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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: 367 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: 42 Ph.D. Economists

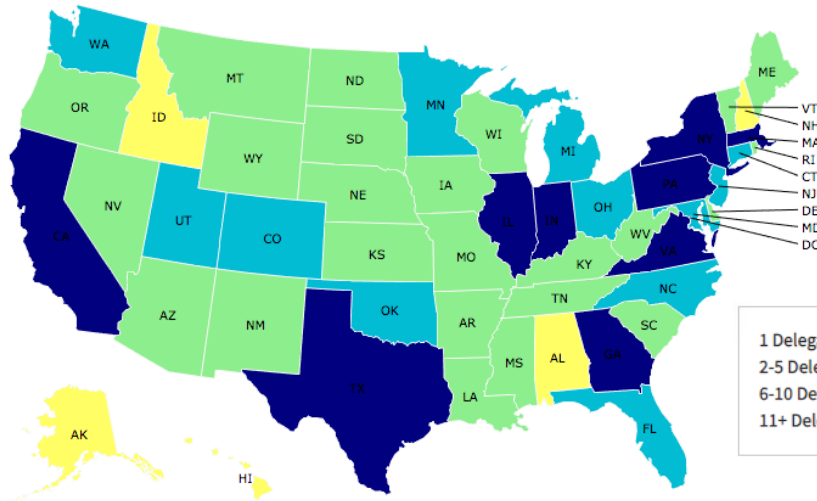
- Aid in slide deck development



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Where Are We?



1 Delegate - Yellow
 2-5 Delegates - Green
 6-10 Delegates - Light Blue
 11+ Delegates - Blue



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Credits and Disclaimer

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

- **Measurement of economic inequality**
- **Some facts: Inequality measures over time and across countries**
- **Why does it happen? Some key drivers of economic inequality**
- **Does it matter and is it a problem?**
- **What should/can be done about inequality?**



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Economic Inequality: income

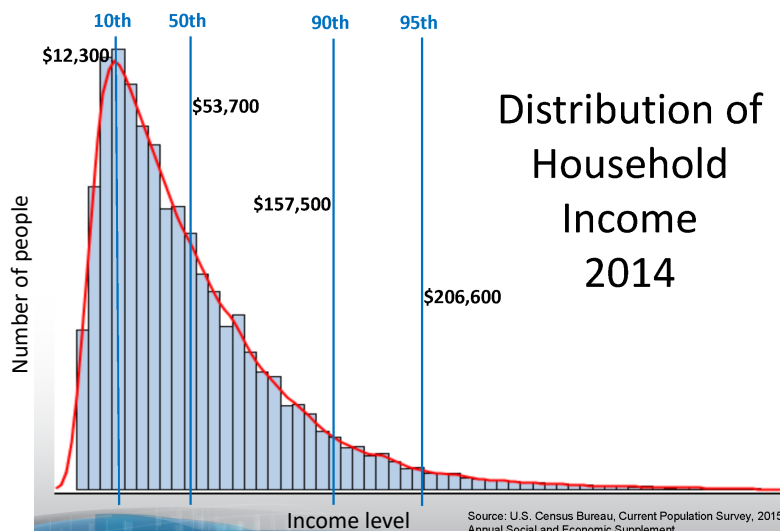
• **Definition:**

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



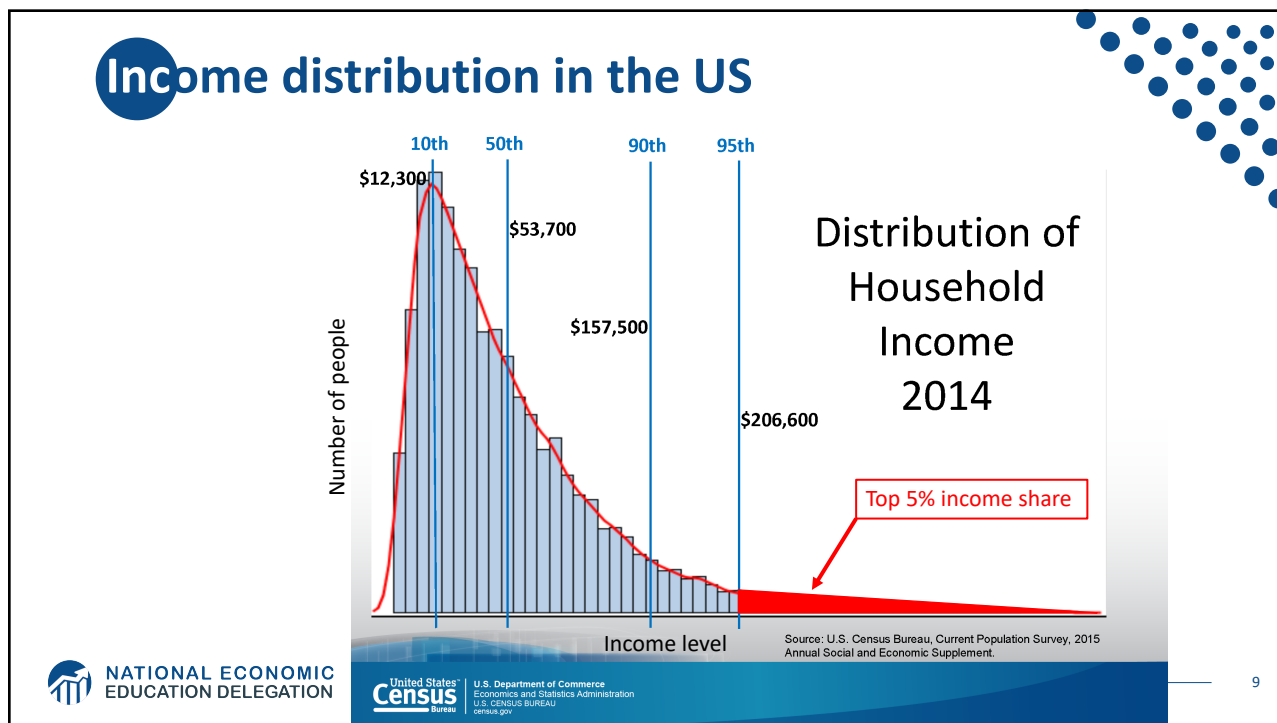
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Income distribution in the US

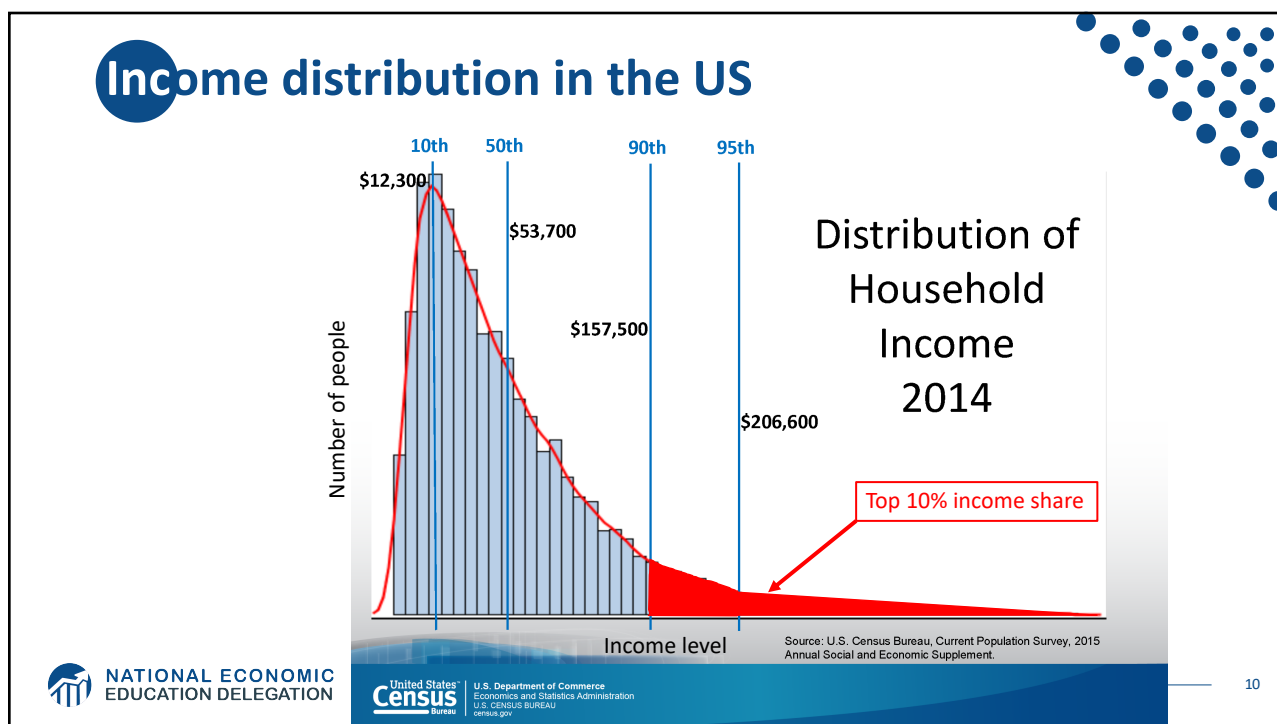


Source: U.S. Census Bureau, Current Population Survey, 2015 Annual Social and Economic Supplement.

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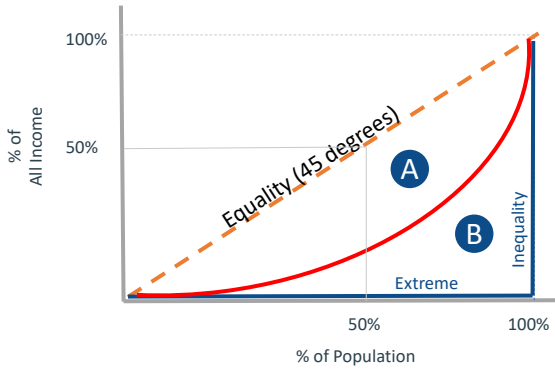


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A convenient summary of inequality: The Gini Coefficient

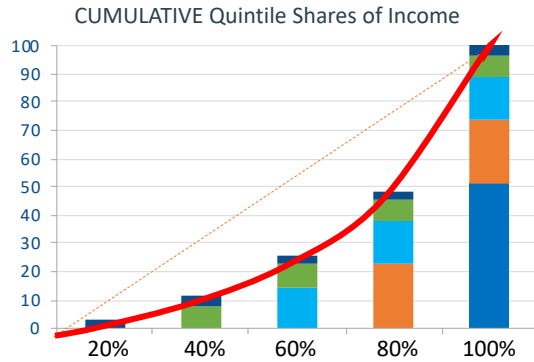
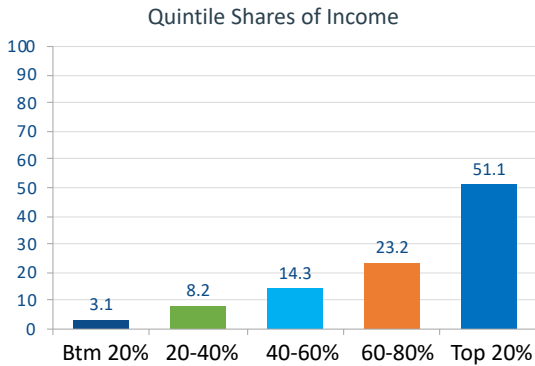


$$\text{Gini} = \frac{A}{A + B} \times 100$$

Bigger A: More inequality
Smaller A: Less inequality

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Forming the GINI Coefficient: 2015



Source: 2015 1-year American Community Survey, based on pre-tax household income.

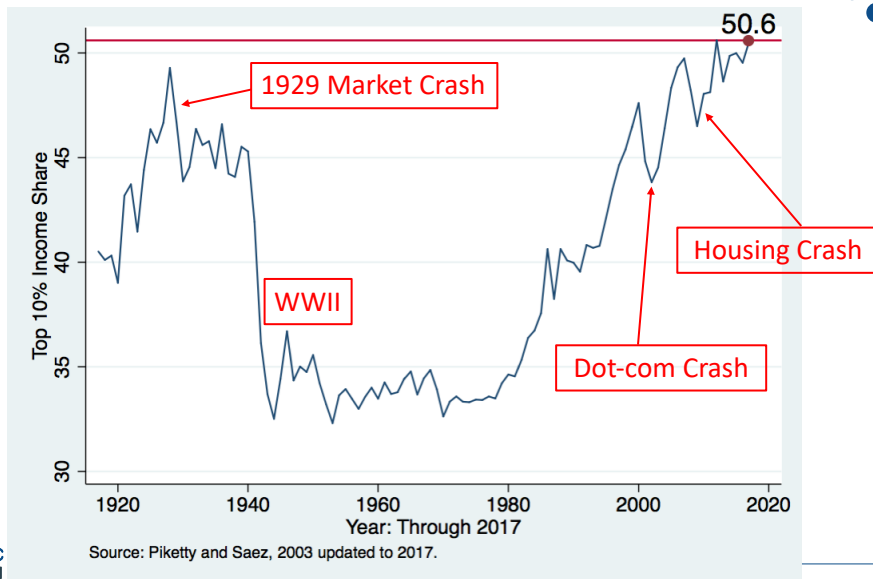
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Different Ways of Thinking About Inequality

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

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Income inequality over time: Share of Top 10%



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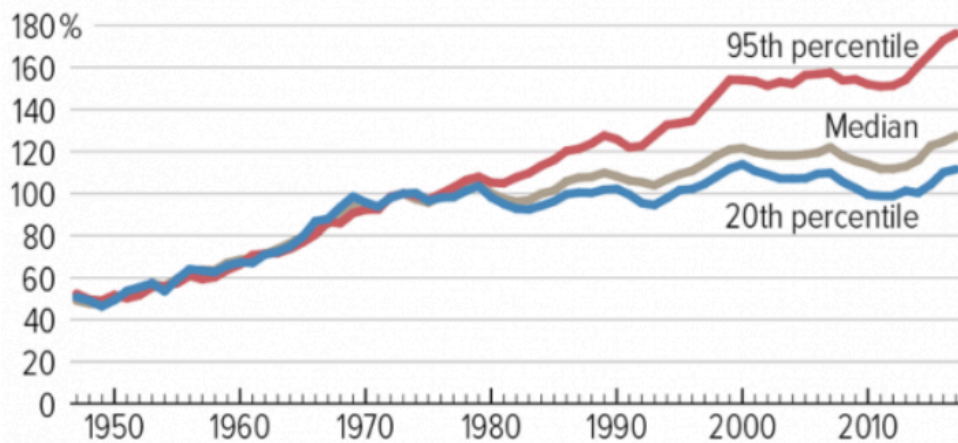
Recent Facts on Income Inequality

- **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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Rising income inequality

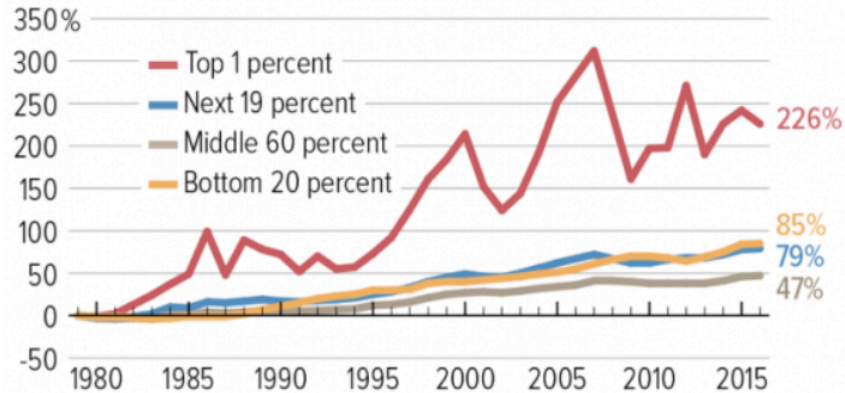
Real family income between 1947 and 2017, as a percentage of 1973 level



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Top incomes grow fastest

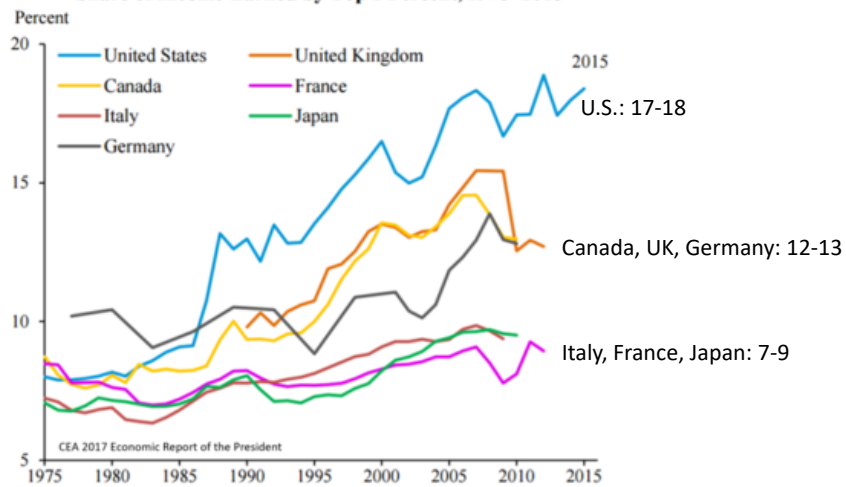
Percent change in income after transfers and taxes since 1979



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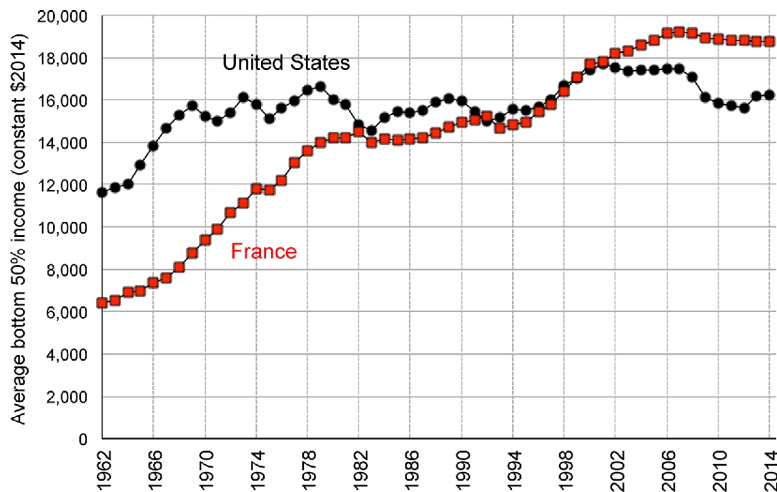
Top 1% income share trends by country

Share of Income Earned by Top 1 Percent, 1975–2015



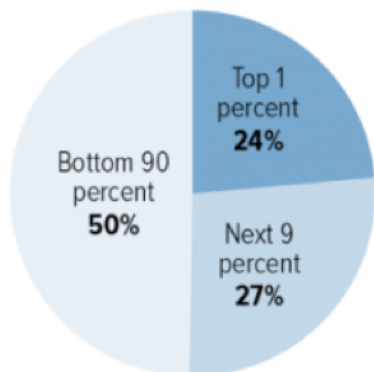
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Bottom 50% pre-tax income US vs France

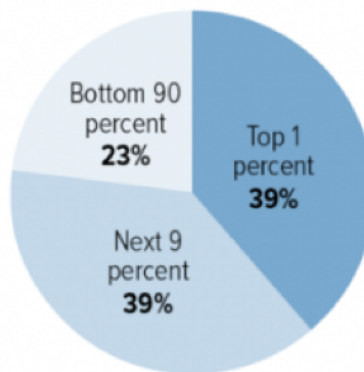


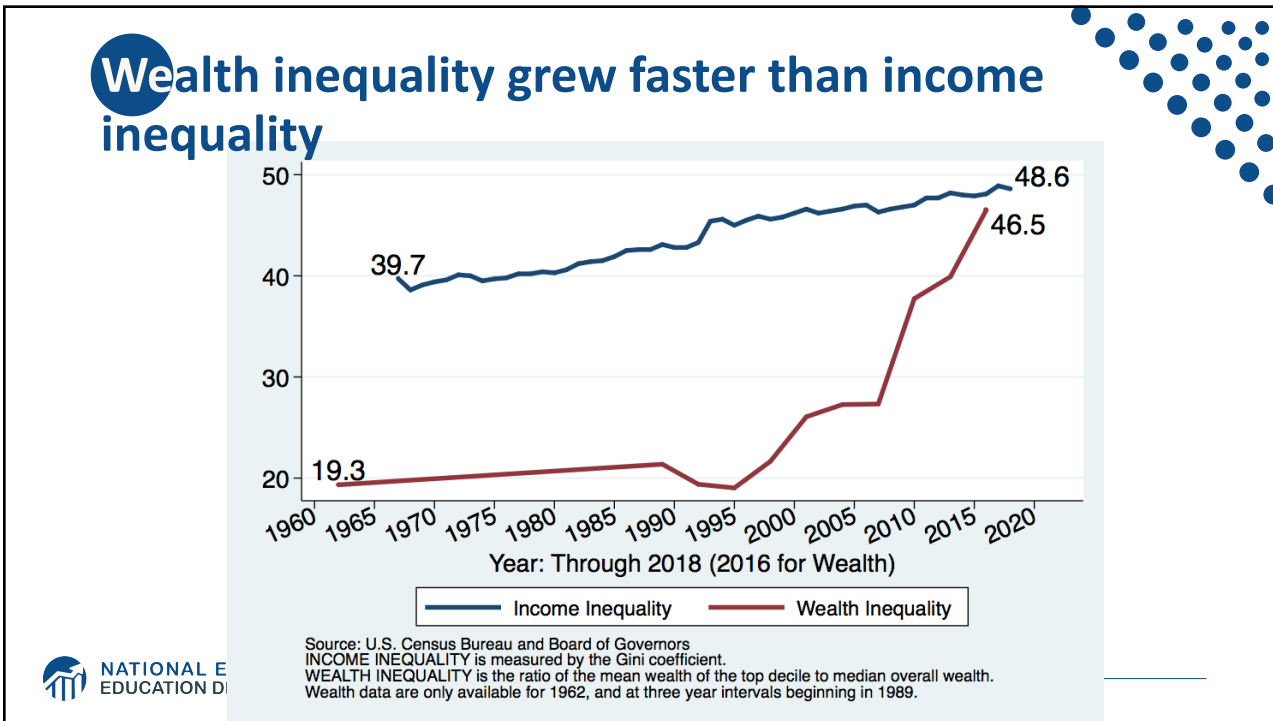
Wealth is distributed more unequally compared to income

Distribution of before-tax income, 2016

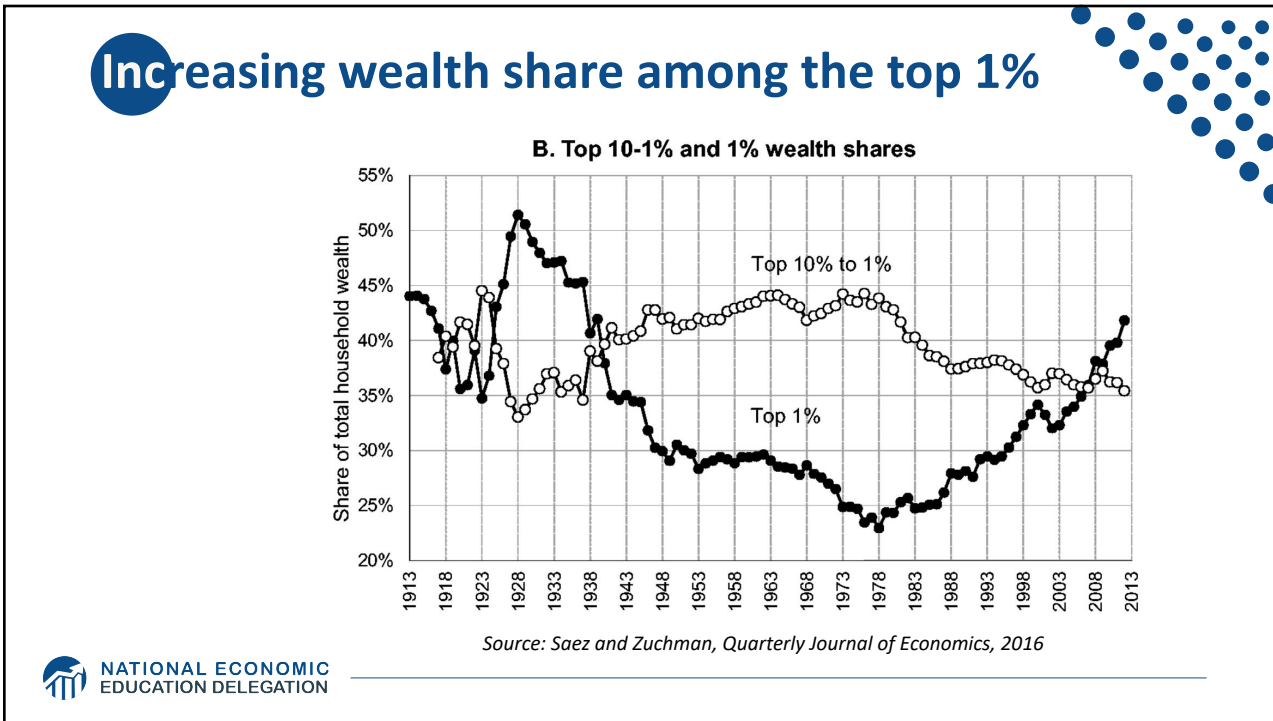


Distribution of wealth, 2016



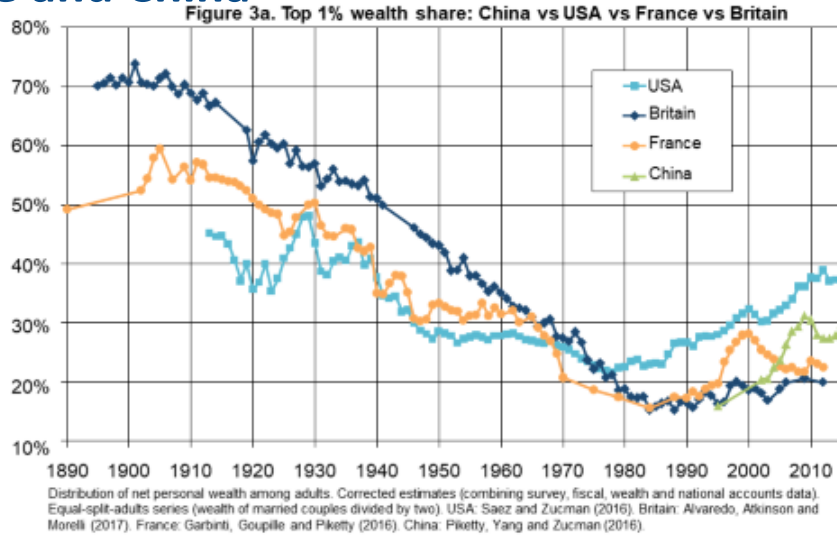


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Wealth share of the top 1%: US, UK, France and China



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Why might wealth be distributed more unequally compared to income?

Differences in saving behavior

- Wealthy households save a larger fraction of their income; thus, they accumulate more wealth

Differences in sources of income

- Wealthy households derive more income from capital rather than labor

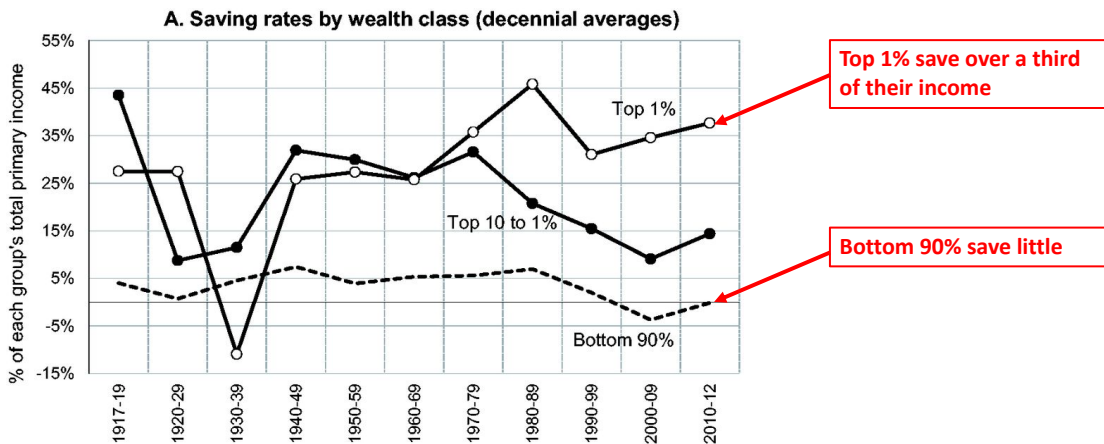


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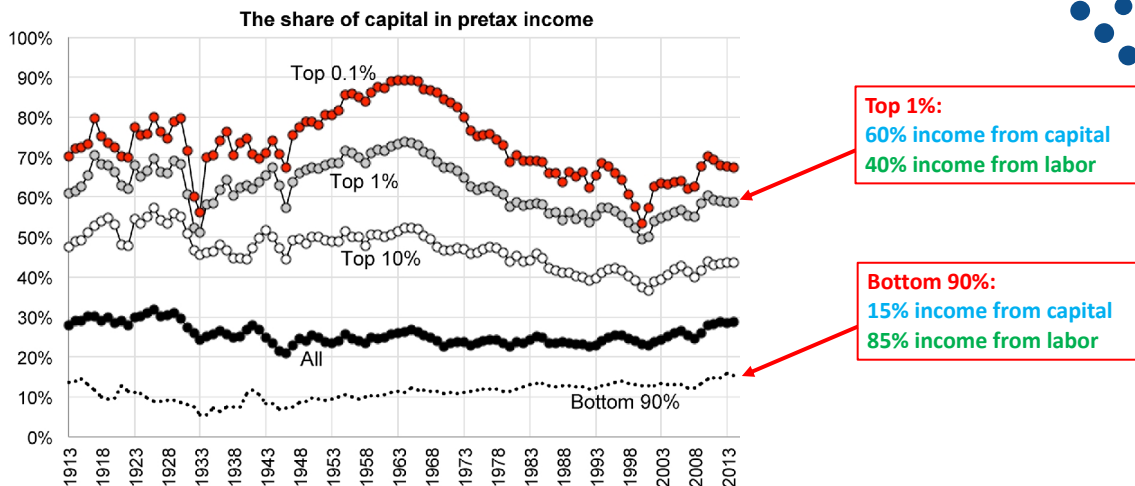
Saving rates by wealth group



Source: Saez and Zuchman, Quarterly Journal of Economics, 2016

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Income sources by income group



Source: Piketty et al., Quarterly Journal of Economics, 2018

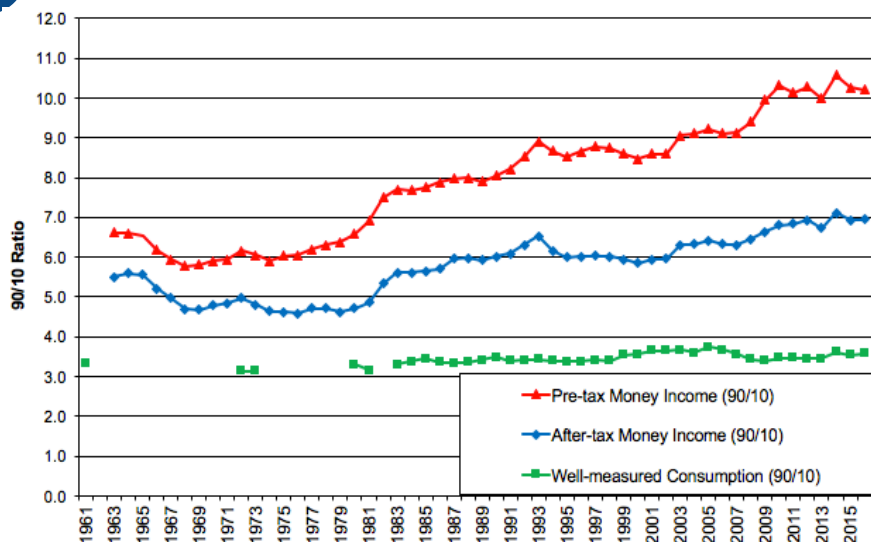
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Consumption Inequality

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

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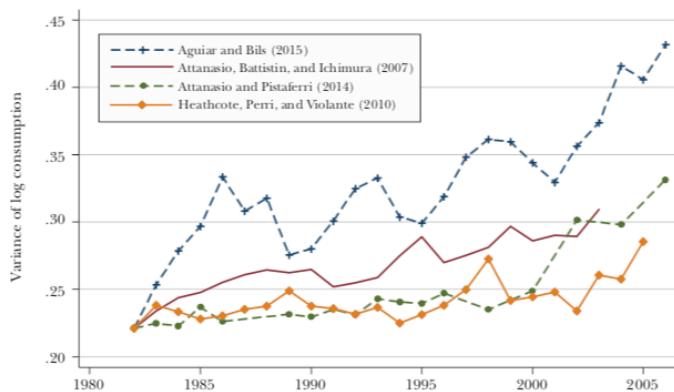
Consumption is more equal than income



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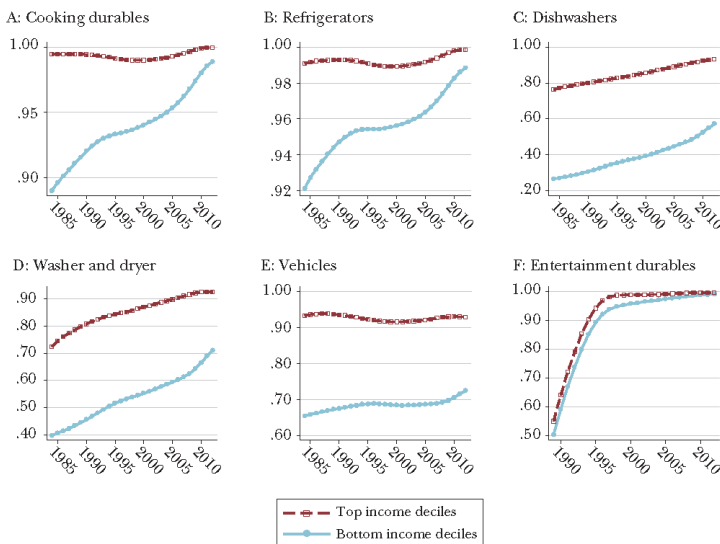
Growing Evidence: Consumption Inequality

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



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Durable good ownership is becoming more equal



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Where Does Inequality Come From?

- **Labor Characteristics**

- Population composition
 - o Aging
 - o Immigration
- Personal Choices
 - o Educational attainment
 - o Effort
 - o Priorities
 - o Household composition

- **Market Forces**

- Technological change
- Job polarization
- Globalization

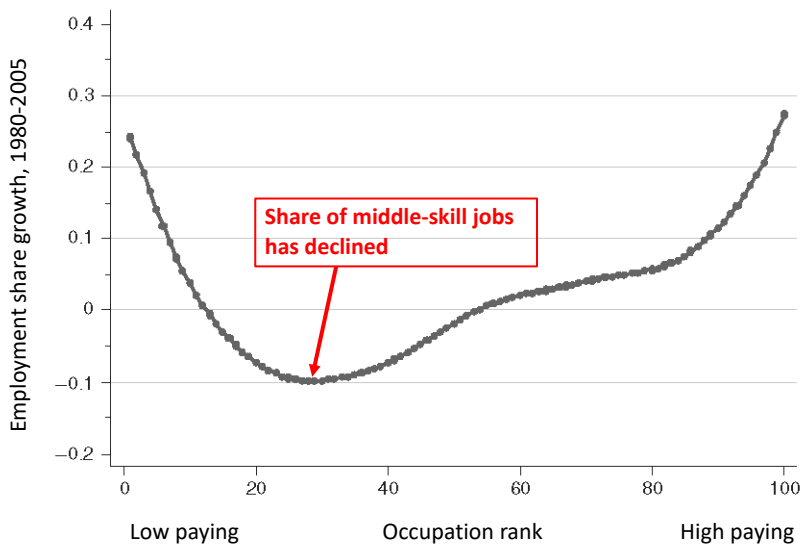
- **Government Policy**

- Regulation
- Taxation and redistribution of income



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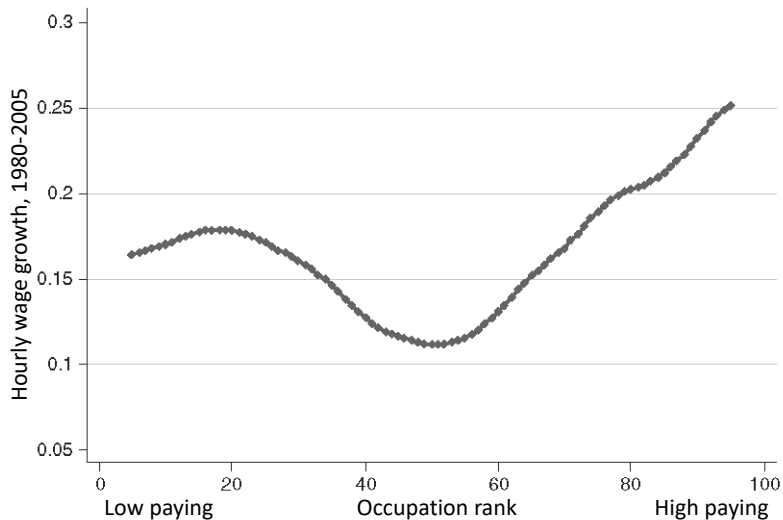
Job polarization: decline of middle-skill occupations



Source: Autor and Dorn, 2013

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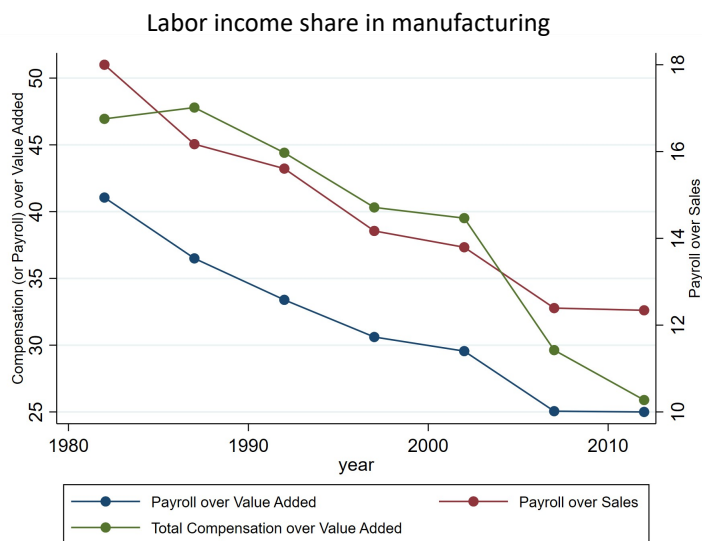
Job polarization: tepid wage growth in the middle



Source: Autor and Dorn, 2013

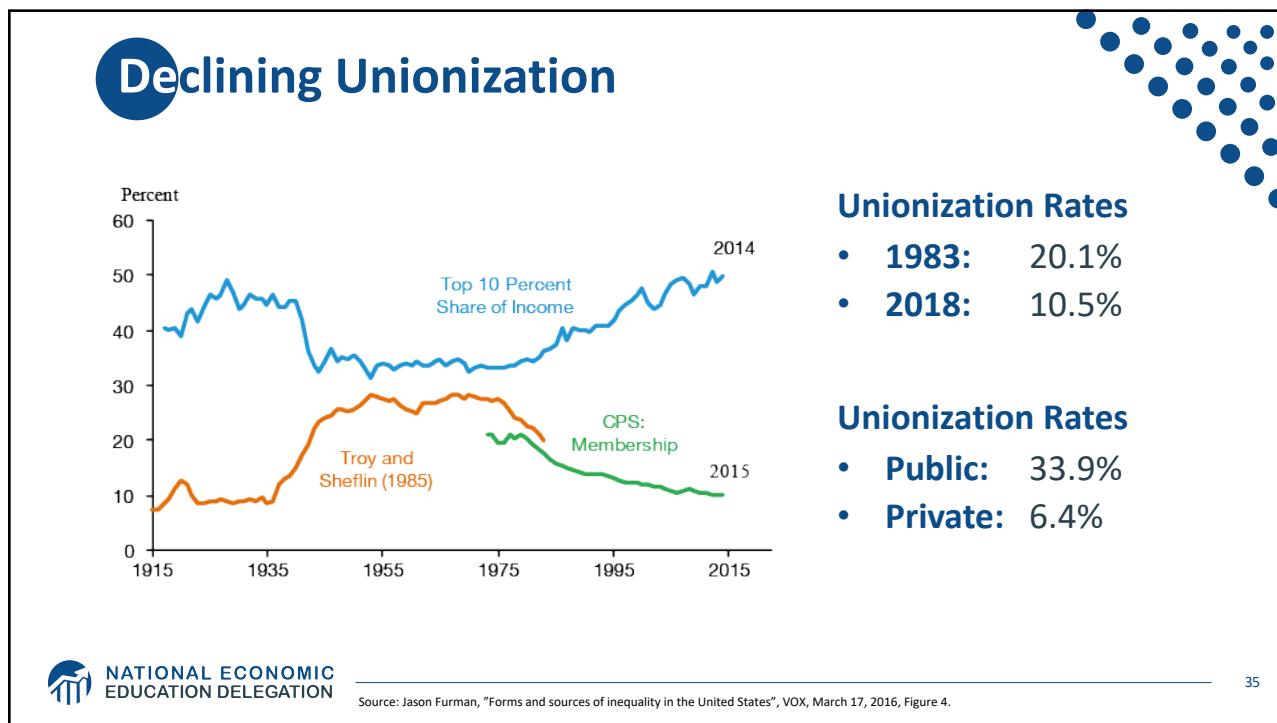
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Share of income paid to labor has been falling

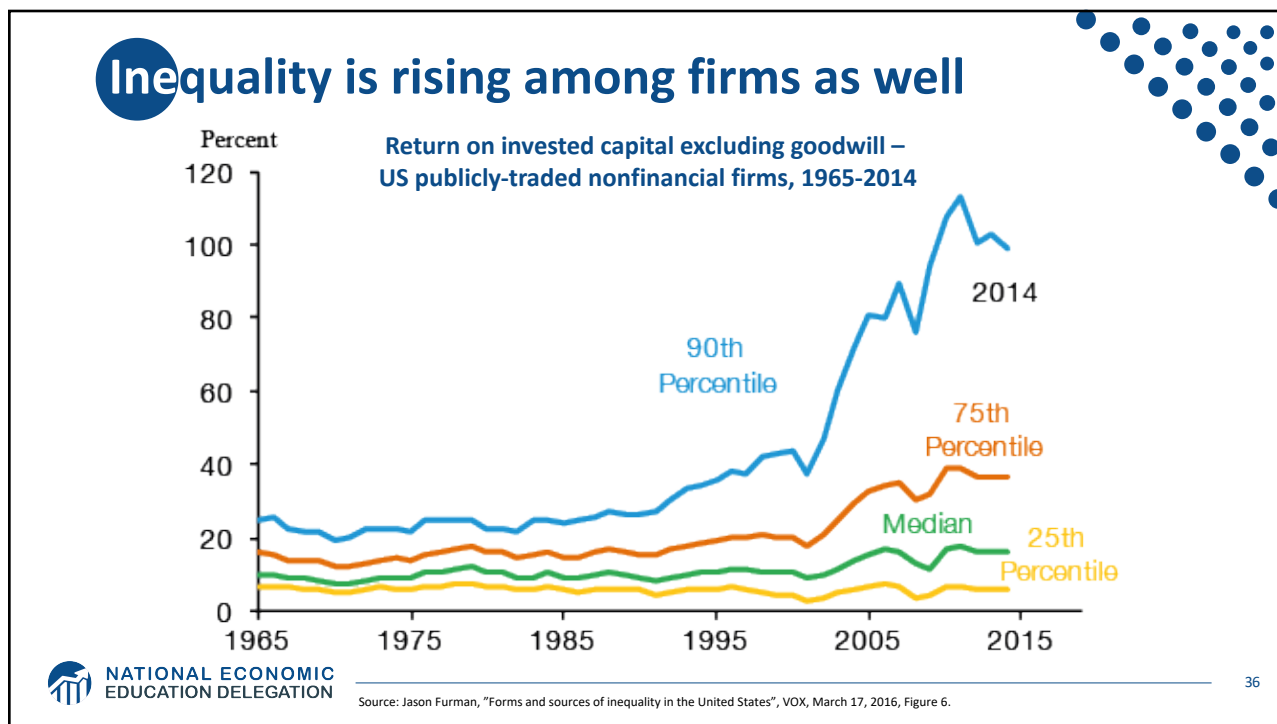


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Technological Change and Inequality

- **Much of the technology adopted in the last 30 years has eliminated middle-skill jobs.**
 - Computers, advanced manufacturing equipment, 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 of assets and intellectual property over workers

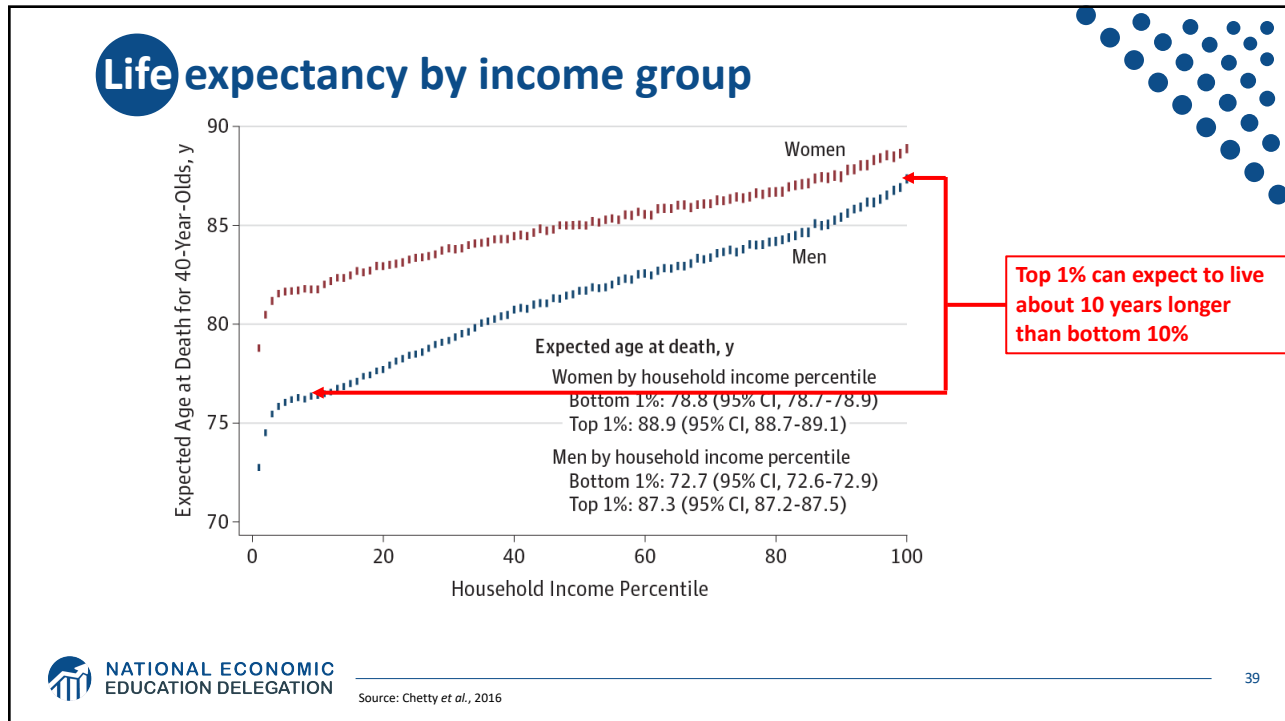


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Why does economic inequality matter?



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Pay grade and health: the Whitehall Study

- More than 6000 British civil servants were followed for over a decade
- All have identical access to health care
- No differences in “long-standing illness” prevalence by pay grade

Compared to the highest pay grade, the lowest pay grade executives are:

- About 2X as likely to have symptoms of depression
- 3X as likely to be smokers
- Have significantly higher BMI and blood pressure

- Problematic alcohol consumption is associated with *higher* pay grade

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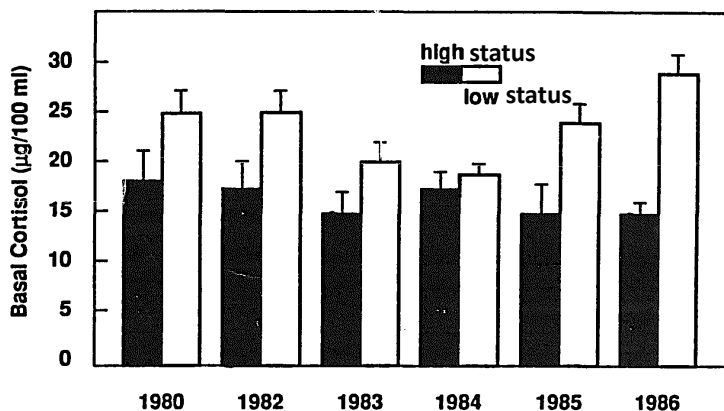
Source: Chetty et al., 2016

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Inequality and toxic stress

Differences in stress hormone levels between high-status and low-status baboons



Source: Sapolsky (*Biol. Psychiatry*, 1990)



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Inequality and lack of social cohesion

“For the poor, **more inequality means more anger** at what they don’t have and more cognitive load from the worry about how to keep up. For the wealthy, it’s **more fear** about the menace of the have-nots and more effort put into walling themselves off from them. **For everyone, there’s less social support** - by definition, the more widely-spread and unequal a hierarchy, the fewer peers one has, and true social support requires the symmetry of peers.”

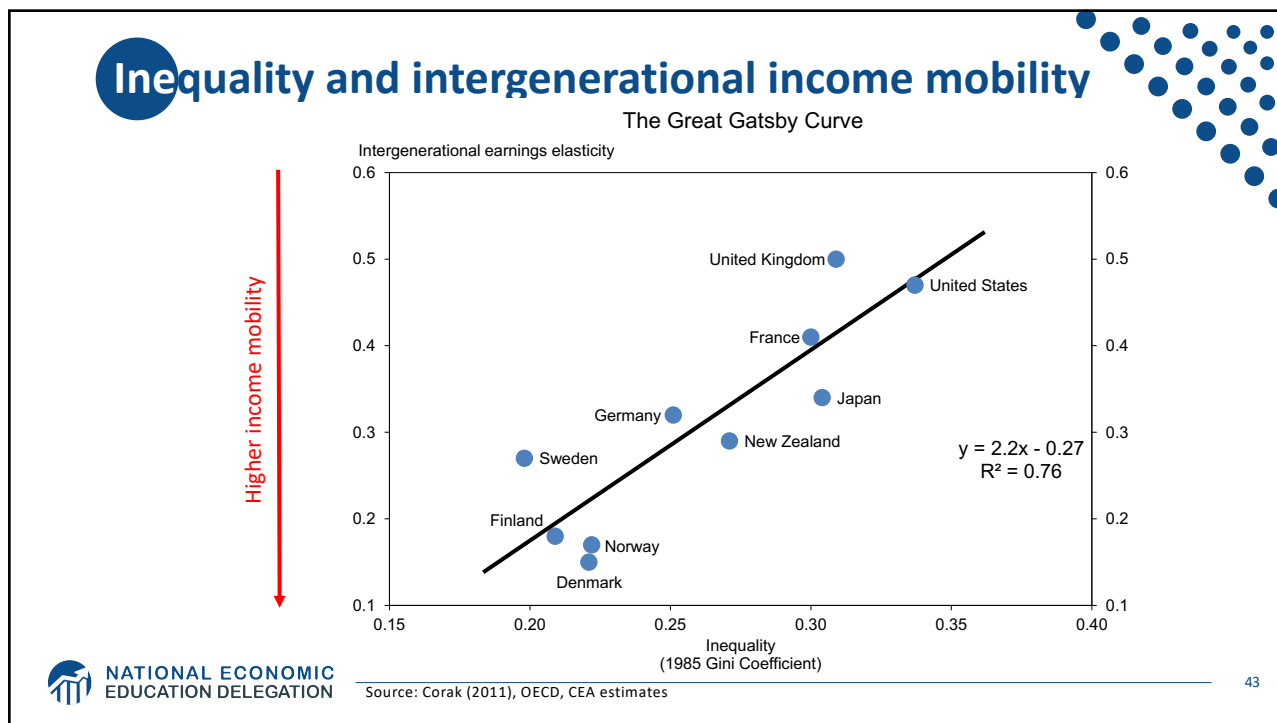
*Robert Sapolsky, Professor of Biology and Neurology,
Stanford University*



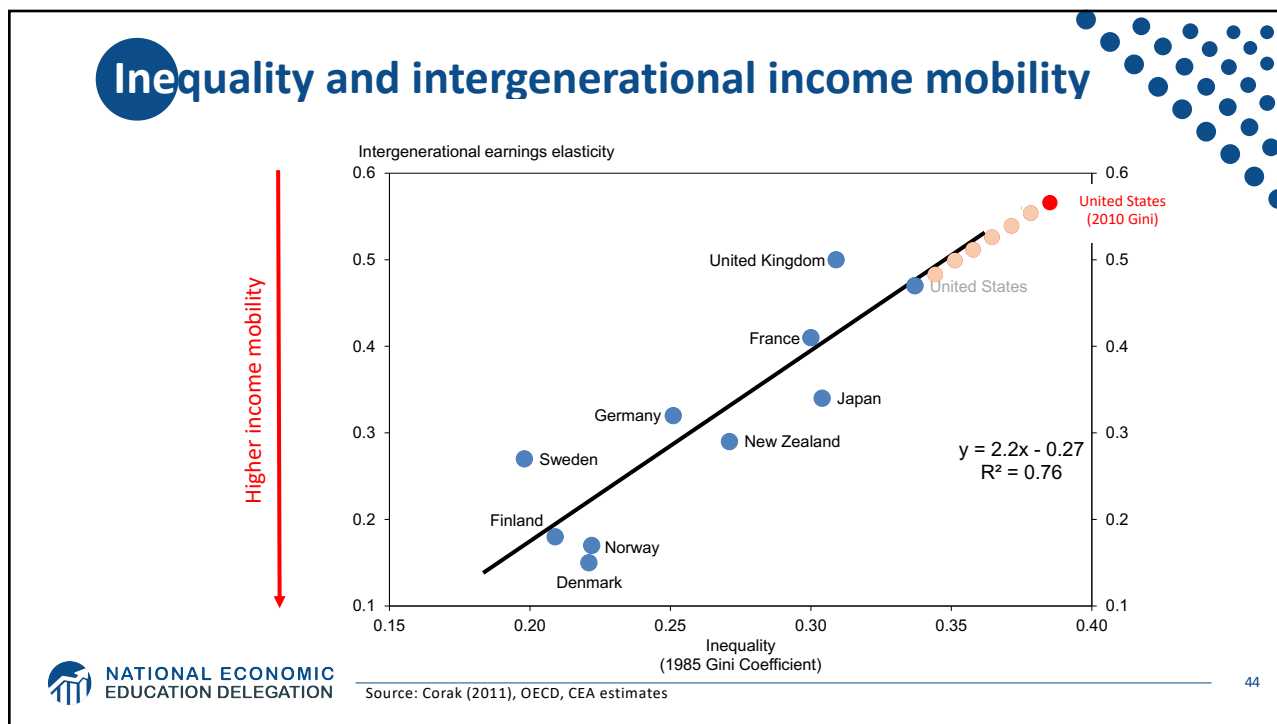
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What can/should be done about inequality?



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Government Policy tools

• Market Influence: PRE-distribution

- Characteristics of labor
 - Access to education
- Effects on labor demand
 - Market regulation
 - Antitrust policy
 - Intellectual property policy
 - Labor regulations
 - Minimum wage, overtime, health insurance, etc.
 - Occupational licensing

• RE-distribution

- Tax system
- Transfers
 - Direct aid
 - Food stamps
 - Medicaid



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Addressing Inequality: Long Term

- **Focus on education**

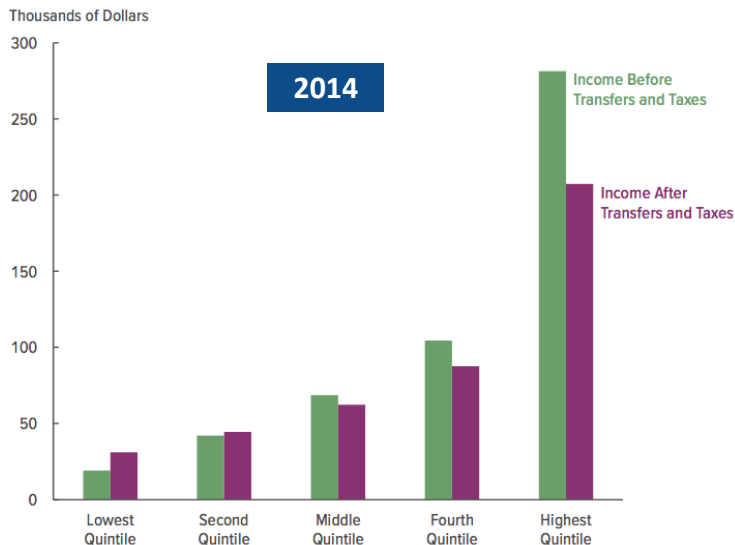
- Public education, in particular
 - o Reduce disparities in quality of public education
 - o Improve counseling in low-income schools
 - With respect to college – paths to success and funding
- Investments are needed in early education, not later
 - o Universal pre-K
 - o Upgrade quality of elementary schools in low-income areas

- **Focus on childhood poverty**

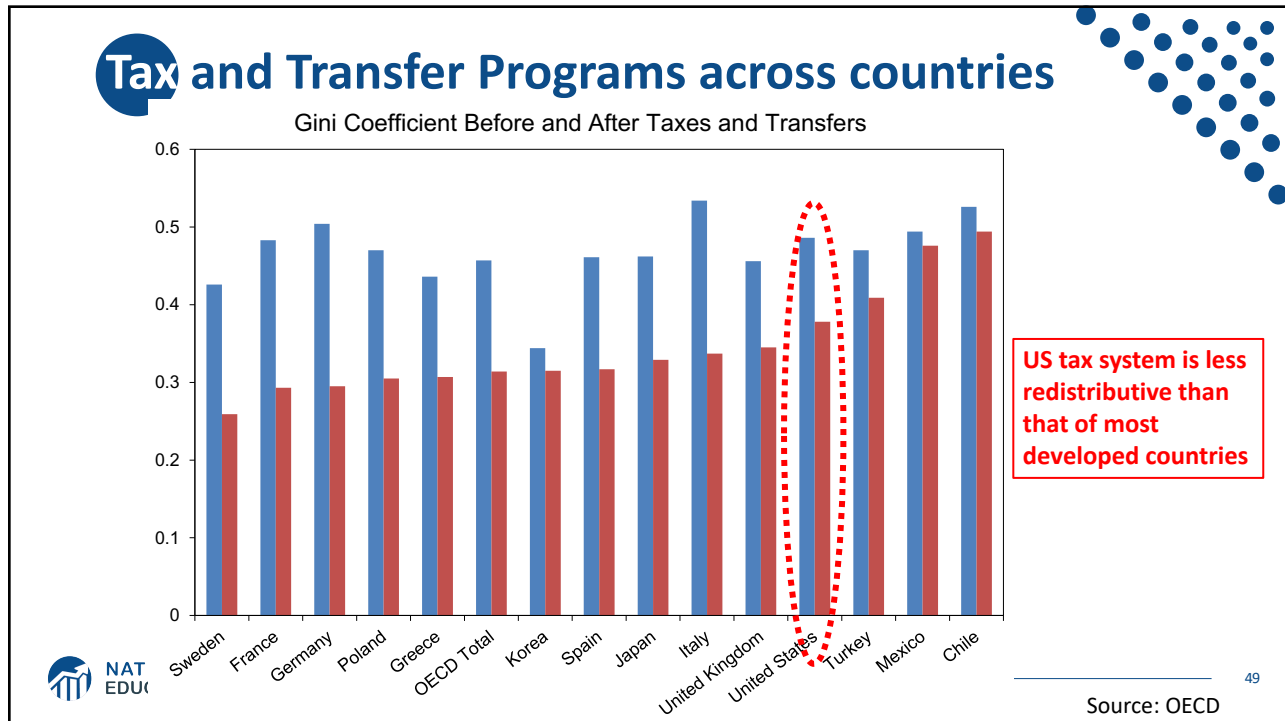
- o Childhood poverty was shown to have long-lasting adverse effects



Tax and Transfer Programs and Inequality



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.



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What to do About Inequality?

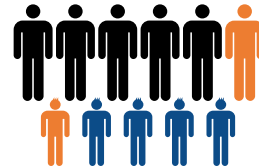
- Nothing?
- Redistribution?
- PRE-distribution?
- Early access to resources?

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Summary

- **Income inequality is clearly increasing.**
 - The economy is favoring owners of assets and intellectual property over labor.
- **The causes appear to be largely driven by:**
 - The market – technology, competition, and trade
 - Changing institutions/regulation.
- **Open questions are:**
 - To act or not to act?
 - If so, how?
- **The level of inequality is a policy choice.**



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Thank you!

Any Questions?

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