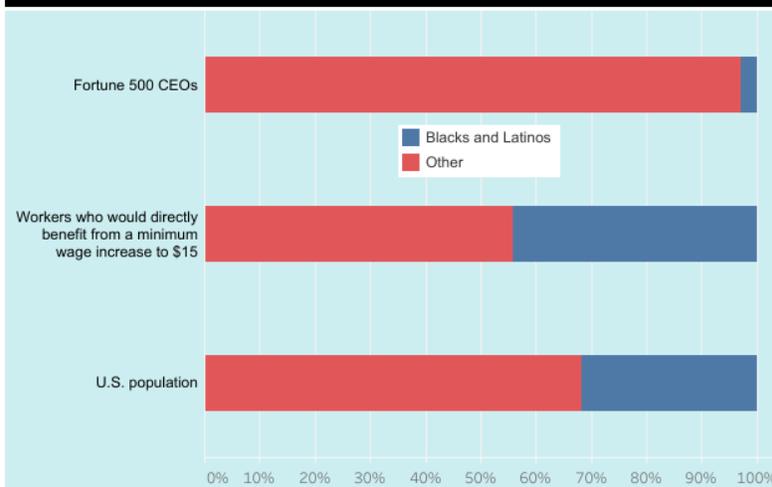
BROOKINGS

- The good news is that “the percentage of black households with incomes of at least \$75,000 more than doubled from 1975 to 2016, adjusting for inflation”
- Still, gains were larger for white and Hispanic households.

21

## People of Color Are Scarce at Top and Overrepresented at Bottom

U.S. Black and Latino representation, 2018

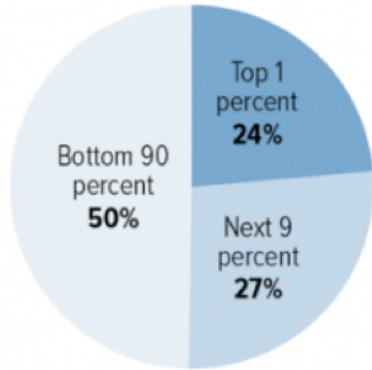


Sources: Census Bureau, Economic Policy Institute, Fortune, Black Enterprise, and Al Día News

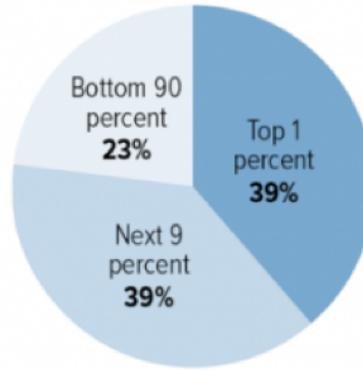
22

# Wealth Inequality Exceeds Income Inequality

Distribution of before-tax income, 2016

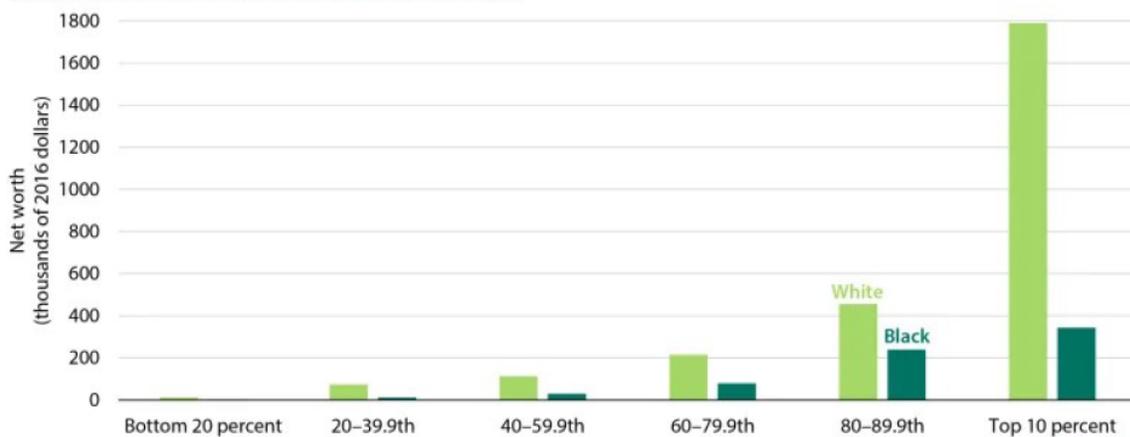


Distribution of wealth, 2016



23

FIGURE 3. Median Net Worth, by Household Income Percentile



Source: Survey of Consumer Finances 2016; authors' calculations.  
 Note: Data are from 2016. Net worth refers to the difference between assets and debt for a household head. Race and ethnicity are those of the survey respondent.

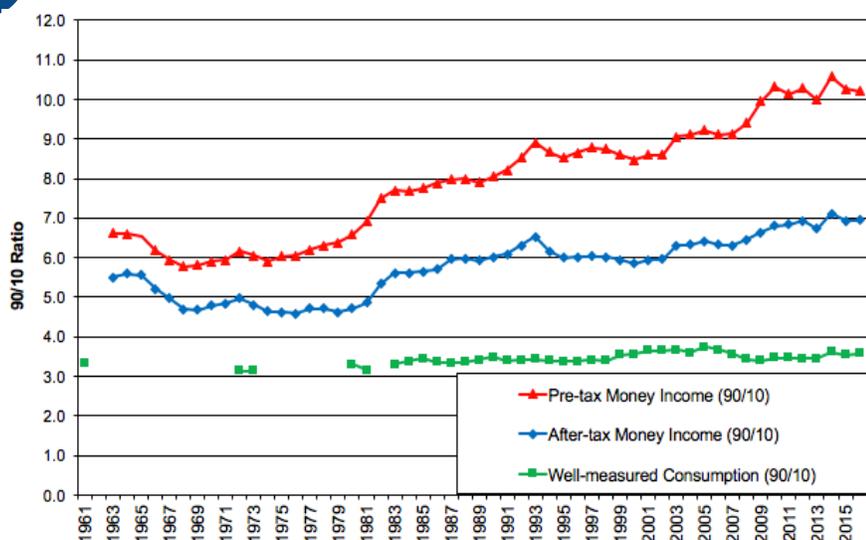
24

# Consumption Inequality

- Consumption is another important metric for judging inequality
- Arguably a better indicator of “well-being”
- Extremely difficult to measure
- Growing evidence that consumption inequality has also increased

25

## A Third Measure of Inequality: Consumption



26

## Summary: Consumption Inequality

- Early research indicated that although income inequality may be increasing, consumption inequality may not be.
  - How is this possible? Borrowing, or otherwise smoothing consumption.
- Mounting evidence that it is increasing along with income and wealth inequality.
- Consensus reached? No.

27

**The Great Gatsby Curve: high inequality tends to mean low mobility**  
 More inequality is associated with less mobility across generations



Source: Miles Corak, "Income Inequality, Equality of Opportunity, and Intergenerational Mobility," Journal of Economic Perspectives 27 [3]: 79-102; "All the Ginis," available at <http://www.worldbank.org/en/research/brief/all-the-ginis> [last accessed 9/28/2018]

28

### A pattern of unequal growth has made it more common for children to earn less than their parents

Research shows that a child born in 1950 in the United States has about an 80% chance of having higher household income than their parents at age 30. A child born in 1980 has just a 50% chance.

**Growth was shared equitably in these years** (poorest to richest)

**1 1950**  
A child born in 1950 in a household with median income of \$29k was likely to out earn their parents...

**2 1980**  
...even if their household at age 30 had below median income.

**3** If their household had income in the middle of the income distribution, they could earn at least \$47k.

> \$85k  
Top 20%

\$47-63k  
Middle 20%

< \$28k  
Bottom 20%

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**Most growth went to the rich in these years** (poorest to richest)

**4 1980**  
But a child born in 1980 in a household with median income of \$53k had to find a better job than their parents...

**5 2010**  
...just to earn the same amount of money at age 30.

**6** Households at the top of the middle 20% earn just \$55k, and households in the bottom quintile earn less than \$16k.

> \$92k  
Top 20%

\$35-55k  
Middle 20%

< \$16k  
Bottom 20%

Notes: Incomes shown are for households. Growth as shown in the bar charts is National Income Growth from Thomas Piketty, Emmanuel Saez, and Gabriel Zucman's Distributional National Accounts dataset. Growth in the first period is 1962-1980 because by quintile growth does not extend back to 1950. Source: Chetty, Raj, and others. 2017. "The Fading American Dream: Trends in Absolute Income Mobility since 1940." Science 356 [6336]: 398-406. Thomas Piketty, Emmanuel Saez, and Gabriel Zucman, "Distributional National Accounts: Methods and Estimates for the United States," The Quarterly Journal of Economics 133, no. 2 [May 1, w018]: 553-609

Equitable Growth

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29

## Poll

### Which factors are essential for being economically successful in the US today?

- Hard work
- Knowing the right people
- Graduating from college
- Graduating from a highly ranked college
- Graduating from professional school
- Having well-educated parents
- Coming from an upper-income family
- Growing up in an upper-income neighborhood
- A person's racial/ethnic background

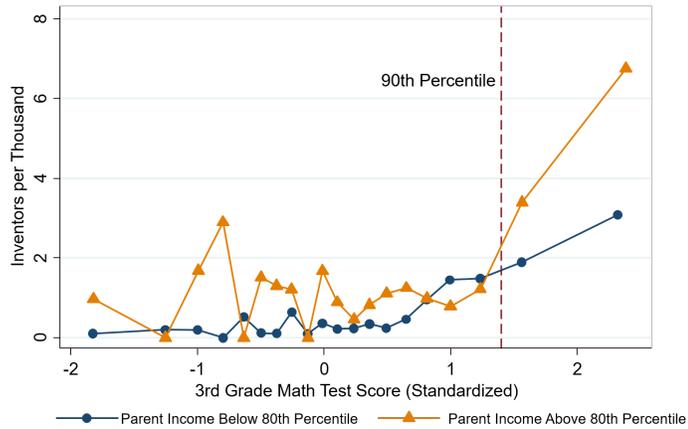
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30

# Upward Mobility: Finances Matter

High math-ability 3<sup>rd</sup> graders much more likely to become inventors if their family is well-off.

(Also if they grow up in high-innovation areas)

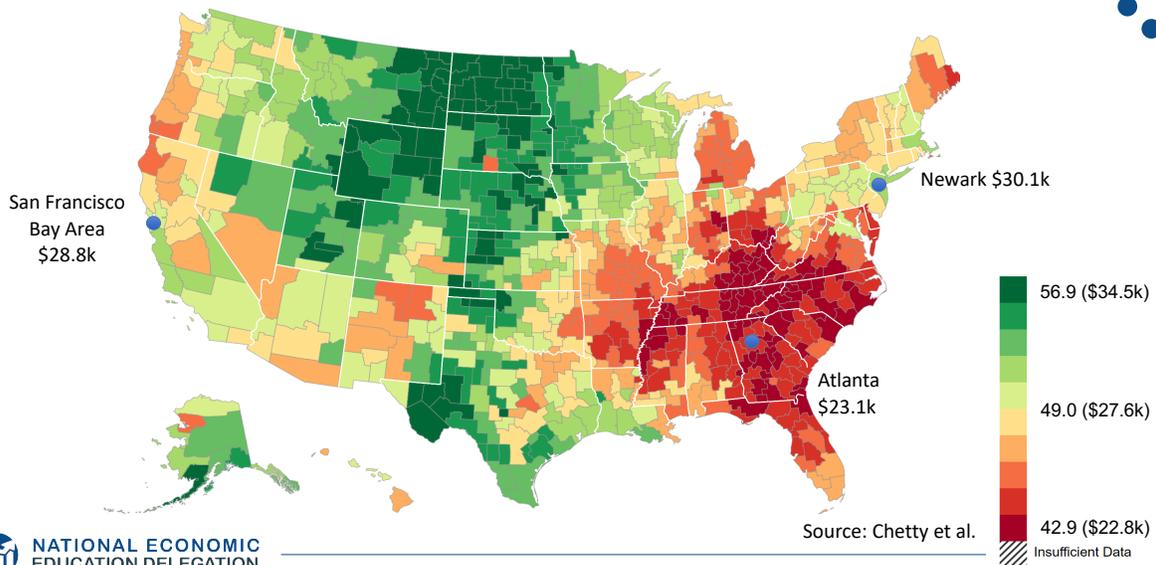


31

31

## The Geography of Upward Mobility in the United States

Average Individual Income for Males with Parents Earning \$25,000 (25<sup>th</sup> percentile)



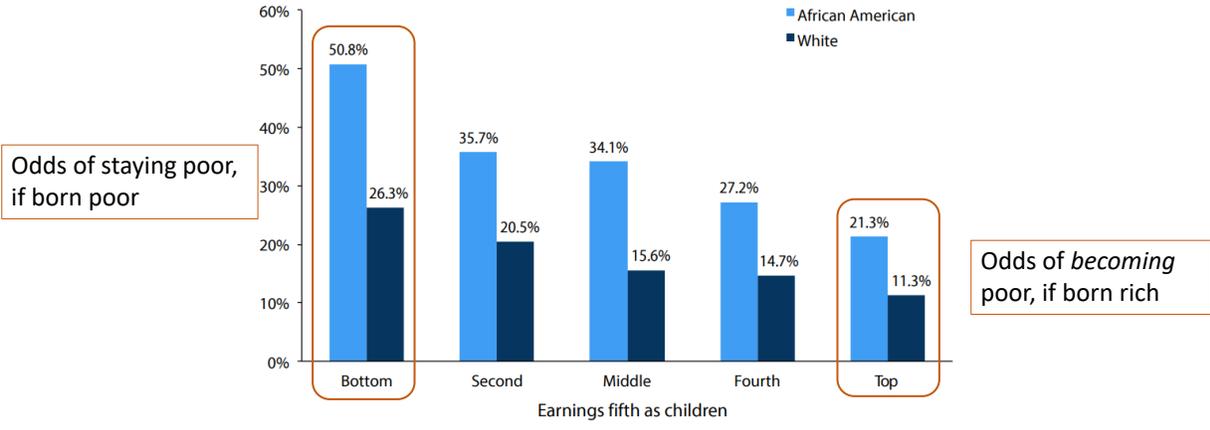
Source: Chetty et al.

Note: Green = More Upward Mobility, Red = Less Upward Mobility

32

## U.S. – racial differences

**Figure 3L** Share of children from various earnings fifths ending up in the bottom fifth as adults, by race



Source: Authors' analysis of Mazumder (2011, Table 7)



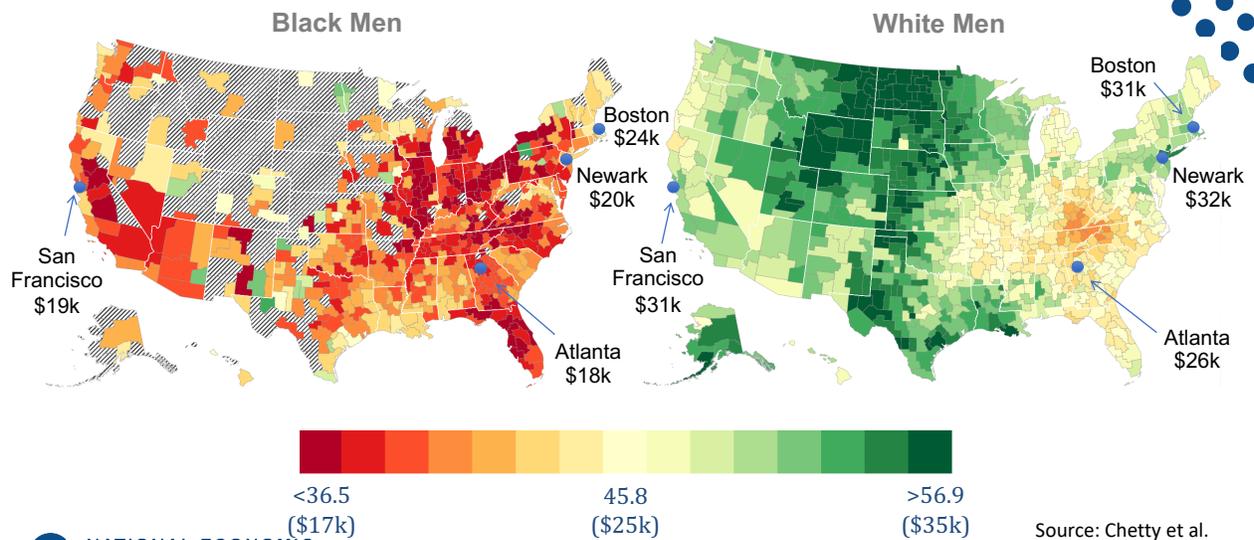
Economic Policy Institute, *State of Working America*, 2012

33

33

## Two Americas: The Geography of Upward Mobility by Race

Average Individual Income for Boys with Parents Earning \$25,000 (25<sup>th</sup> percentile)



Source: Chetty et al.

Note: Green = More Upward Mobility, Red = Less Upward Mobility; Grey = Insufficient Data

34

## 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
  - Education
  - Environmental protections



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35

## Poll

What do you think are the top three contributors to economic inequality?

- Outsourcing of jobs to other countries
- The tax system
- Problems with the education system
- The different life choices people make
- Some people start out with more opportunities than others
- Not enough regulation of major corporations
- Some people work harder than others
- Discrimination against racial and ethnic minorities
- The automation of jobs
- Current US trade policies
- Immigration
- Too much regulation of major corporations



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36

36

## Where Does Inequality Come From?

- **Labor Characteristics**

- Demographics
  - Age distribution
- Personal Choices
  - Educational attainment
  - Effort
  - Priorities
  - Household composition
- Immigration

- **Market Forces**

- Technology
- Changing demand patterns
- Competition for labor

- **Government Policy**

- Market influence
- Redistribution

## Government Policy and Inequality

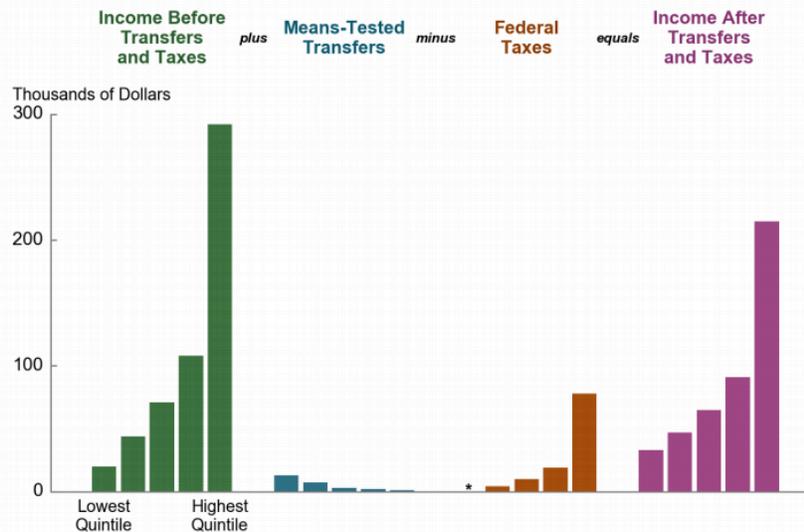
- **Market Influence: PRE-distribution**

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

- **RE-distribution**

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

## Taxes, Transfers, and Income: 2016



39

## Government Policy and Racial Inequality

- Product of a long historical process of discrimination with at least two reinforcing sets of policies.
  - Policies that govern the spatial distribution of the black population.
    - Restrictive covenants, redlining, and general housing and lending discrimination
  - Policies that have a disparate impact on black individuals because of their locations.
    - The original version of Michigan Senate Bill 897 exempted individuals from this work requirement conditional on residing in a county with an unemployment rate above 8.5 percent. The higher unemployment rates in rural counties would disproportionately exempt white Medicaid recipients from the work requirement within the bill.

40

# Market Forces and Inequality

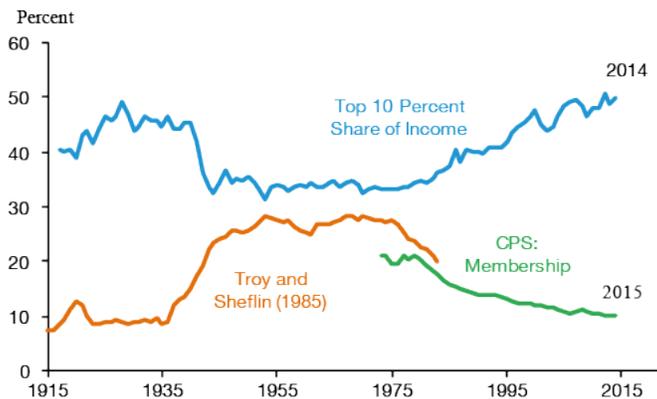
- **Changing demand patterns**

- Technology
- Globalization
- Industry composition
  - o PCs instead of typewriters
  - o Services instead of goods
  - o Professional services instead of personal services

- **Competition in labor markets**

- Unionization
- Market concentration

# Declining Unionization

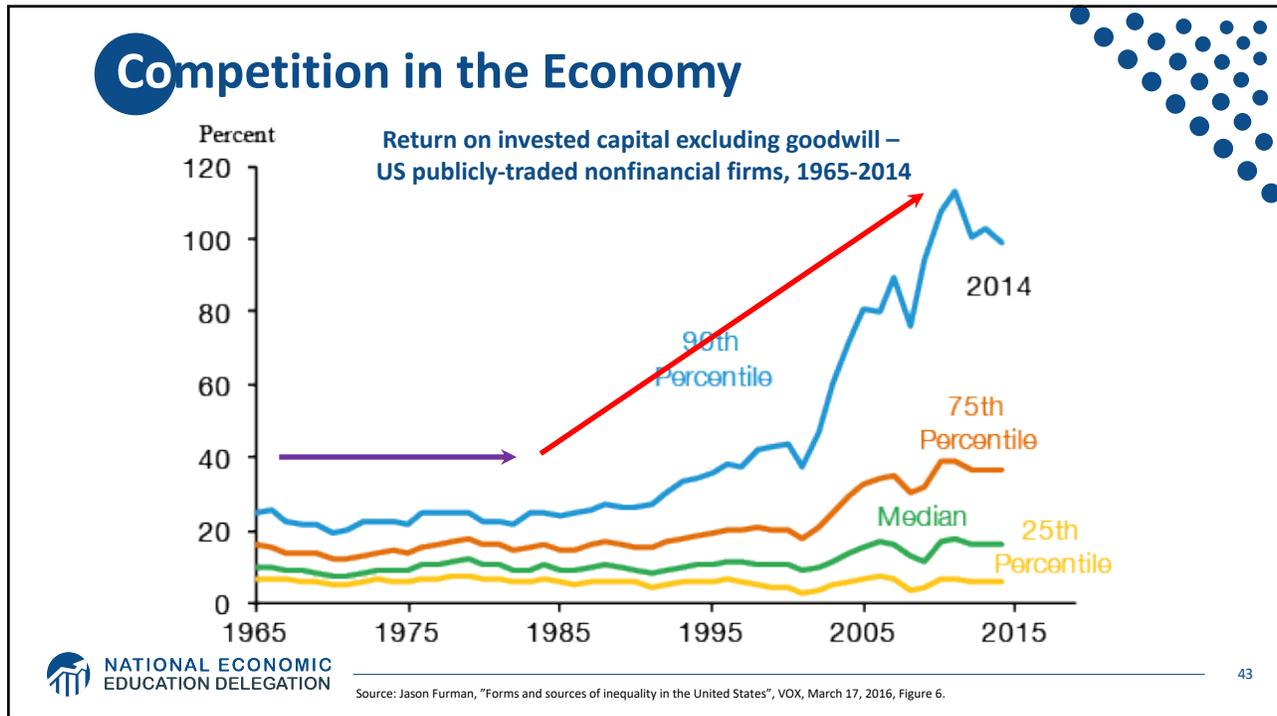


## Unionization Rates

- **1983:** 20.1%
- **2018:** 10.5%

## Unionization Rates

- **Public:** 33.9%
- **Private:** 6.4%



43

## Growing Revenue Concentration

Industry	Percentage Point Change in Revenue Share Earned by 50 Largest Firms, 1997-2007
Transportation and Warehousing	12.0
Retail Trade	7.6
Finance and Insurance	7.4
Real Estate Rental and Leasing	6.6
Utilities	5.6
Wholesale Trade	4.6
Educational Services	2.7
Accommodation and Food Services	2.6
Professional, Scientific and Technical Services	2.1
Administrative/Support	0.9
Other Services, Non-Public Admin	-1.5
Arts, Entertainment and Recreation	-2.3
Health Care and Social Assistance	-3.7

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Source: Furman and Orszag, "A Firm-Level Perspective on the Role of Rents in the Rise in Inequality", 2015.

44

## Immigration and Inequality- Summary

- **Beginning in about 1970, the immigrant share of the U.S. Population increased dramatically.**
  - 5% in 1970 and 14% in 2016
- **Immigration tends to happen most often among:**
  - Low-skilled low-wage workers
  - High-skilled high-wage workers
- **Immigration has likely increased income inequality.**
- **Its effect has likely been small.**
  - ~5% between 1980 and 2000
  - No reason to think it has been bigger since



## 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



## 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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47

47

## 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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48

48



## 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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51

## 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 (e.g. universal pre-k)
  - Opportunities for wealth-building
  - Housing
- **Initiatives whose impacts cross neighborhood and class lines and increase upward mobility specifically for black men**
  - Mentoring programs for black boys, efforts to reduce racial bias among whites, interventions to reduce discrimination in criminal justice, and efforts to facilitate greater interaction across racial groups.



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## Tension in Policy Solutions

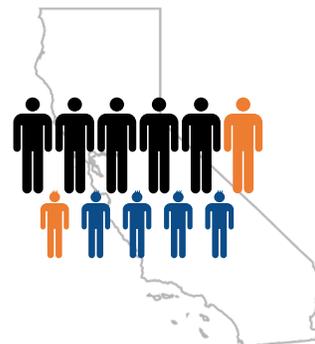
- **Is it possible to increase growth at the same time that you reduce income inequality?**
  - Common refrain among some that government intervention in the economy is always and everywhere bad for growth.
- **Possibly: expanding equality of access promotes the full utilization of resources.**
  - Expanding equality of access requires resources likely from the well-to-do.



53

## 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.**



54

**Thank you!**

## Any Questions?

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