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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: 500+ 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: 45 Ph.D. Economists**

- Aid in slide deck development



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Credits and Disclaimer

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

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

- Timothy Smeeding, University of Wisconsin
- Robert Wright, Augustana University

- **Disclaimer**

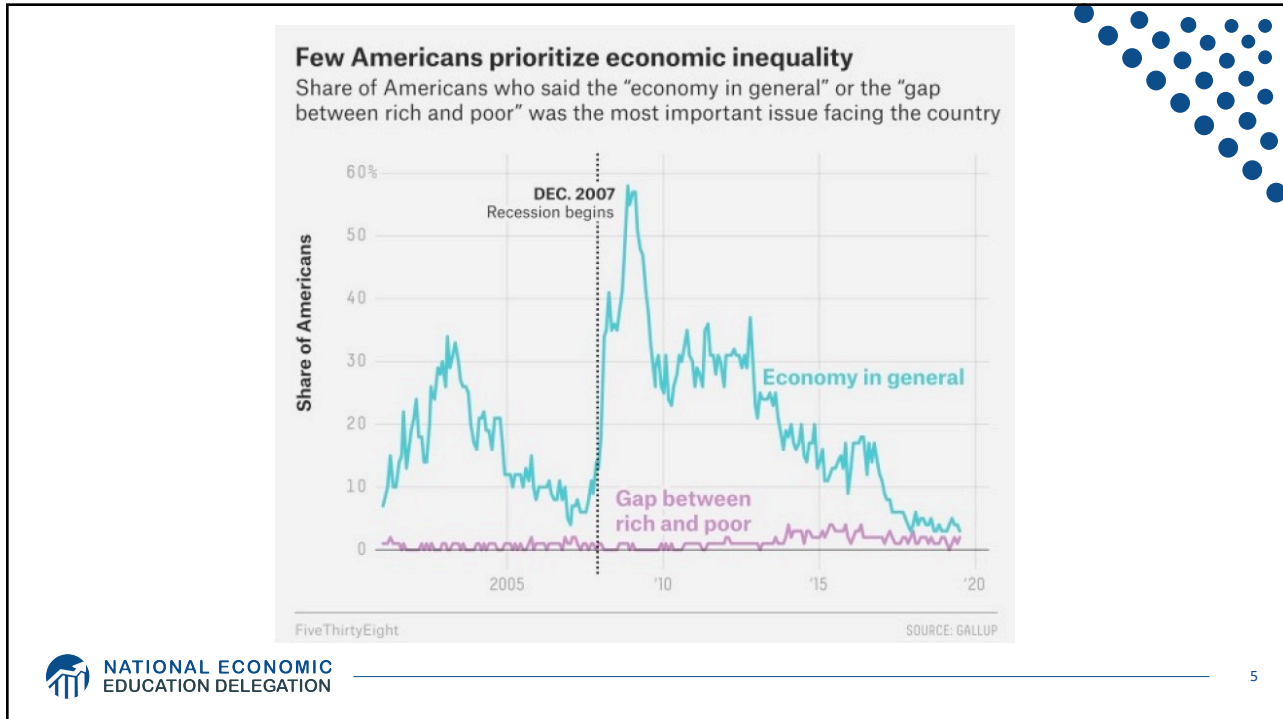
- NEED presentations are designed to be nonpartisan
- It is, however, inevitable that the presenter will be asked for and will provide their own views
- Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED)



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Outline

- Definition
- Measurement
- How does it happen?
- Is it a problem?
- What to do about it

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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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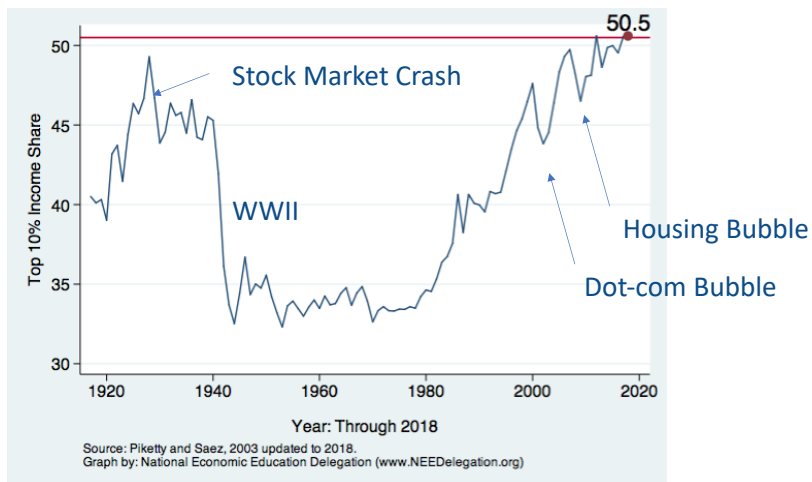
Different Ways of Thinking About Inequality

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



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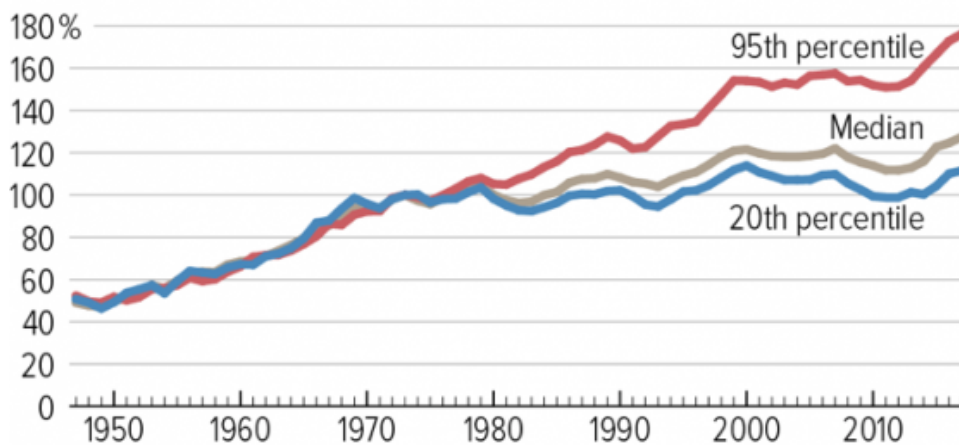
National Income Inequality: Share of Top 10%



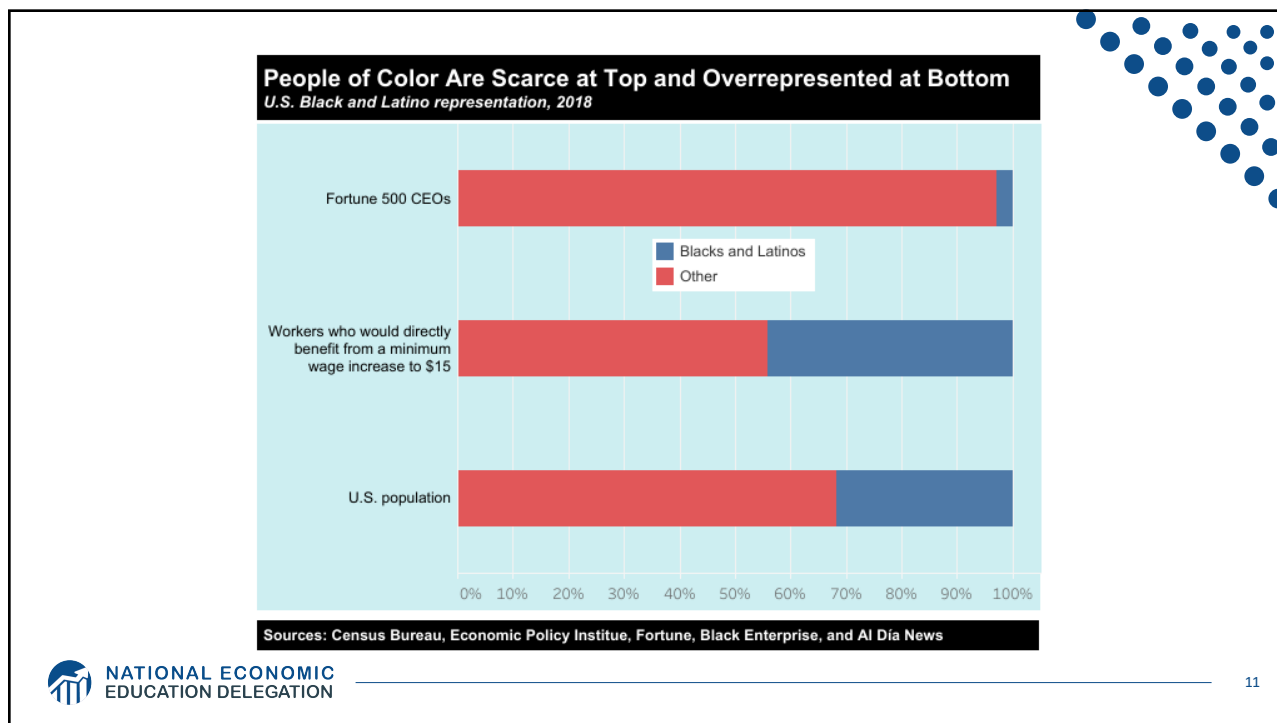
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The Abrupt Increase in Inequality

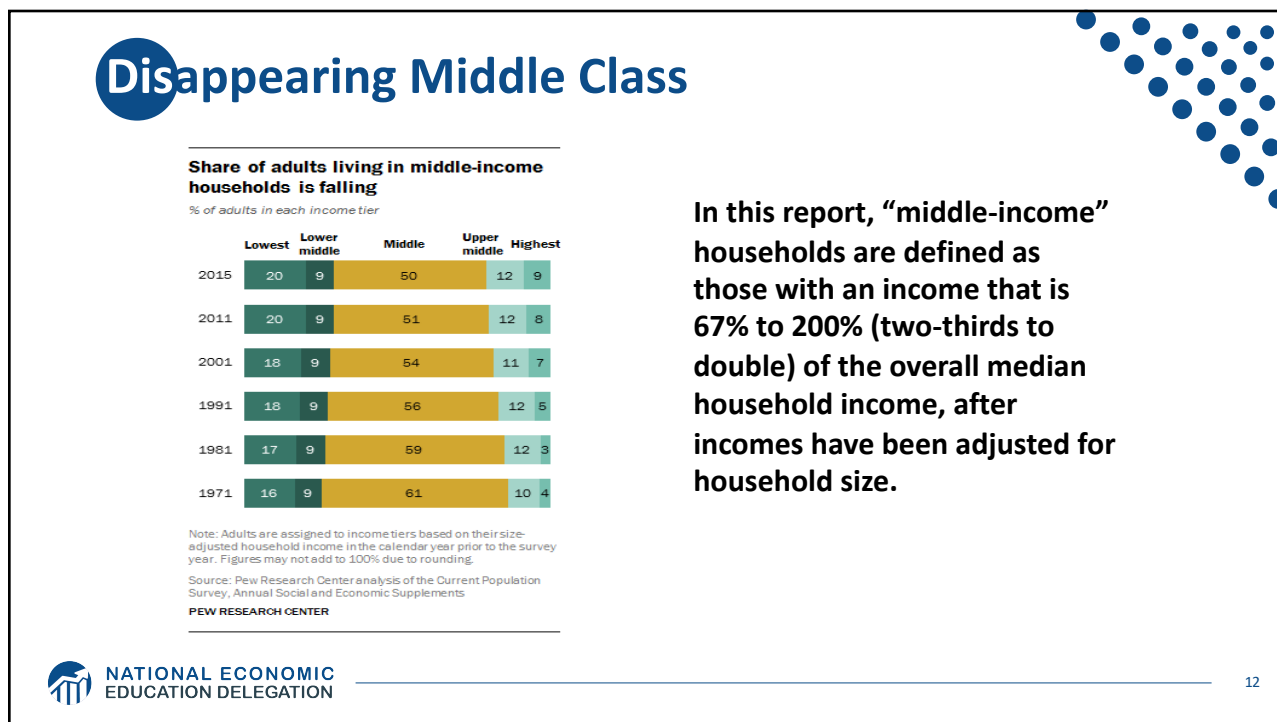
Real family income between 1947 and 2017, as a percentage of 1973 level



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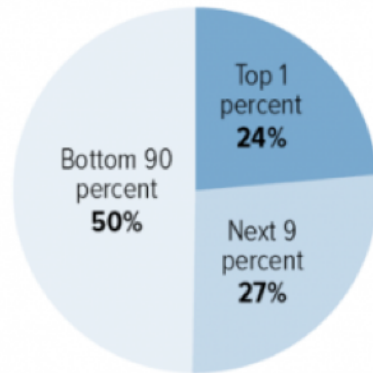
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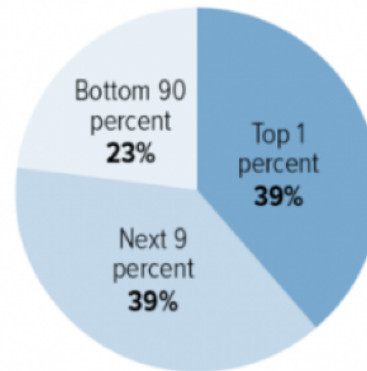
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Wealth Inequality Exceeds Income Inequality

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, Dec. 11, 2018.

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Consumption Inequality

- Consumption is another important metric for judging inequality
- Arguably a better indicator of "well-being"
- Extremely difficult to measure
- 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.



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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



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Technology can Hurt Low Income Workers



Early on, technology was good to low income workers



Until it was bad for them....



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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

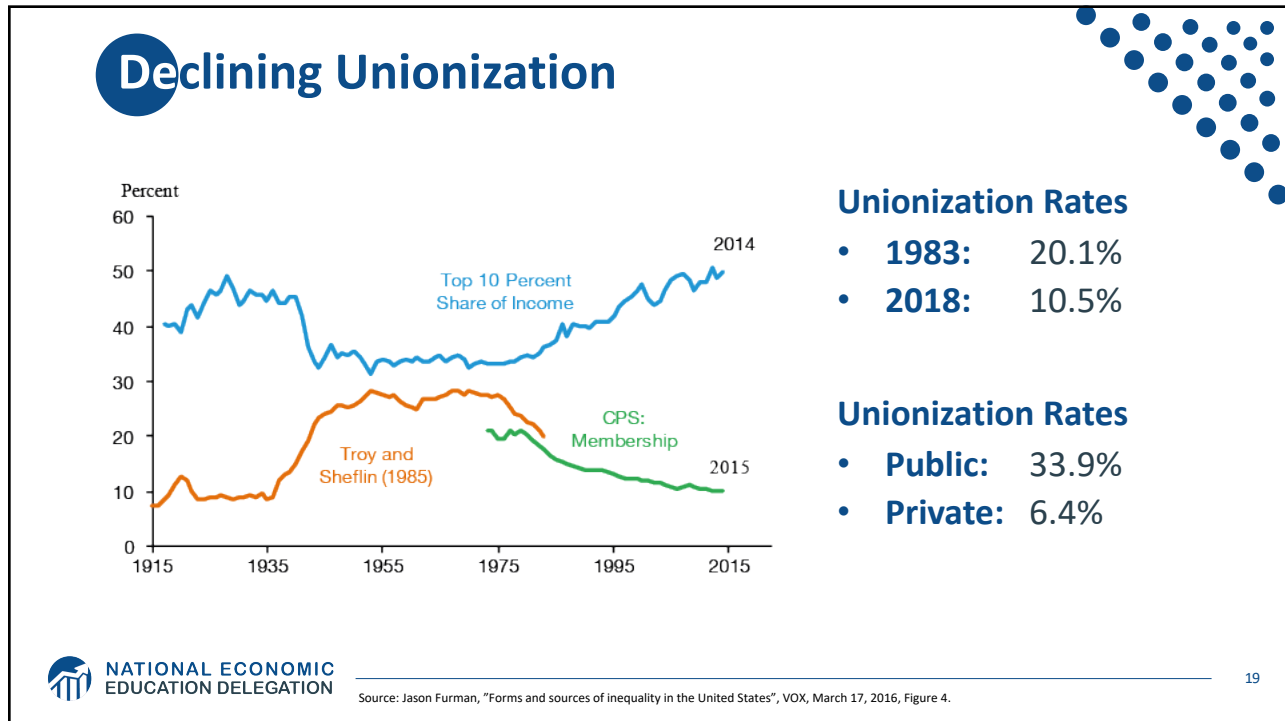
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CEO Pay Has Been Growing Rapidly



Source: EPI, CEO compensation based on options realized.
Ratio is CEO compensation relative to average worker compensation.

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Government Policy and Racial Inequality

- Product of a long historical process of discrimination with at least two reinforcing sets of policies.
 - Policies that govern the spatial distribution of the black population.
 - Restrictive covenants, redlining, and general housing and lending discrimination
 - Policies that have a disparate impact on black individuals because of their locations.
 - The original version of Michigan Senate Bill 897 exempted individuals from this work requirement conditional on residing in a county with an unemployment rate above 8.5 percent. The higher unemployment rates in rural counties would disproportionately exempt white Medicaid recipients from the work requirement within the bill.

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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)

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



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 (e.g. universal pre-k)
 - Opportunities for wealth-building
 - Housing
- **Initiatives whose impacts cross neighborhood and class lines and increase upward mobility specifically for black men**
 - Mentoring programs for black boys, efforts to reduce racial bias among whites, interventions to reduce discrimination in criminal justice, and efforts to facilitate greater interaction across racial groups.

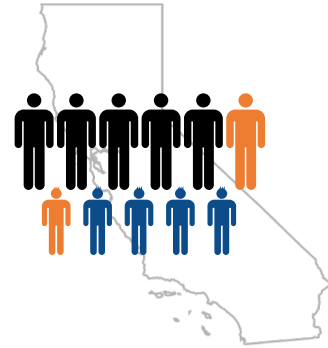


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Summary

- **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, competition, and trade
 - Changing institutions.
- **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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