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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

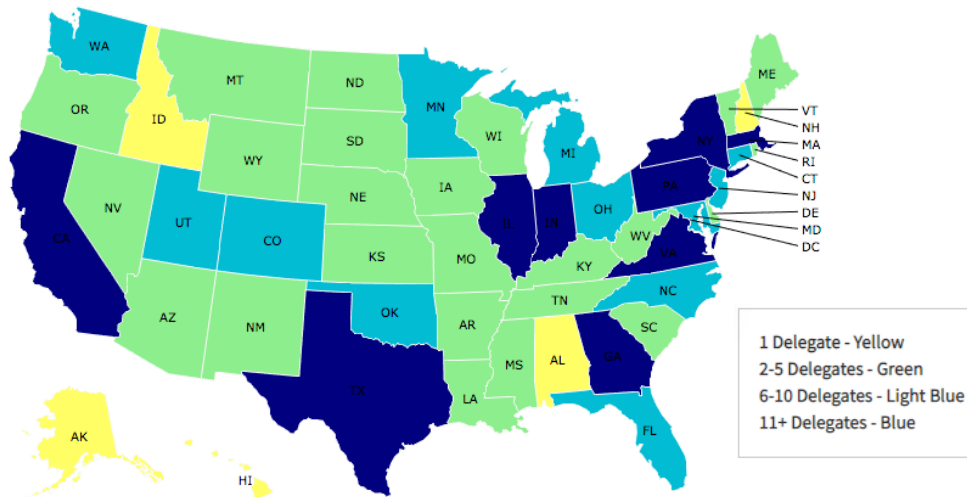
- **Global Partners: 42 Ph.D. Economists**

- Aid in slide deck development



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Where Are We?



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Credits and Disclaimer

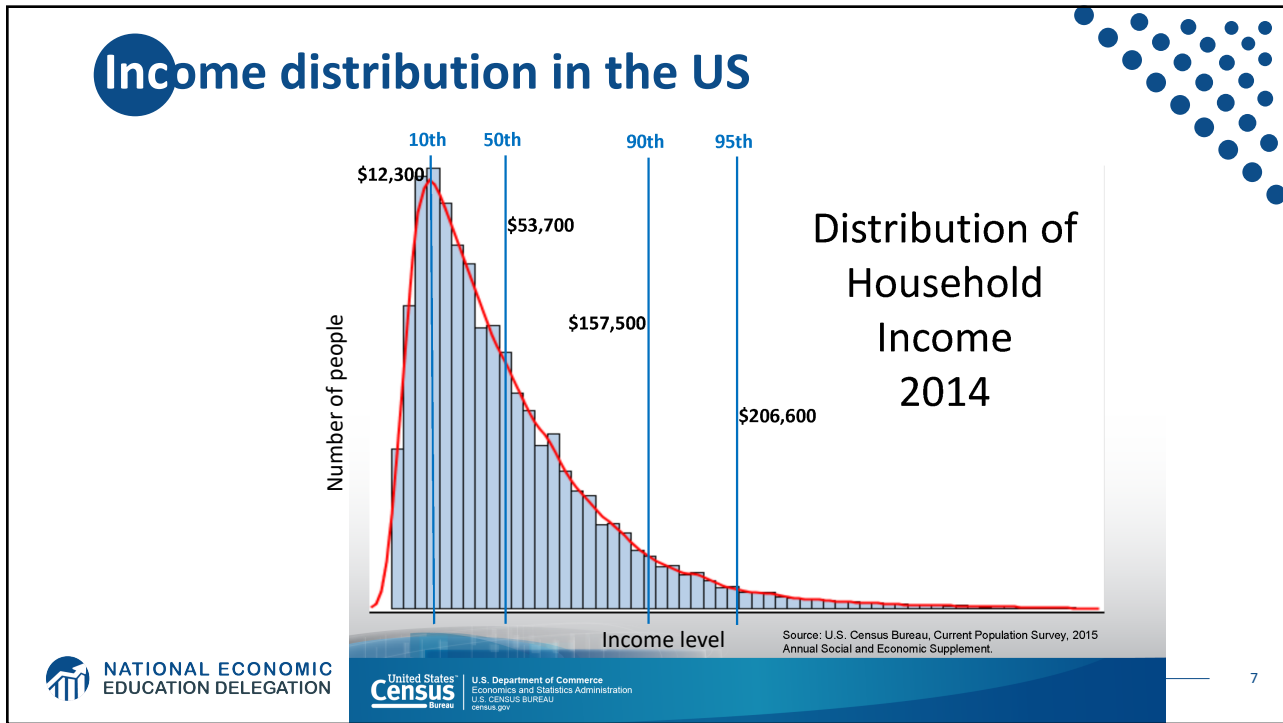
- **This slide deck was authored by:**
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 - Timothy Smeeding, University of Wisconsin
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- **Disclaimer**
 - NEED presentations are designed to be nonpartisan
 - It is, however, inevitable that the presenter 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)

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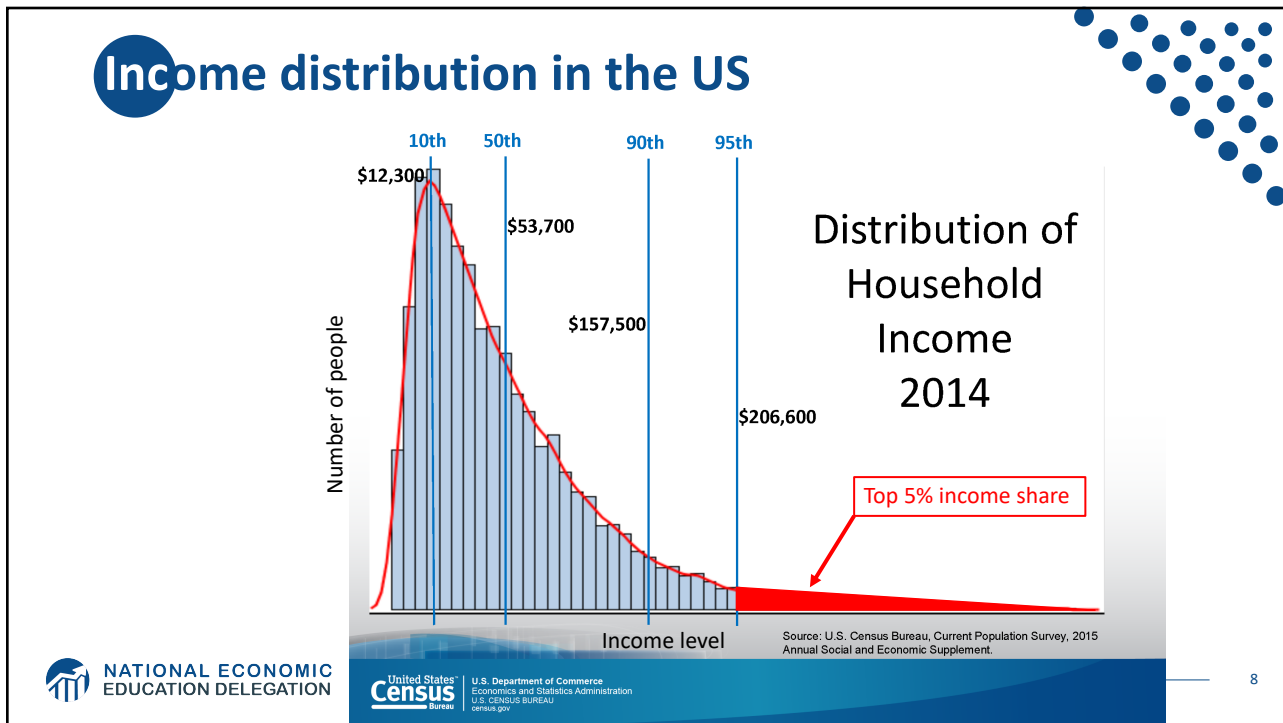
Outline

- **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?**

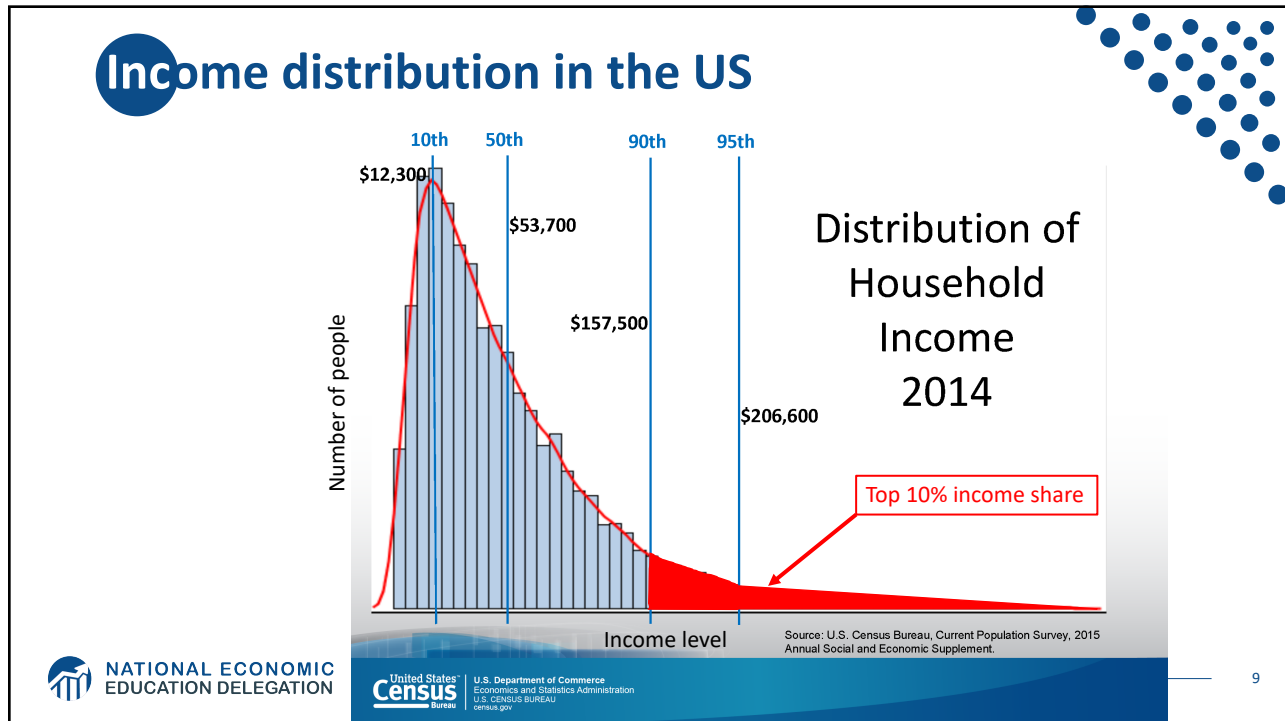
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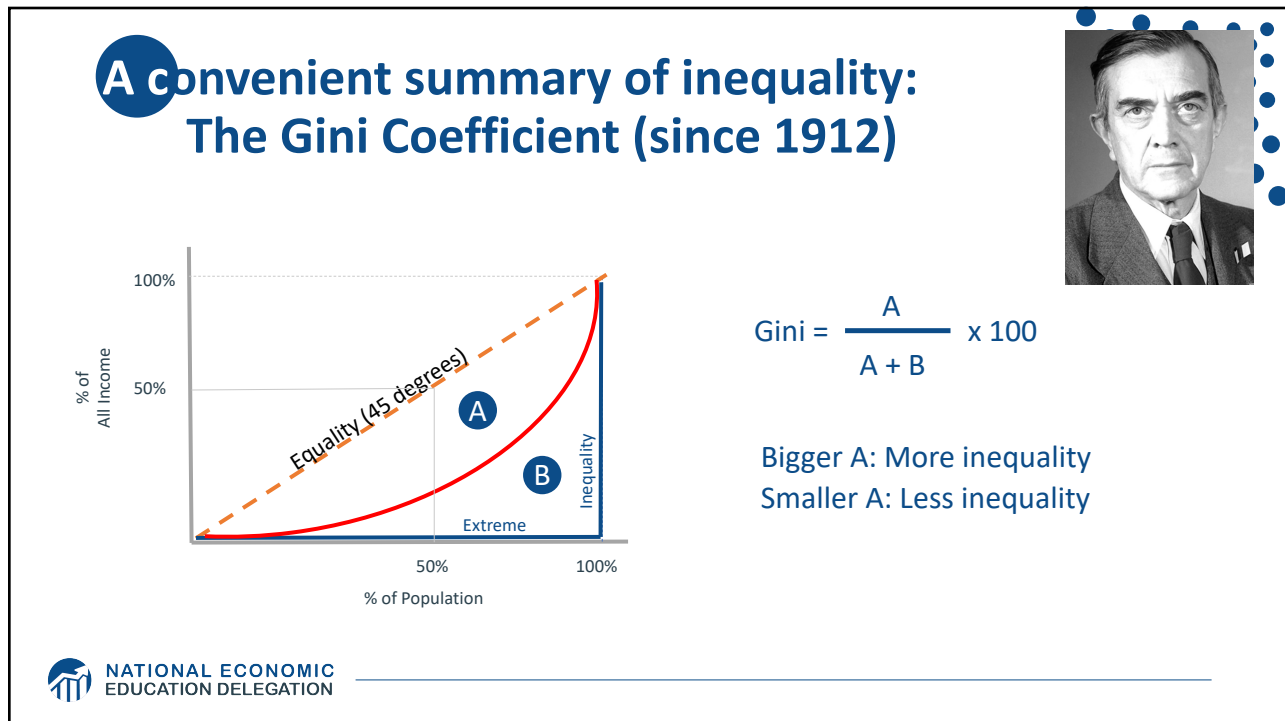
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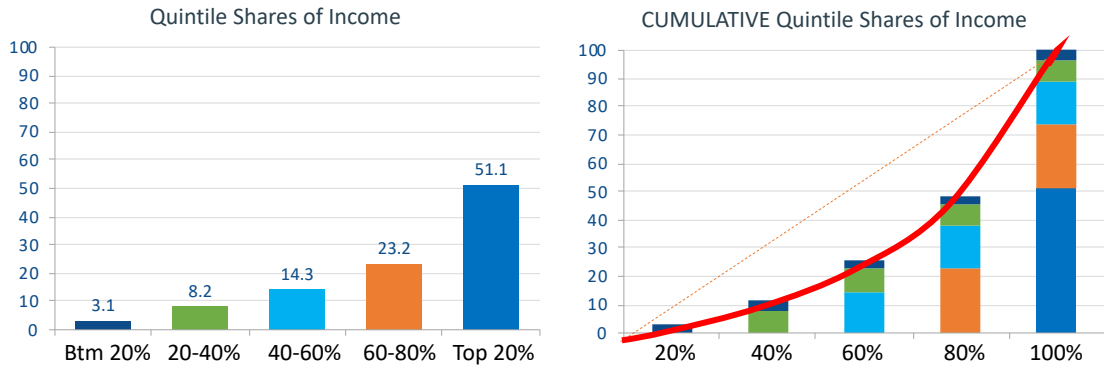


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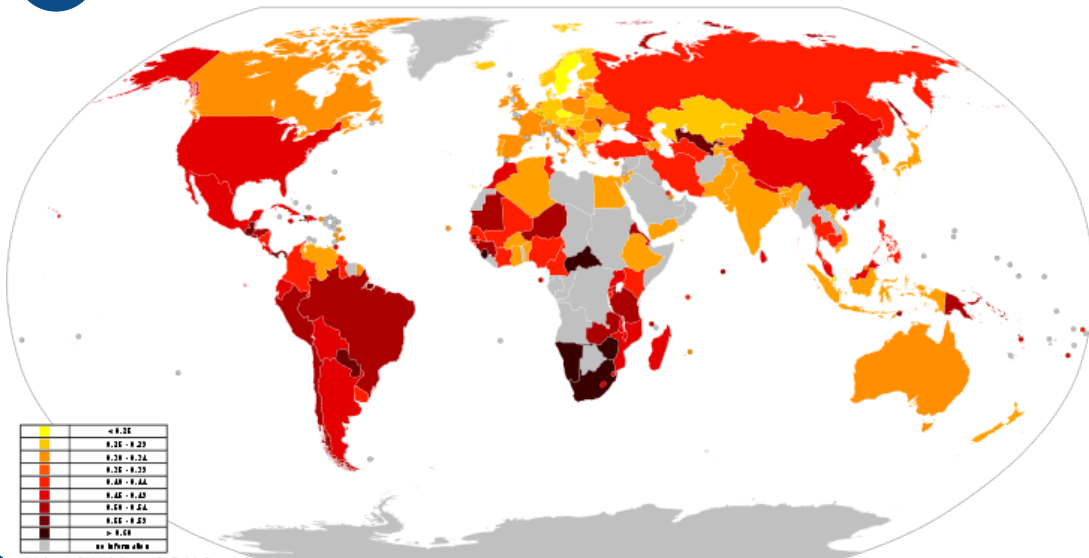
Forming the GINI Coefficient: 2015



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

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Gini Coefficient around the world, 2014



Source: Data taken from the 2014 CIA World Factbook.

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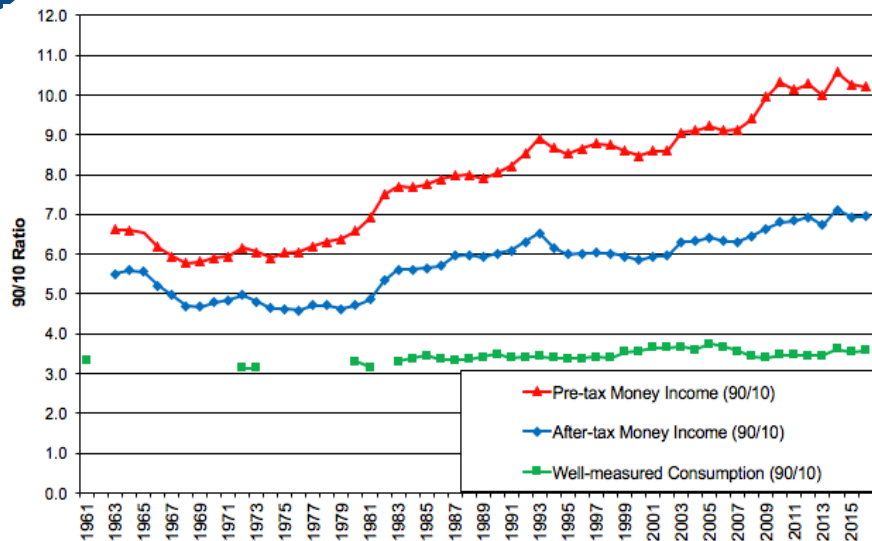
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Different Ways of Thinking About Inequality

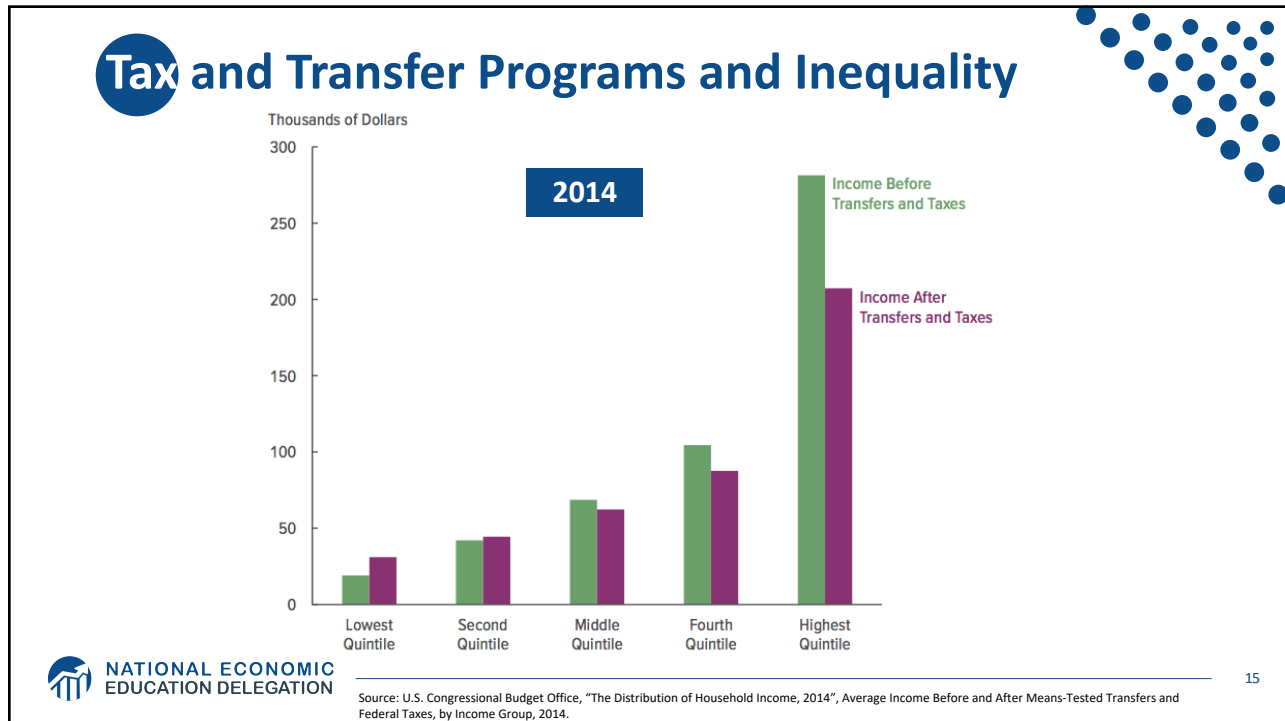
- **Income Inequality**
 - Before taxes and transfers
 - After taxes and transfers
- **Wealth Inequality**
- **Consumption Inequality**

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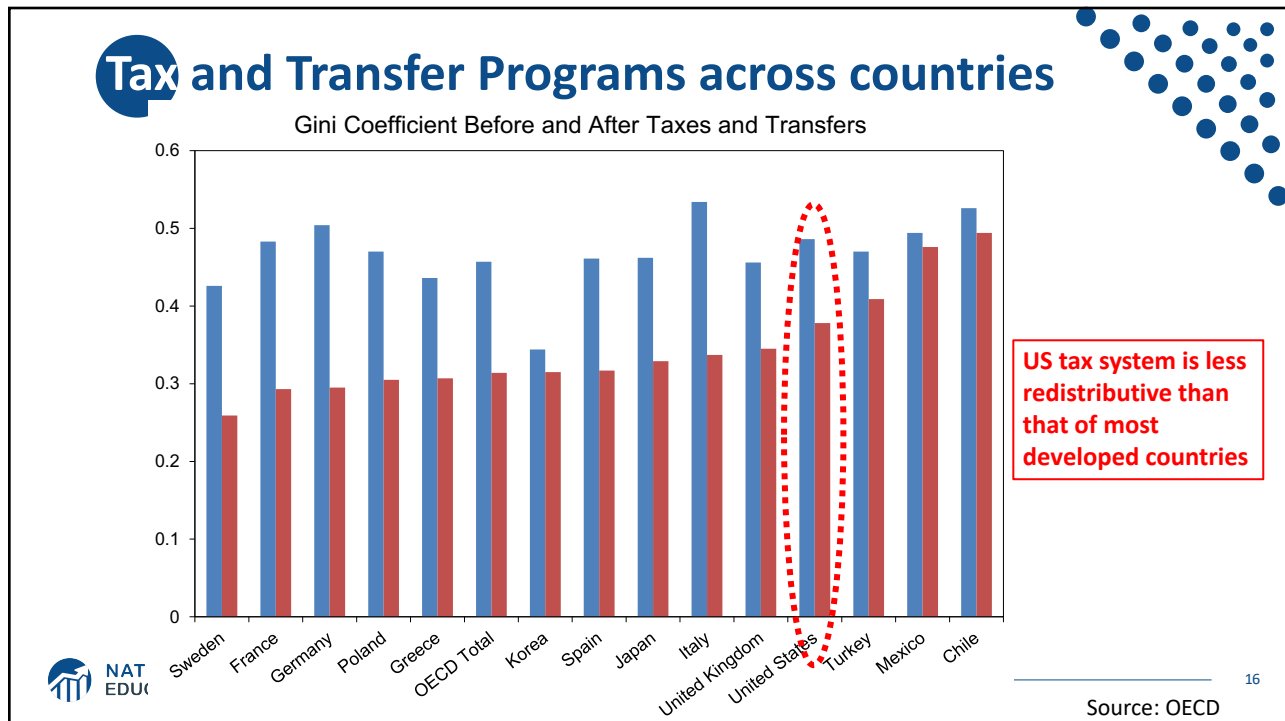
Consumption is more equal than income



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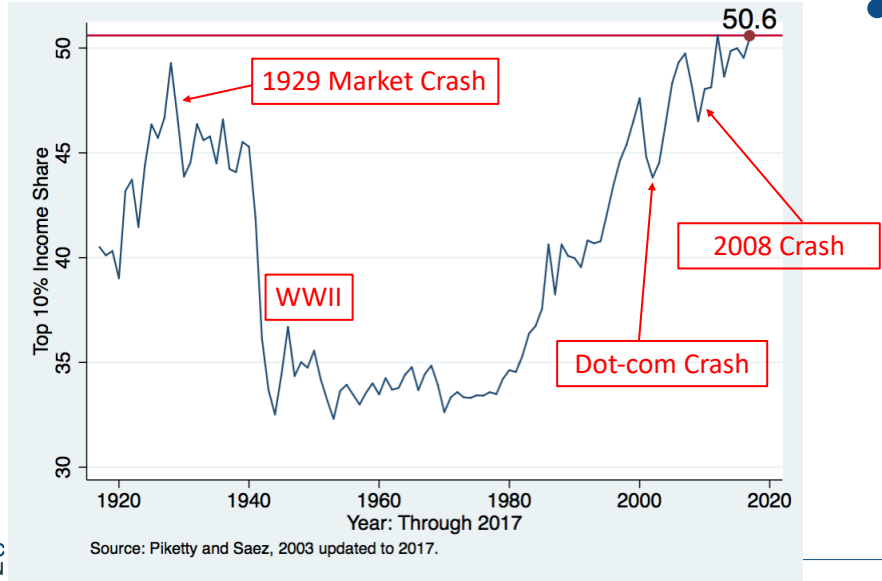


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Income inequality over time: Share of Top 10%

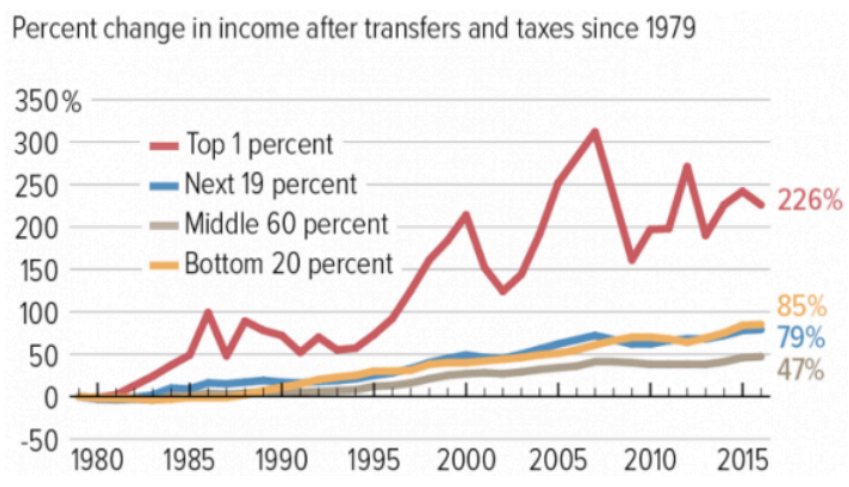


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Income inequality trends: winners and losers



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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, Dec. 11, 2018.

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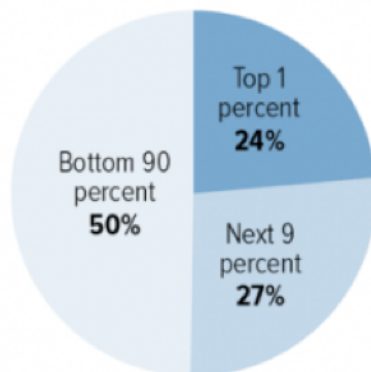
Recent Facts on Income Inequality

- **Beginning in the 1970s, the income gap widened.**

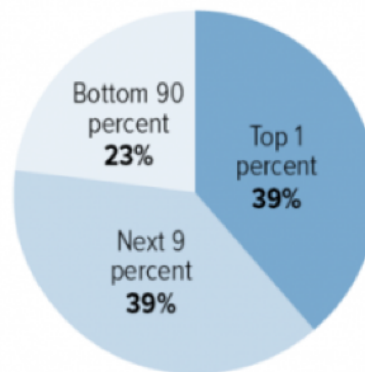
- Biggest winners: top 5 %
- Biggest losers: middle-income families

Wealth is distributed more unequally compared to income


Distribution of before-tax income, 2016



Distribution of wealth, 2016

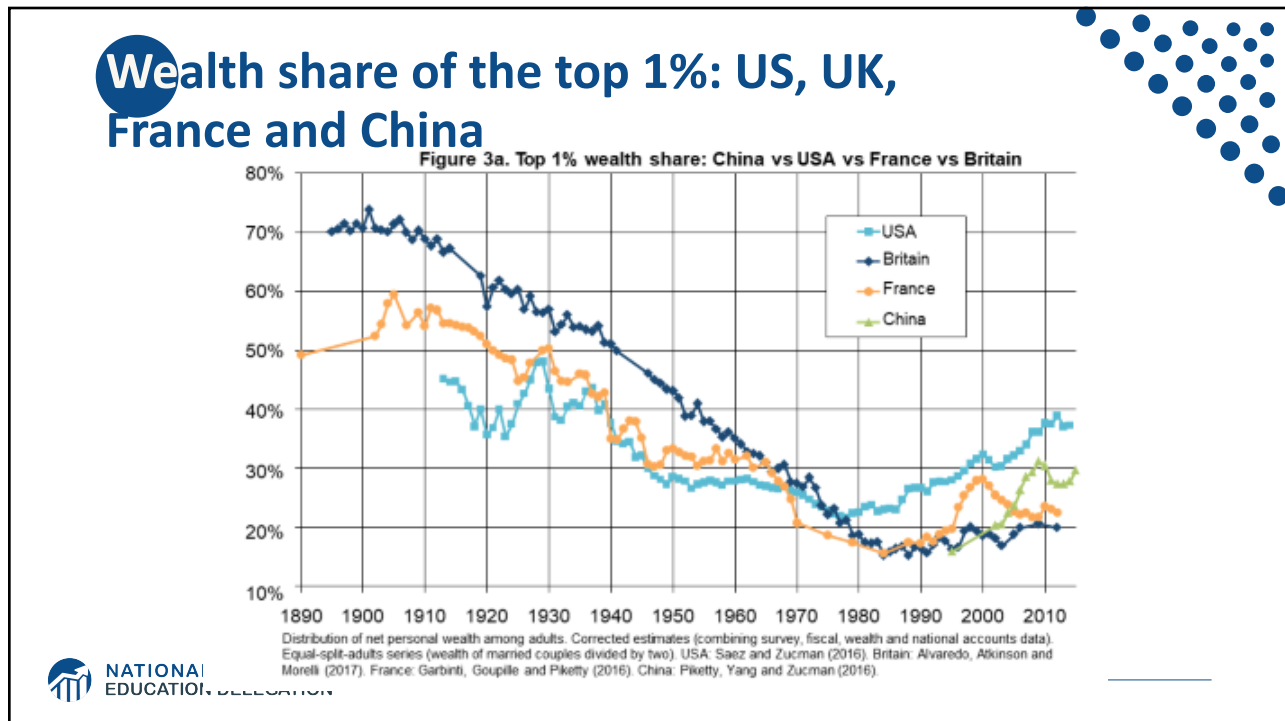


Wealth group	Number of families	Wealth threshold	Average wealth	Wealth share
Bottom 90%	144,600,000		\$84,000	23%
Top 10-1%	14,463,000	\$660,000	\$1,310,000	35%
Top 1-0.1%	1,446,300	\$3,960,000	\$7,290,000	20%
Top 0.1-0.01%	144,600	\$20,600,000	\$39,700,000	11%
Top .01%	16,070	\$111,000,000	\$371,000,000	11%


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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

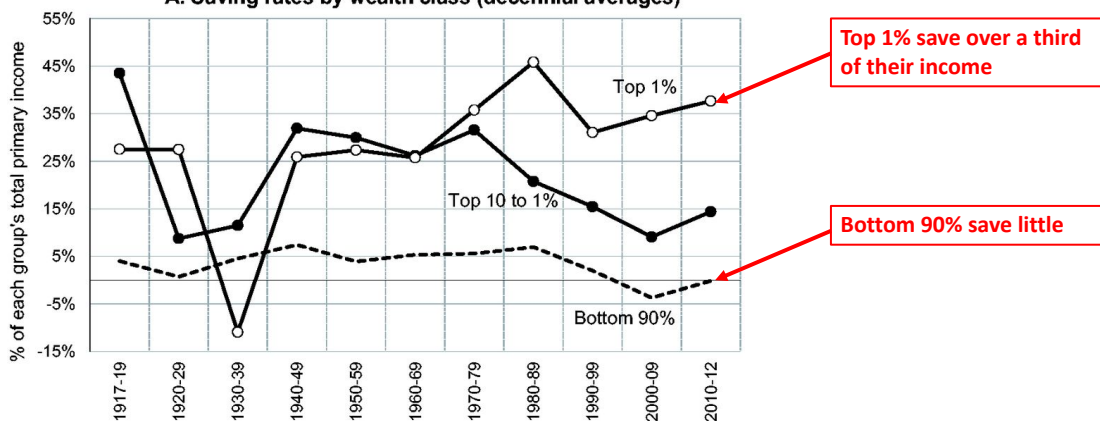
Differences in rate of return on saving

- Wealthy households hold riskier assets (e.g. stocks and private businesses) and receive higher average returns

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Saving rates by wealth group

A. Saving rates by wealth class (decennial averages)



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

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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

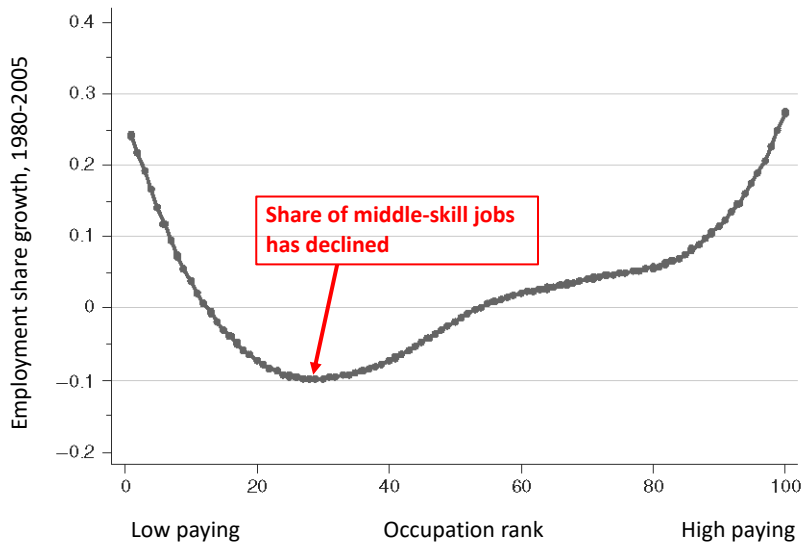
- **Government Policy**

- Regulation
- Taxation and redistribution of income



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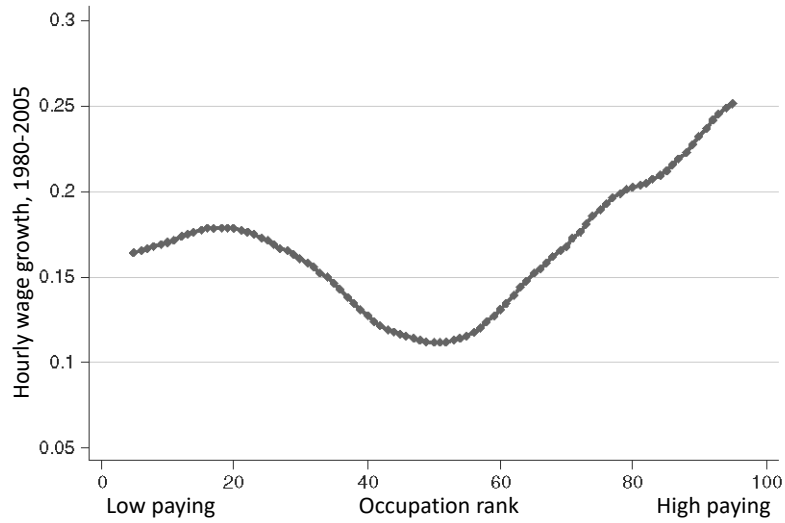
Job polarization: decline of middle-skill occupations



Source: Autor and Dorn, 2013

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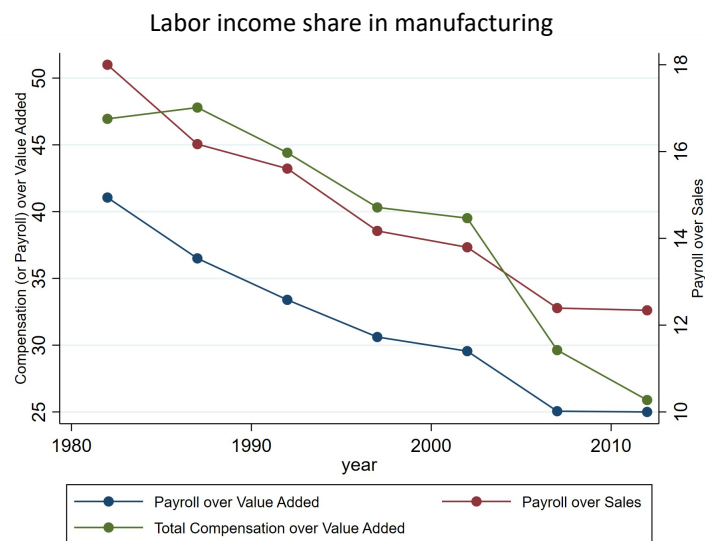
Job polarization: tepid wage growth in the middle



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

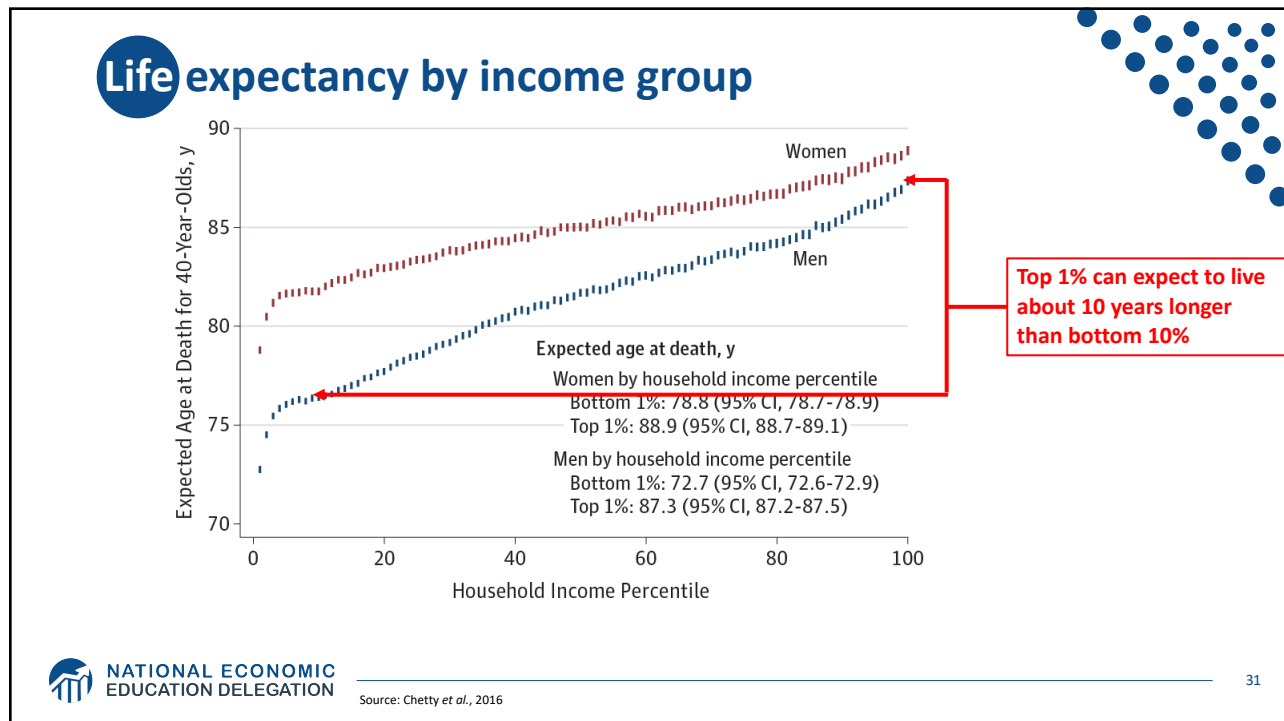


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Why does economic inequality matter?



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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

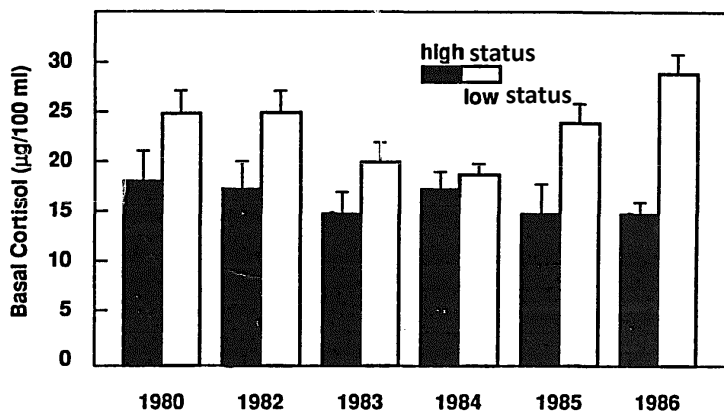
- Problematic alcohol consumption is associated with *higher* pay grade

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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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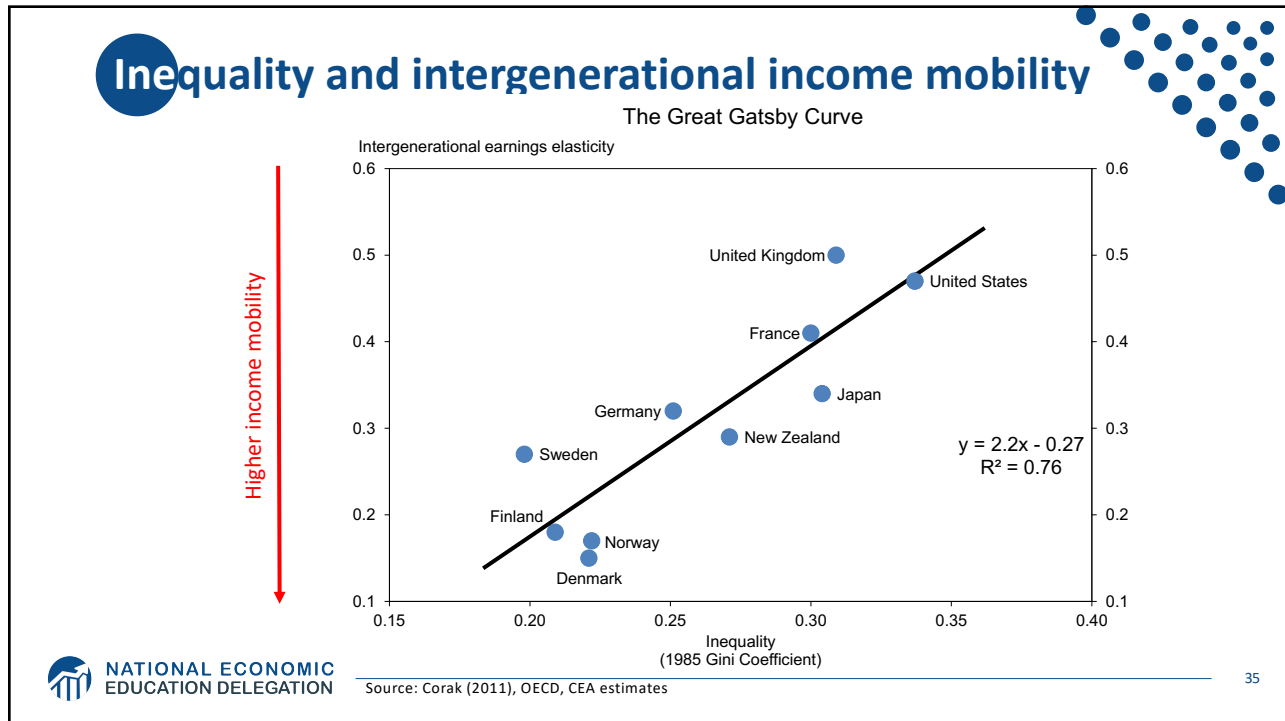
Inequality and lack of social cohesion

“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.”

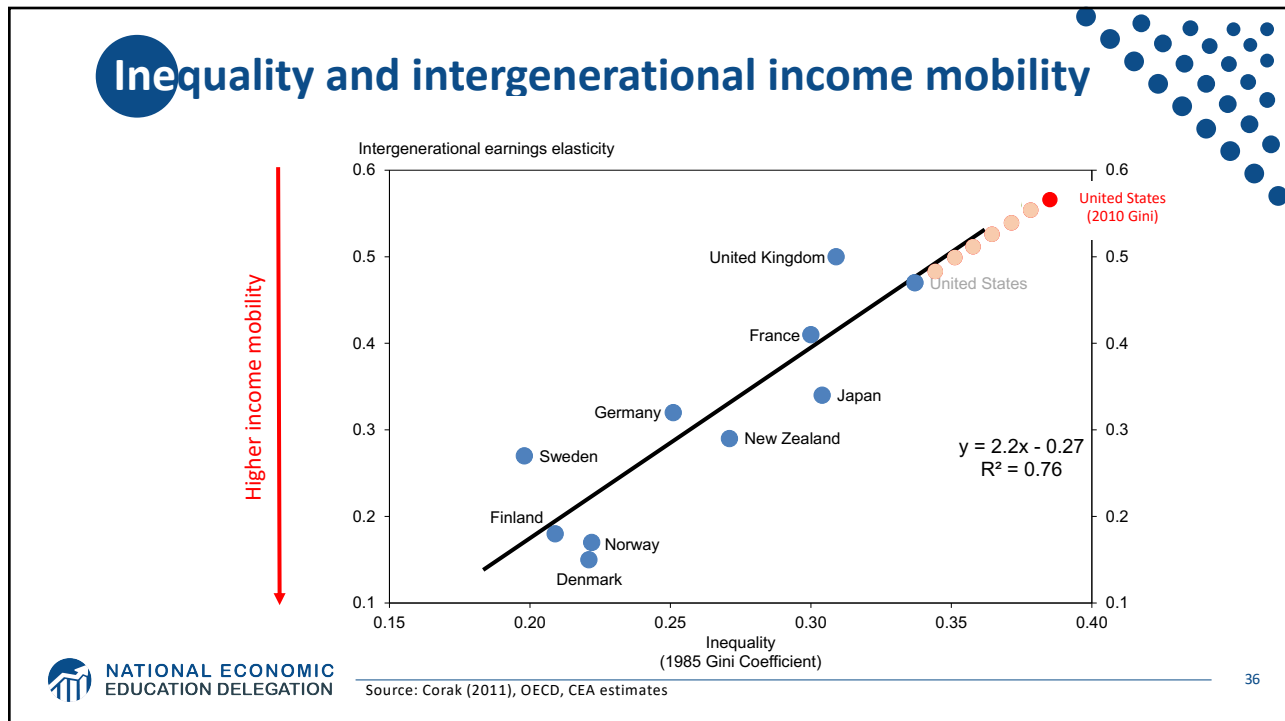
*Robert Sapolsky, Professor of Biology and Neurology,
Stanford University*



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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
 - 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

- **Focus on childhood poverty**

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



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What to do About Inequality?

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



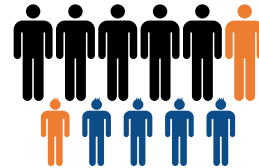
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Summary

- **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.**



Thank you!

Any Questions?

www.NEEDelegation.org

<presenter name>

<presenter email>

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