

## 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

## Credits and Disclaimer

- **This slide deck was authored by:**
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- **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?**
- **Is it a problem?**
- **What to do about it**



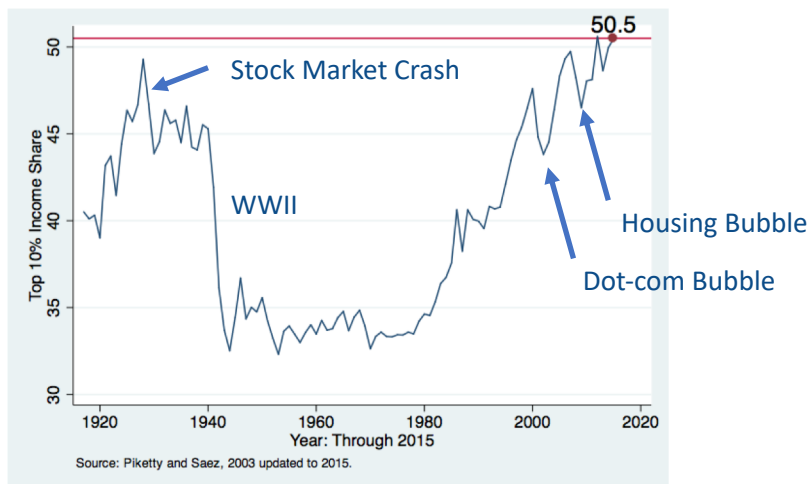
# Income Inequality

• **Definition:**

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



# National Income Inequality: Share of Top 10%



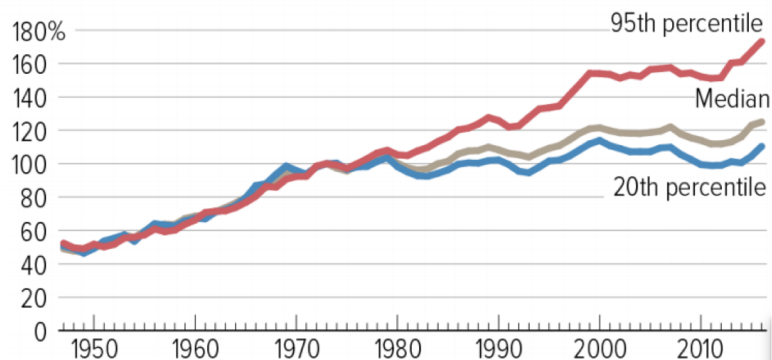
Source: Piketty and Saez, 2003 updated to 2015. Series based on pre-tax cash market income including realized capital gains and excluding government transfers.

## 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

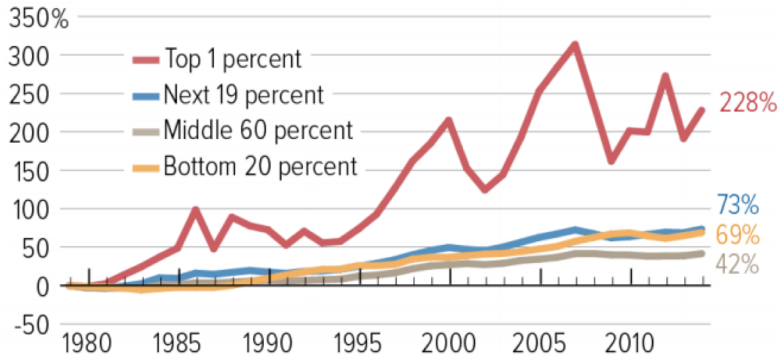
## The Abrupt Increase in Inequality

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



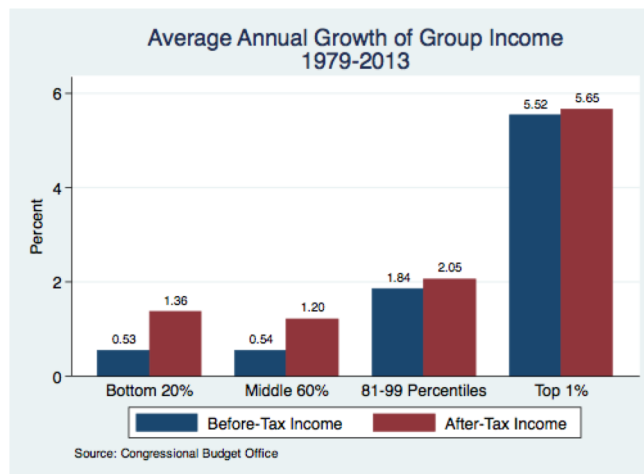
## Most of the Action Is at the Very Top

Percent change in income after transfers and taxes since 1979



## Growth Has Been Primarily at the Very Top

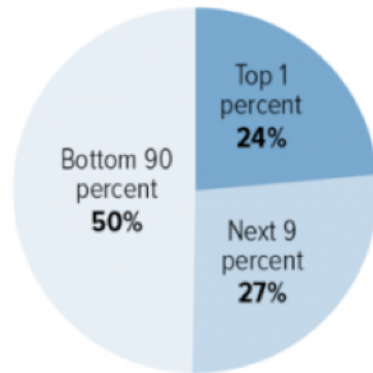
Average Annual Growth of Group Income 1979-2013



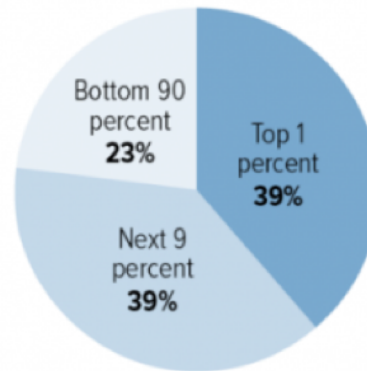
Source: Congressional Budget Office

## 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, May 15, 2018, page 15, Figure 4.

11

## 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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## 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

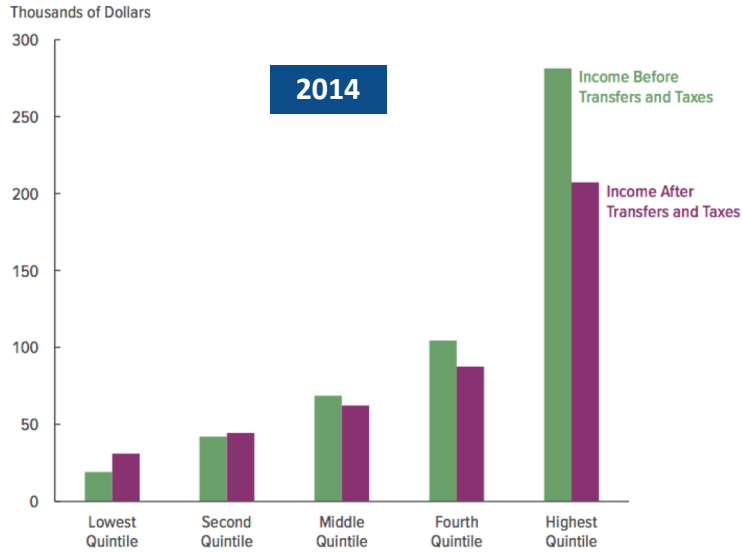


## Government Policy and Inequality

- **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.
- **REdistribution**
  - Tax Rates
  - Income support
    - Direct aid
    - Food stamps



## Tax and Transfer Programs and Inequality



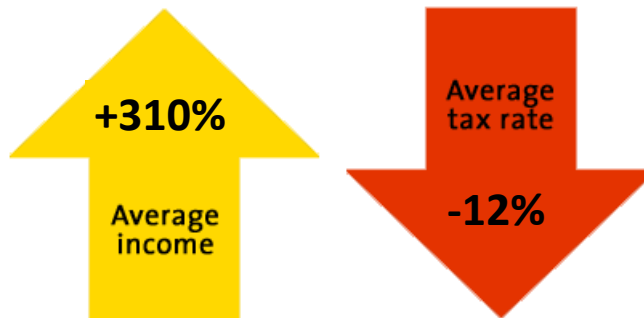
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Source: U.S. Congressional Budget Office, "The Distribution of Household Income, 2014", Average Income Before and After Means-Tested Transfers and Federal Taxes, by Income Group, 2014.

15

## What About Tax Rates?

400 TAXPAYERS WITH HIGHEST INCOMES  
1992-2014



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Source: IRS, Statistics of Income Division, December 2016.



## Where Does Inequality Come From? Summary

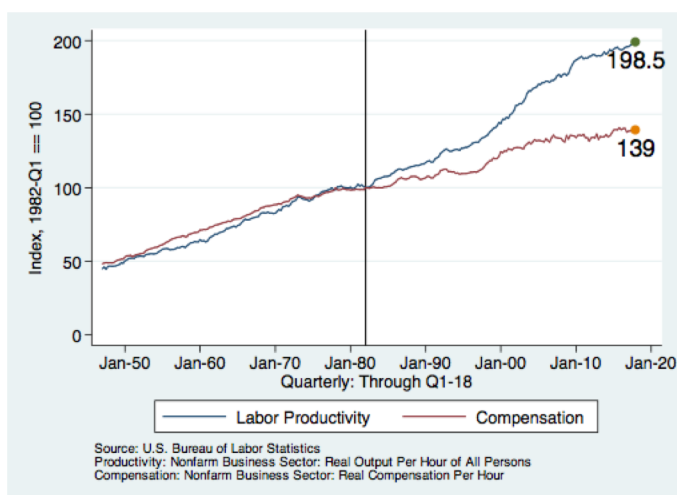
- **Labor characteristics**
  - What do workers bring to the market?
- **Market forces**
  - How does the market value the labor characteristics?
- **Government policies**
  - PRE-distribution – affecting markets
  - Redistribution – affecting incomes



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17

## Labor Income is Unhinged from Productivity



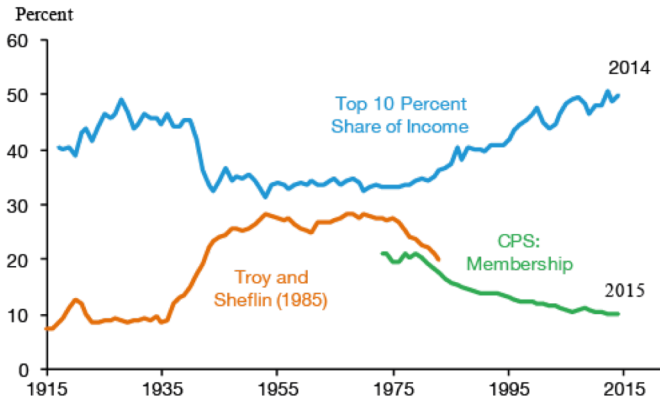
### Why?

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



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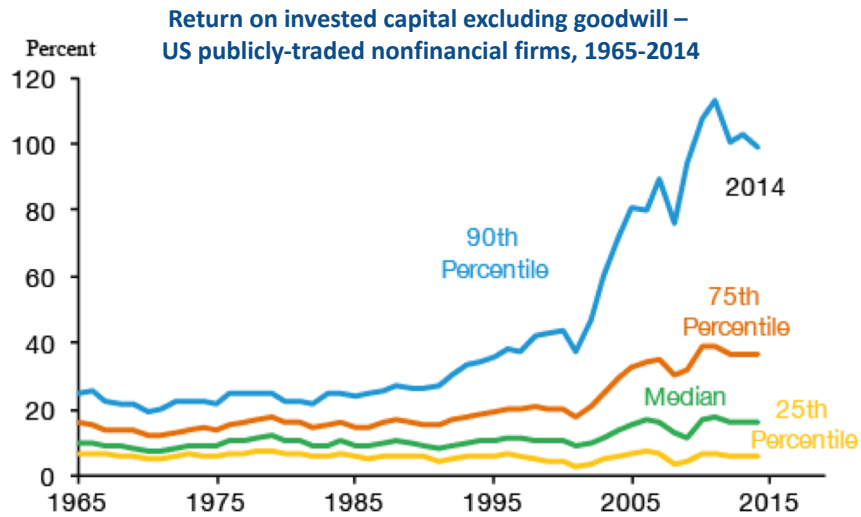
## Declining Unionization



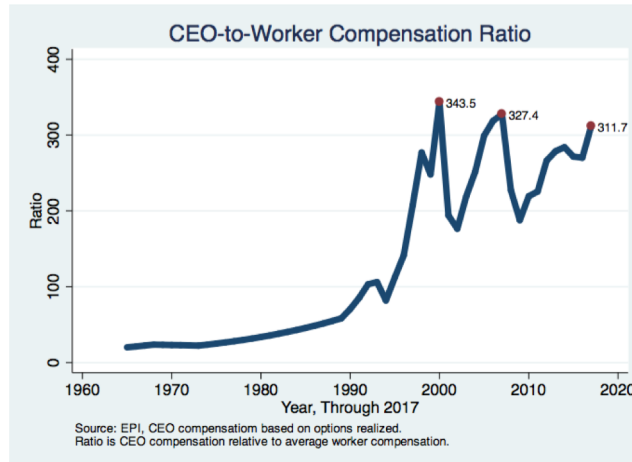
### Unionization Rates

- **1983:** 20.1%
- **2017:** 10.7%

## Competition in the Economy



## CEO Pay Has Been Growing Rapidly



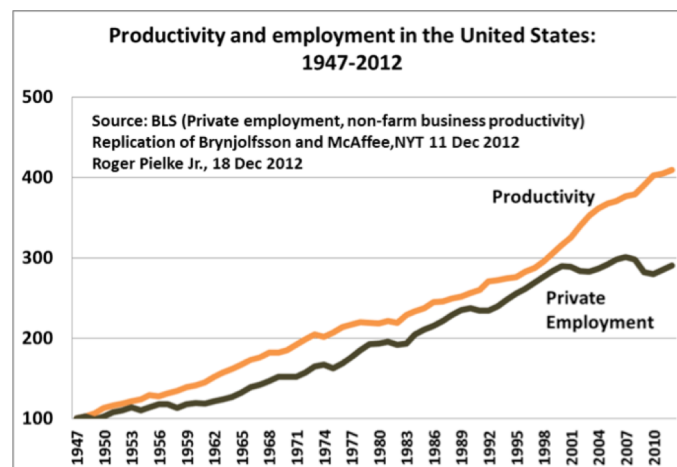
## Immigration and Inequality

- **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 potentially 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 Benefits Ownership over Labor

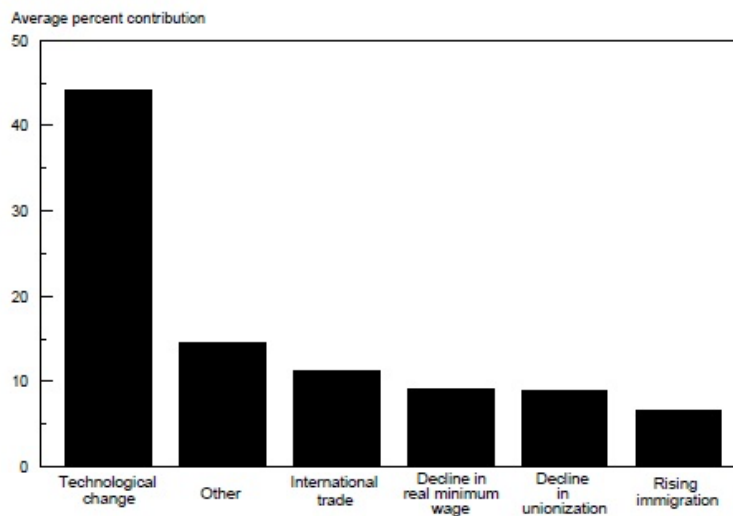


## Globalization

- **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



## Sources of Inequality Through Late 1990s



Source: Federal Reserve Bank of New York.



# Why Does Inequality Matter?

- **Too little inequality can:**

- Reduce individual motivation
- Slow economic growth

- **Too much inequality can:**

- Slow growth
- Reduce individual motivation

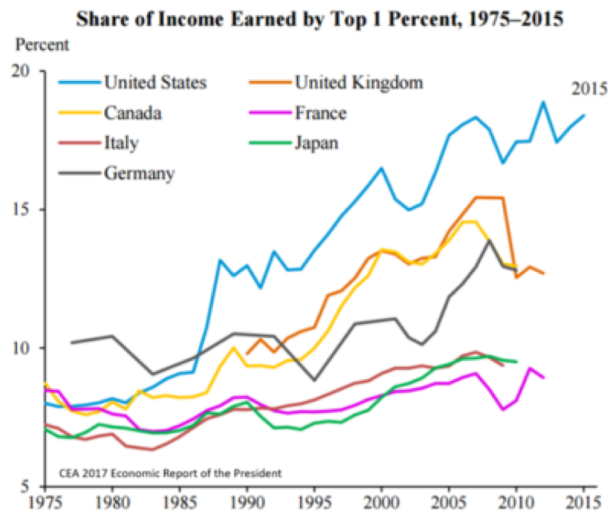
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- **Too much inequality may also:**

- 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?



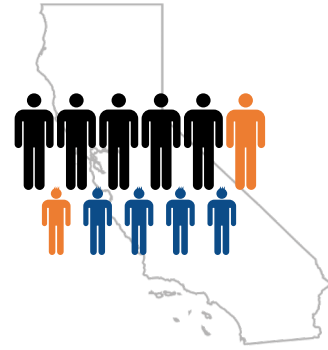
## Tension in Policy Solutions

- **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?



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