


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

 NATIONAL ECONOMIC
EDUCATION DELEGATION

2

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).



Outline

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



Income Inequality

- **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
 - After taxes
- **Wealth Inequality**
- **Consumption Inequality**



National Income Inequality: Share of Top 10%

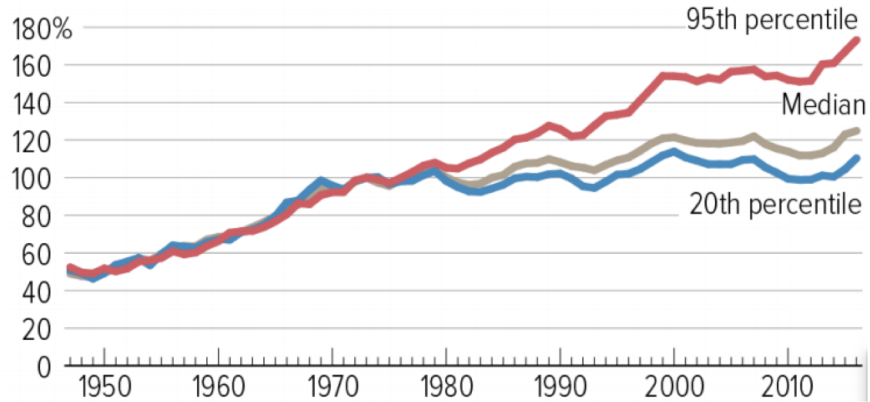


Recent Facts on Income Inequality

- **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

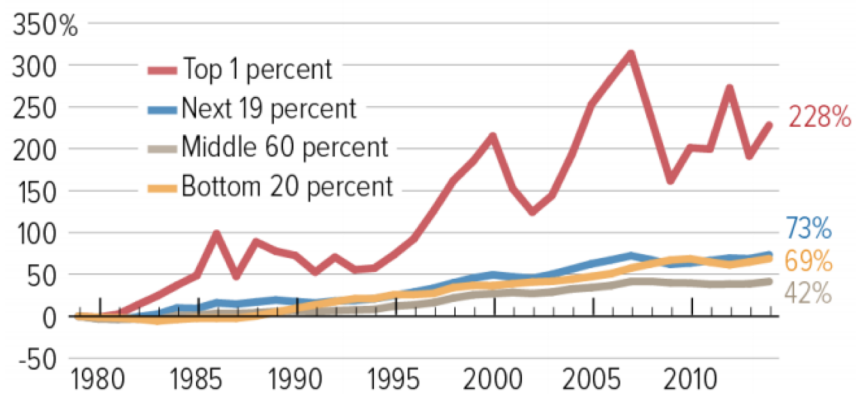
The Abrupt Increase in Inequality

Real family income between 1947 and 2016, as a percentage of 1973 level

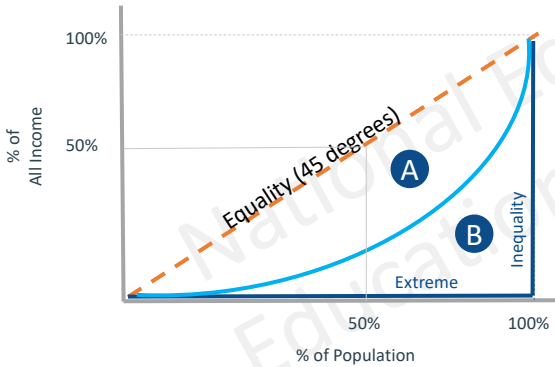


Most of the Action Is at the Very Top

Percent change in income after transfers and taxes since 1979



The Gini Coefficient

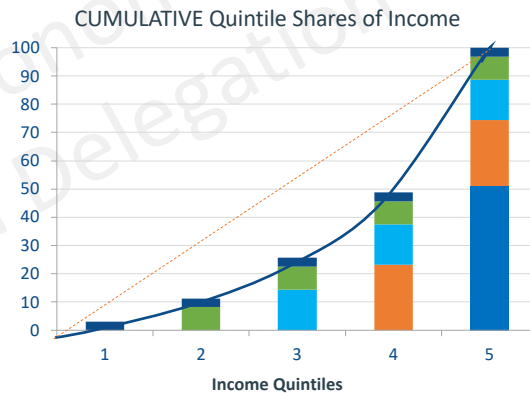
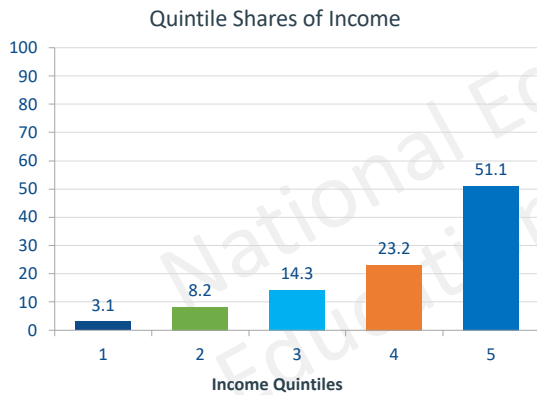


$$\text{Gini} = \frac{A}{A + B} \times 100$$

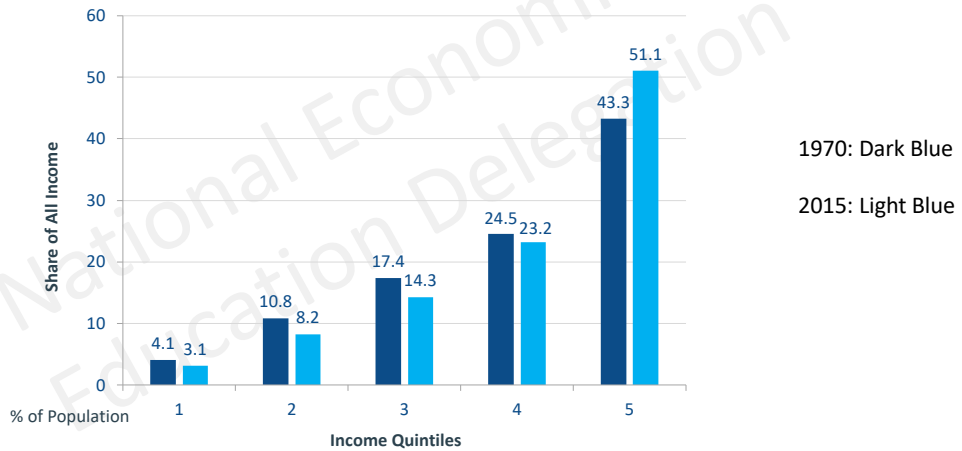
Bigger A: More inequality
Smaller A: Less inequality



Forming the GINI Curve: 2015



Income Share Changes Between 1970 and 2015



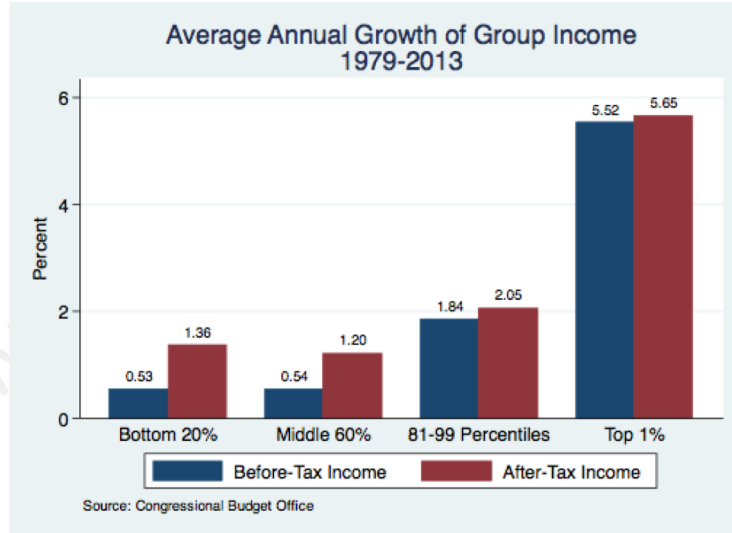
Income Changes from Growing Inequality

Bottom 90% of Households

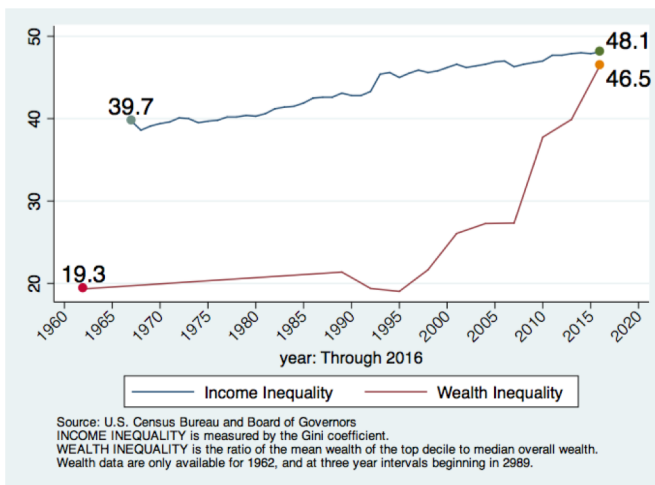
INCOME GROUP	TOTAL LOSS/GAIN IN ANNUAL INCOME*	AVERAGE LOSS/GAIN PER HOUSEHOLD PER YEAR*
TOP 1%	\$673 billion more	\$597,241 more
96-99	\$140 billion more	\$29,895 more
91-95	\$29 billion more	\$4,912 more
81-90	\$43 billion less	\$3,733 less
61-80	\$194 billion less	\$8,598 less
41-60	\$224 billion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

Growth Has Been Primarily at the Very Top



Income and Wealth Inequality

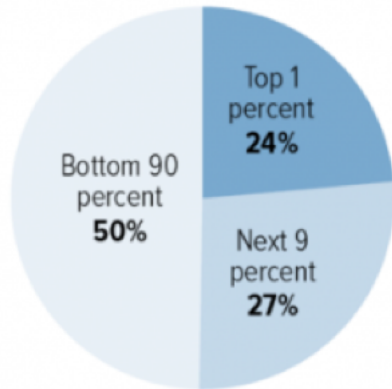


Income Inequality (Gini)

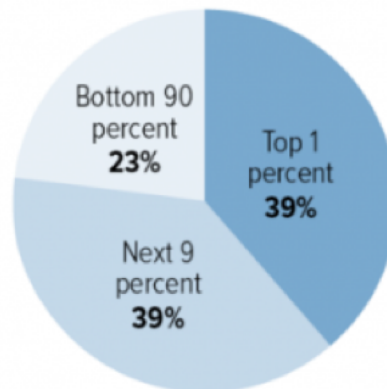
- US: 48.1%
- CA: 49.0%
- Marin: 52.5%

Wealth Inequality Exceeds Income Inequality

Distribution of before-tax income, 2016



Distribution of wealth, 2016

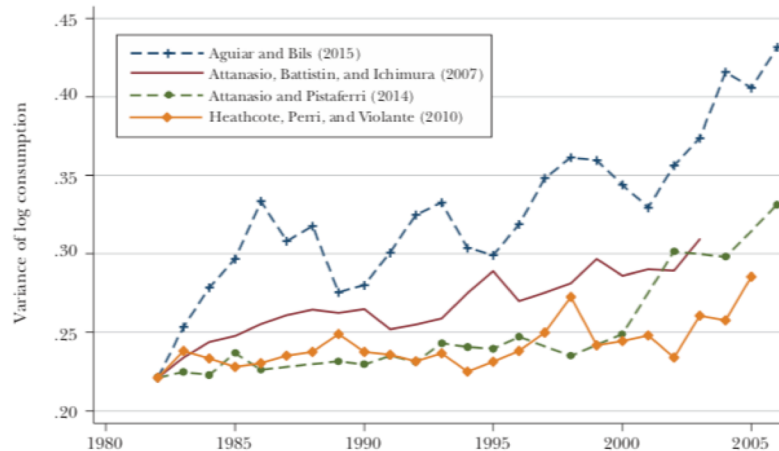


Consumption Inequality

- 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

Growing Evidence: Consumption Inequality

The Evolution of Consumption Inequality over Time as Measured by Different Papers



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**



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



NATIONAL ECONOMIC
EDUCATION DELEGATION

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



NATIONAL ECONOMIC
EDUCATION DELEGATION

22

Government Policy and Inequality

- **Market Influence: PRedistribution**

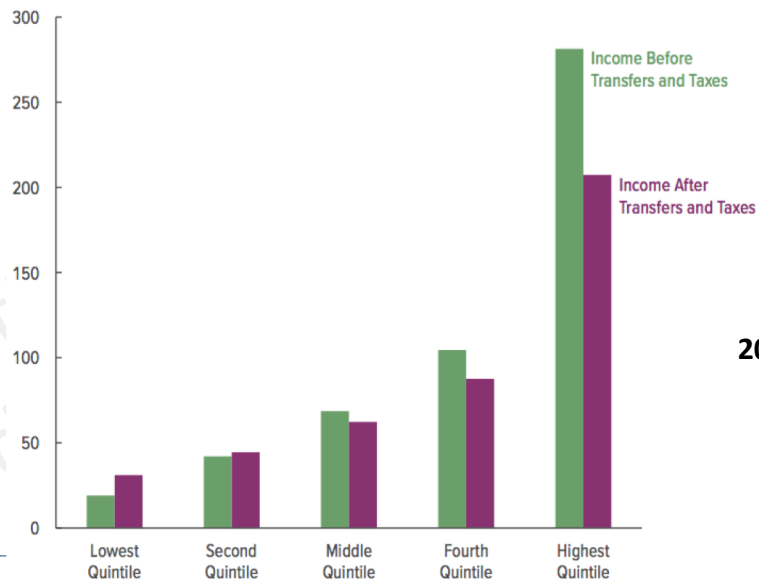
- Characteristics of labor
 - o Access to education
- Effects on labor demand
 - o Market regulation
 - Competition policy
 - o Labor regulations
 - Minimum wage, overtime, health insurance, etc.

- **REdistribution**

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

Tax and Transfer Programs and Inequality

Thousands of Dollars



2014

What About Tax Rates?

400 TAXPAYERS WITH HIGHEST INCOMES

1992-2014



Source: IRS



NATIONAL ECONOMIC
EDUCATION DELEGATION

Where Does Inequality Come From? Summary

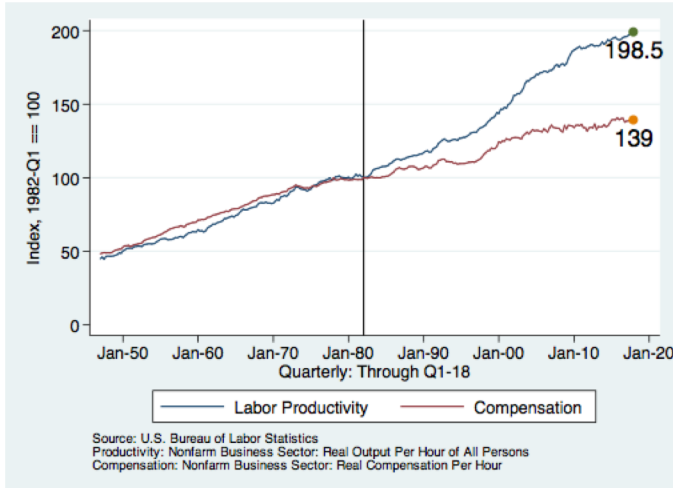
- **Labor characteristics**
 - What do workers bring to the market?
- **Market forces**
 - How does the market value the labor characteristics?
- **Government policies**
 - PRedistribution – affecting markets
 - Redistribution – affecting incomes



NATIONAL ECONOMIC
EDUCATION DELEGATION

26

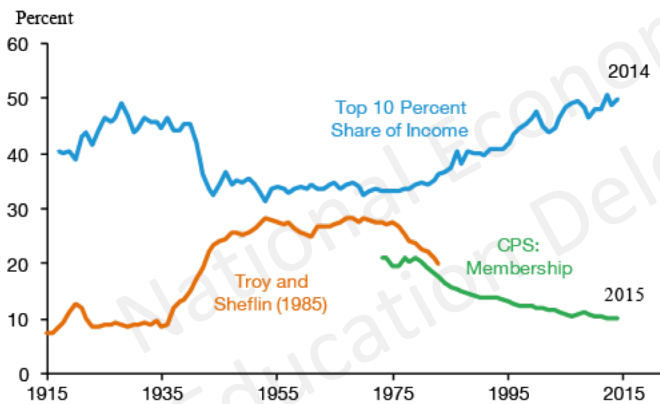
Labor Income is Unhinged from Productivity



Why?

- Declining unionization
- Globalization
- Immigration
- Competition policy
- Cheap technology

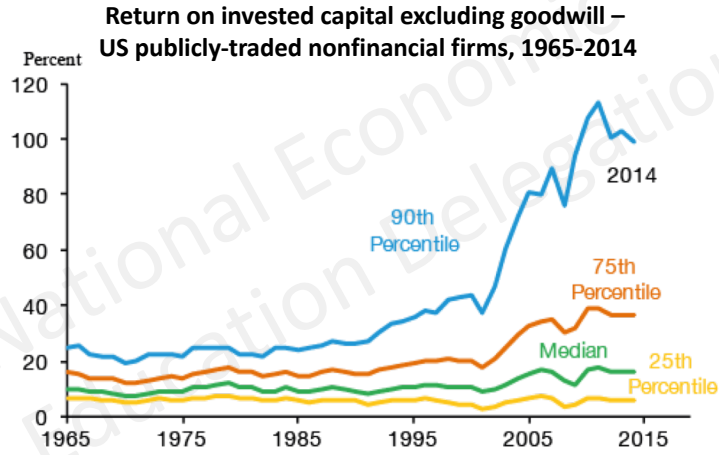
Declining Unionization



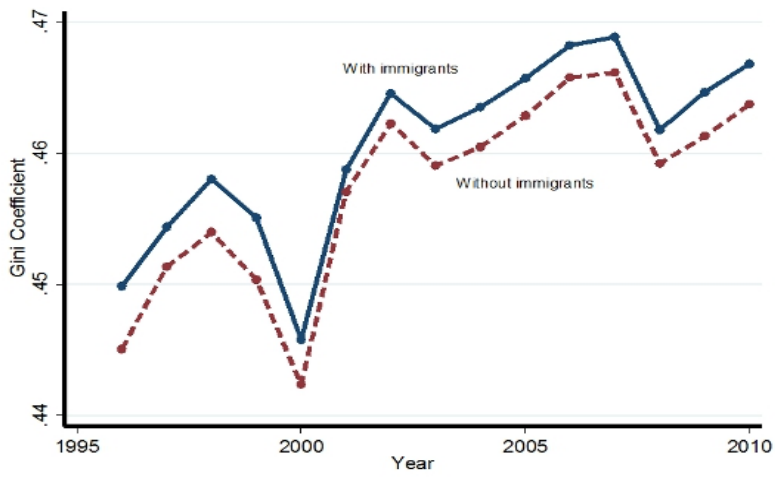
Unionization Rates

- 1983: 20.1%
- 2017: 10.7%

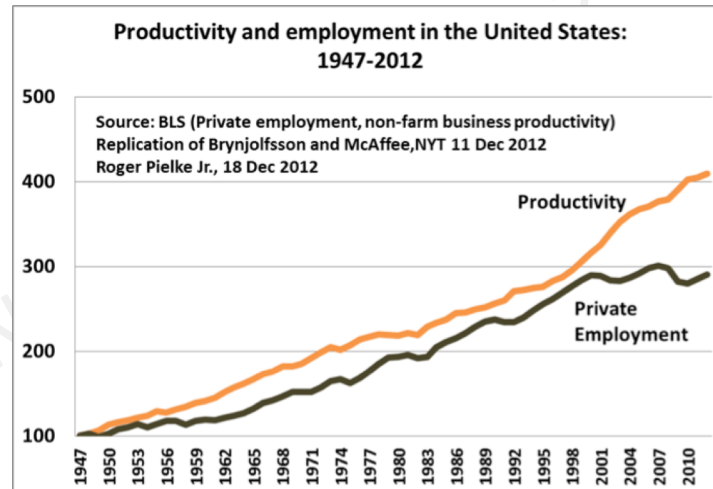
Competition in the Economy



Immigration and Inequality



Technology Benefits Ownership over Labor



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

Mechanisms for the Effects of Globalization

- **Merchandise trade**

- Importing goods that are made with low-skilled workers and exporting goods that are made with high-skilled workers
 - Should lower the wages of unskilled relative to skilled, making the distribution of income less equal

- **Outsourcing**

- Similar channel as with merchandise trade

- **Trade in services**

- US imports of middle-skill services: business and some professional services



What is driving increasing inequality?

- **Primary drivers:**

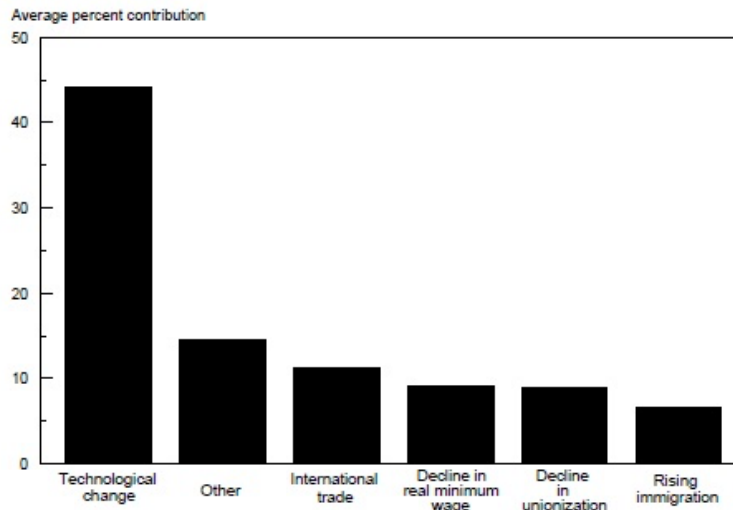
- Technology
- Globalization
- Institutions

- **These drivers can also influence personal choices in ways that affect measured income inequality.**

- For example, educational choices or labor force participation.



Sources of Inequality Through Late 1990s



Source: Federal Reserve Bank of New York.



NATIONAL ECONOMIC
EDUCATION DELEGATION

35

Why Does Inequality Matter?

- **Too little inequality can:**

- Reduce individual motivation
- Slow economic growth

- **Too much inequality can:**

- Slow growth
- Reduce individual motivation

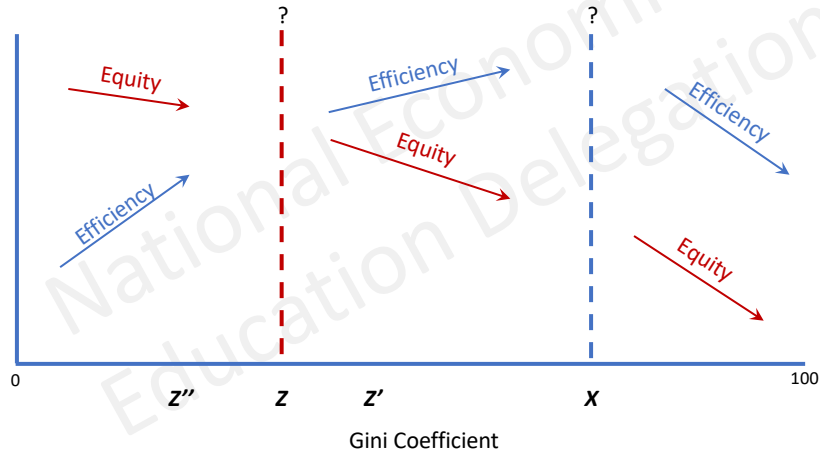
- **Too much inequality may also:**

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

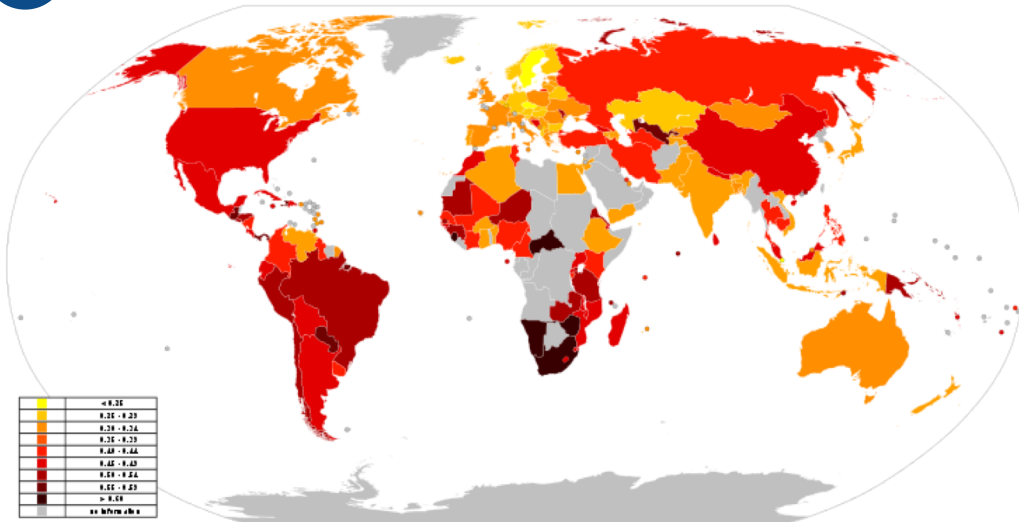


NATIONAL ECONOMIC
EDUCATION DELEGATION

How Much Inequality Is too Much?



An International Perspective



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.



NATIONAL ECONOMIC
EDUCATION DELEGATION

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



NATIONAL ECONOMIC
EDUCATION DELEGATION

What to do About Inequality?

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



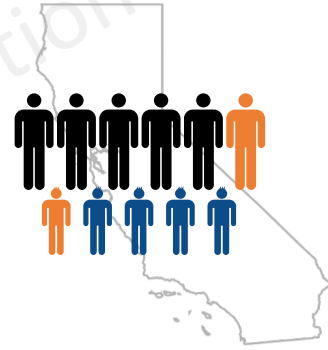
Tension in Policy Solutions

- **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.



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?



NATIONAL ECONOMIC
EDUCATION DELEGATION