



NATIONAL ECONOMIC
EDUCATION DELEGATION

Inequality

University High School, Irvine

October 23

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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 - Timothy Smeeding, University of Wisconsin
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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



Different Ways of Thinking About Inequality



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

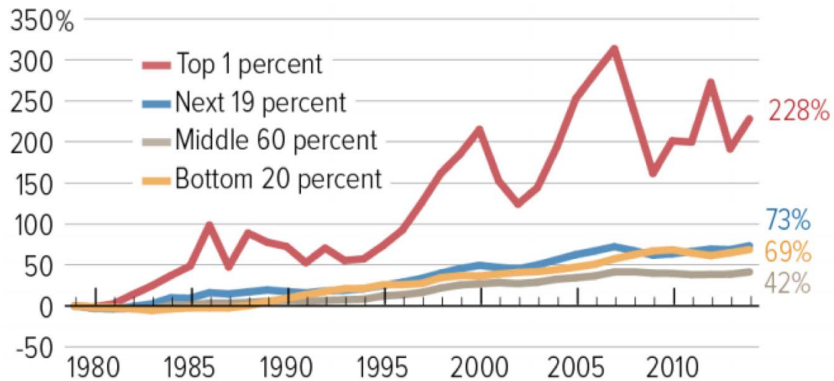
National Income Inequality: Share of Top 10%



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

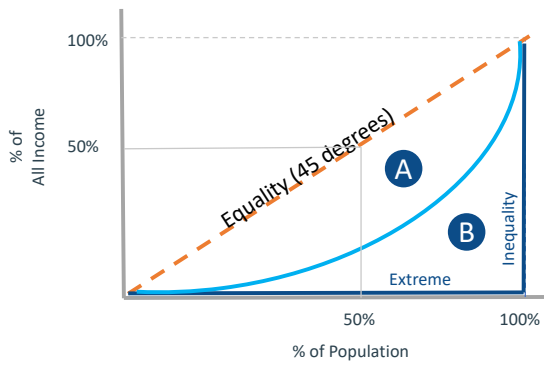
Most of the Action Is at the Very Top

Percent change in income after transfers and taxes since 1979



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 11.

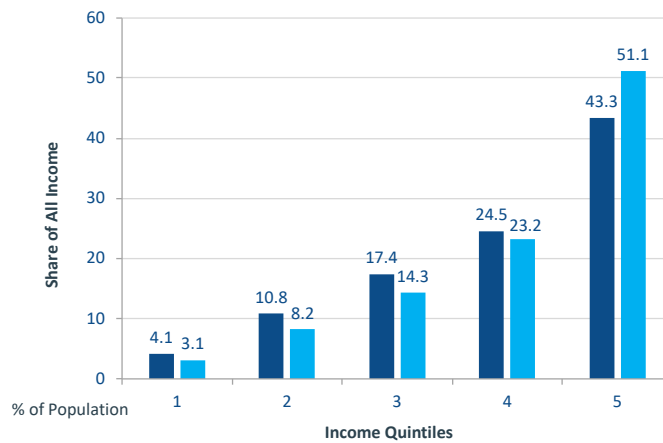
The Gini Coefficient



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

Bigger A: More inequality
Smaller A: Less inequality

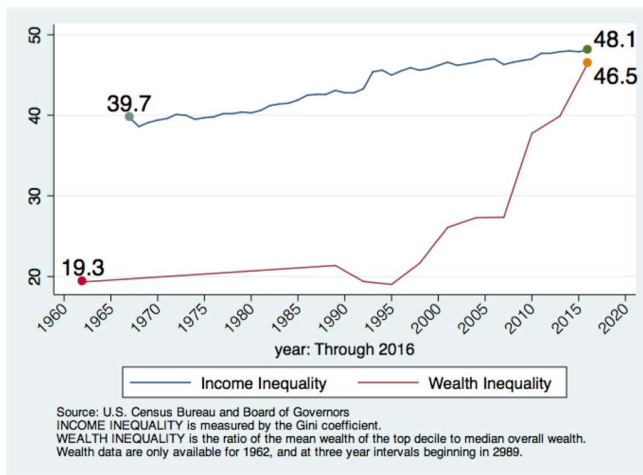
Income Share Changes Between 1970 and 2015



1970: Dark Blue

2015: Light Blue

Income and Wealth Inequality

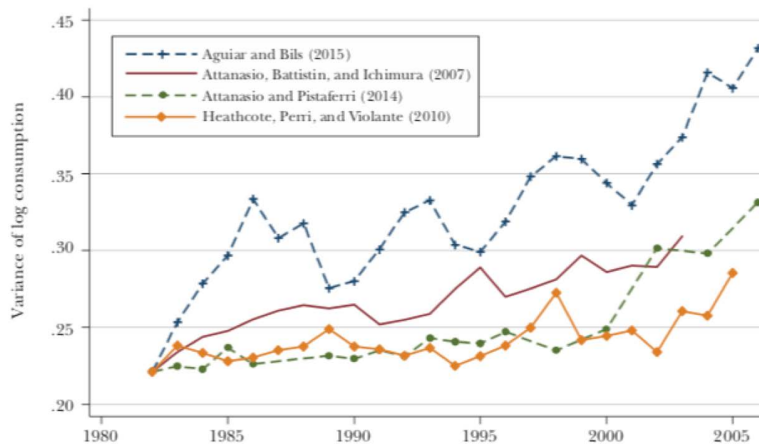


A hird Measure of Inequality: Consumption

- 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



Where Does Inequality Come From?

• Labor Characteristics

- Demographics
 - o Age distribution
- Individual Differences
 - o Ability/Talent
 - o Educational attainment
 - o Effort
 - o Priorities
 - o Household composition
- Immigration

• Market Forces

- Technology
- Changing demand patterns
- Competition for labor
- Unionization
- Market concentration

• Government Policy

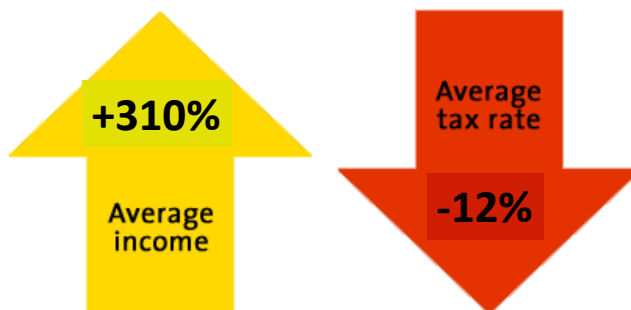
- Market influence
- Redistribution

What About Tax Rates?

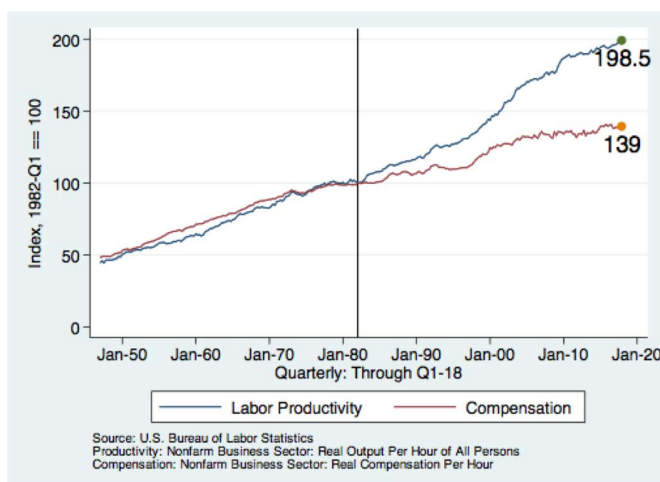


400 TAXPAYERS WITH HIGHEST INCOMES

1992-2014



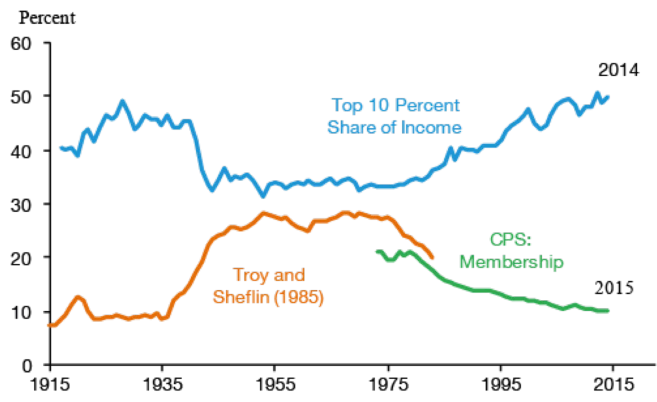
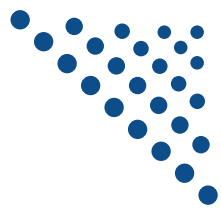
Labor Income is Unhinged from Productivity



Why?

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

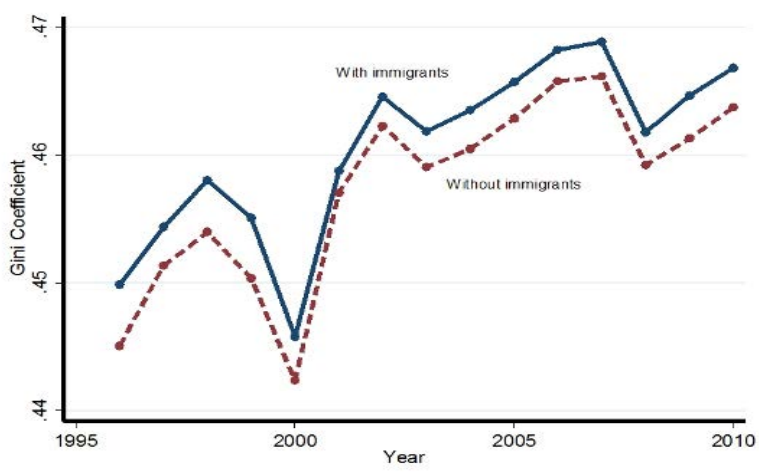
Declining Unionization



Unionization Rates

- 1983: 20.1%
- 2017: 10.7%

Immigration and Inequality

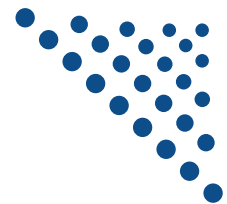


Immigration and Inequality- Summary



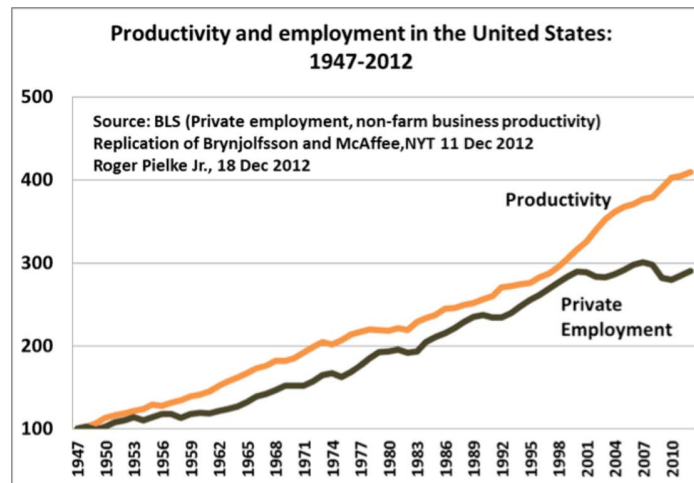
- **Beginning in about 1970, the immigrant share of the U.S. Population increased dramatically.**
 - 5% in 1970 and 14% in 2016
- **Immigration tends to happen most often among:**
 - Low-skilled low-wage workers
 - High-skilled high-wage workers
- **Immigration has likely increased income inequality.**
- **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 potentially favors a small group of individuals (example: Uber).
- **Both aspects increase inequality by increasing the rewards to:**
 - Those with significant labor market skills
 - Owners over workers

Technology Benefits Ownership over Labor



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
 - o Should lower the wages of unskilled relative to skilled, making the distribution of income less equal

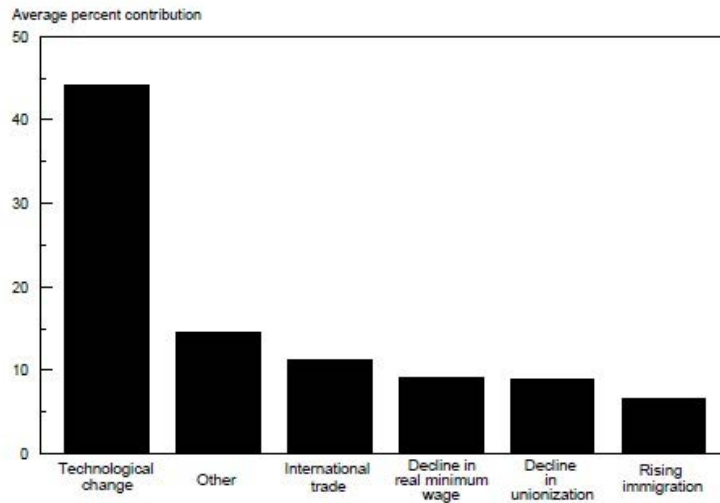
- **Outsourcing**

- Similar channel as with merchandise trade

- **Trade in services**

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

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:**

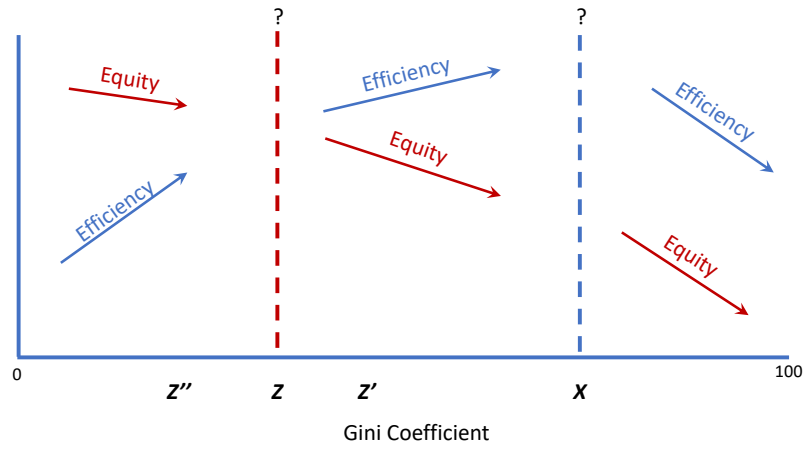
- Slow growth
- Reduce individual motivation

- **Too much inequality may also:**

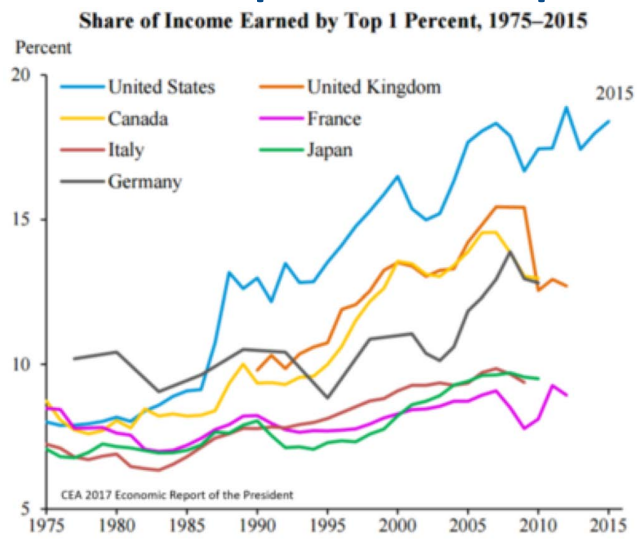
- Divide society
- Distort political environment
- Reduce political participation
- Reduce investments in public goods
 - o Education
 - o Environmental protections



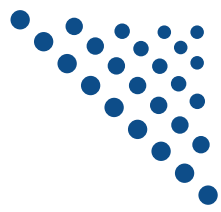
How Much Inequality Is too Much?



An International Perspective: Comparables



Addressing Inequality: Is It A Problem?



- **Why it might be a problem.**
 - Economic issues (Efficiency)
 - There is evidence that at some level, increased inequality slows economic growth.
 - Or, inequality concentrates resources among investors.
 - Noneconomic issues (Equity)
 - Values, ethics and morals will drive individual evaluations of the level of inequality.
 - E.g., inequality is primarily a function of market outcomes, so should be left alone.
 - Or, a solid middle class is important for maintaining a civil society, which runs contrary to a high degree of inequality.
- **Suppose you think it's a problem. How might it be addressed?**

Addressing Inequality: Immediately Available Policy Solutions (1/2)



- **Redistribution**
 - Tax and transfer programs
- **PRE-distribution**
 - Strengthen labor unions
 - Minimum wages
 - Collective bargaining
 - Other policies that favor labor over business owners



Addressing Inequality: Long Term



- **It's all about access to resources:**

- Education, in particular
 - o Improve public education
 - 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



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Summary



- **Income inequality is clearly increasing.**

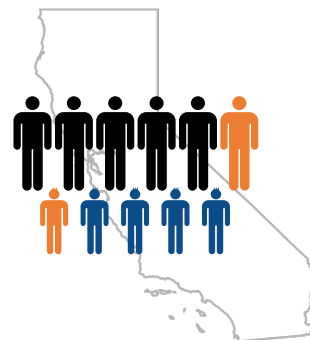
- The economy is clearly favoring owners of productive resources over labor.

- **The causes appear to be largely driven by:**

- The market – technology, trade, and competition
- Changing institutions

- **Open questions are:**

- To act or not to act?
- If so, how?



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