

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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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?**
- **What happened?**
- **Does it matter?**
- **Is it a problem?**
- **What to do about it**



Outline

- **Definition (Today)**
- **Measurement (Today)**
- **How does it happen? (Today)**
- **What happened? (Next week)**
- **Does it matter? (Next week)**
- **Is it a problem? (Next week)**
- **What to do about it (Next week)**



Income Inequality

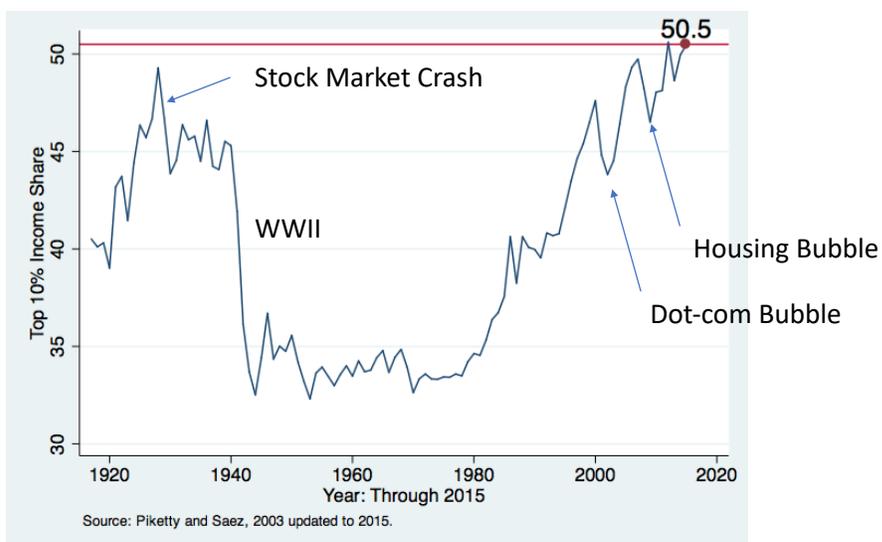
- **Definition:**
 - The extent to which the distribution of income deviates from complete equality
 - The dispersion of income throughout the economy



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%

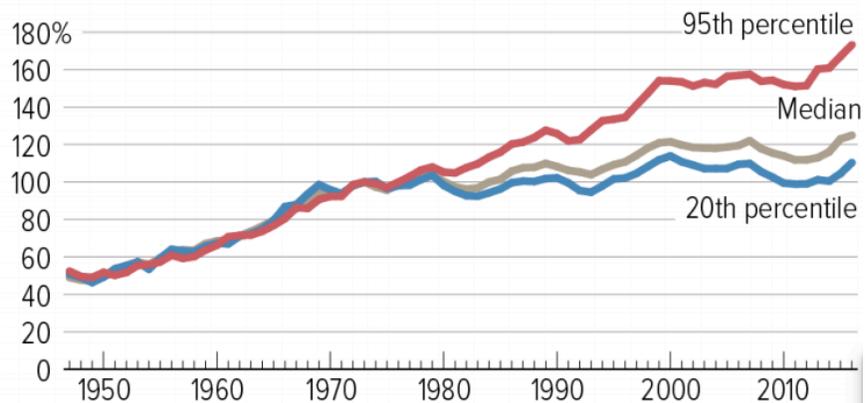


Recent Facts on Income Inequality

- **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

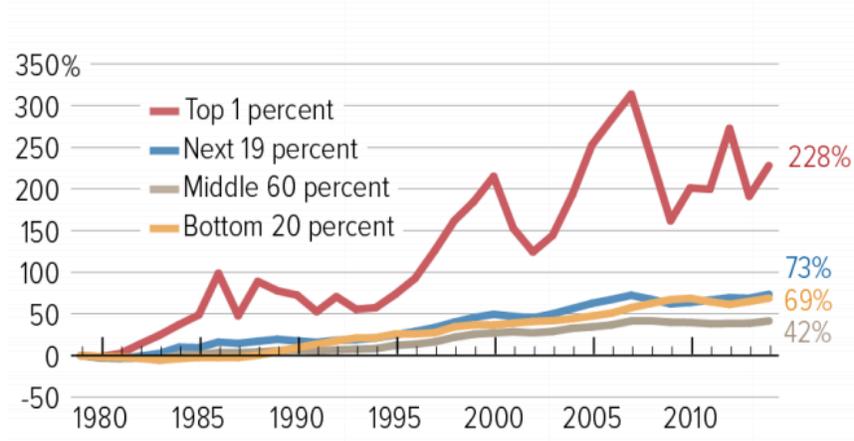
The Abrupt Increase in Inequality

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

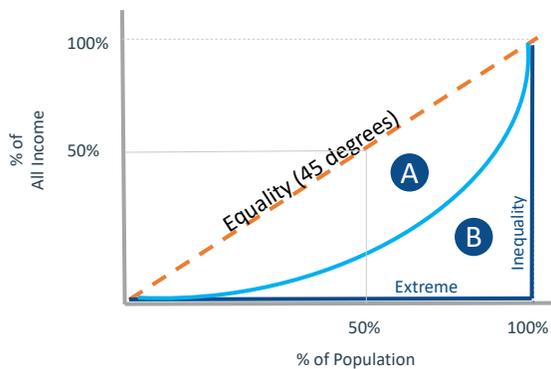


Most of the Action Is at the Very Top

Percent change in income after transfers and taxes since 1979



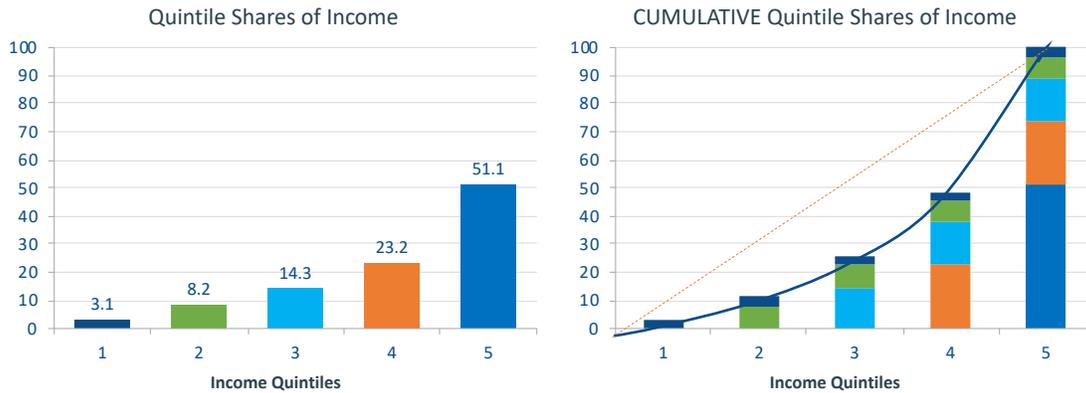
The Gini Coefficient



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

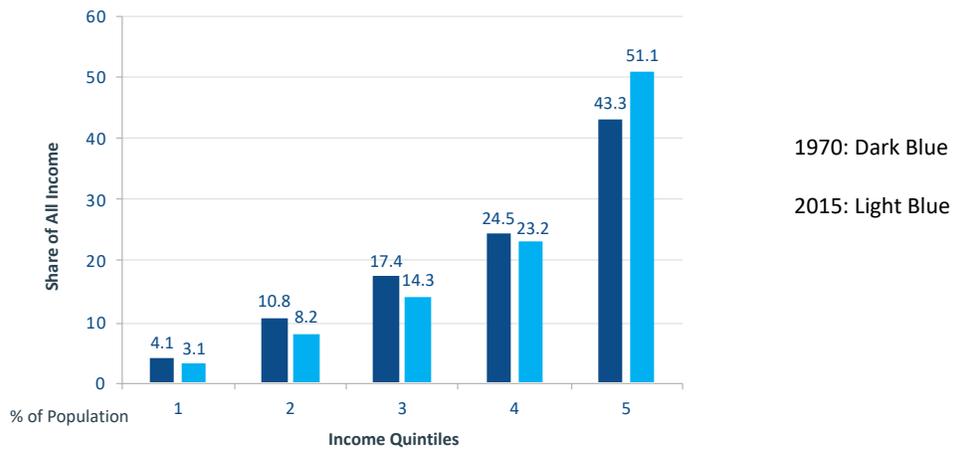
Bigger A: More inequality
Smaller A: Less inequality

Forming the GINI Curve: 2015



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

Income Share Changes Between 1970 and 2015



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

Income Changes from Growing Inequality

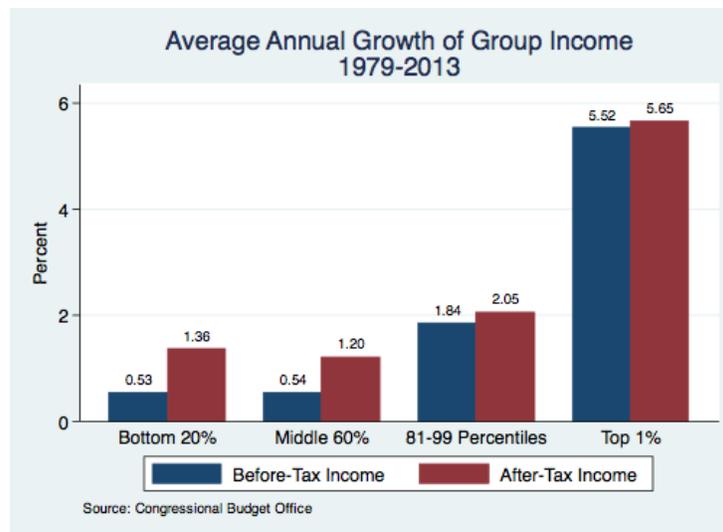
Bottom 90% of Households

INCOME GROUP	TOTAL LOSS/GAIN IN ANNUAL INCOME*	AVERAGE LOSS/GAIN PER HOUSEHOLD PER YEAR*
TOP 1%	\$673 billion more	\$597,241 more
96-99	\$140 billion more	\$29,895 more
91-95	\$29 billion more	\$4,912 more
81-90	\$43 billion less	\$3,733 less
61-80	\$194 billion less	\$8,598 less
41-60	\$224 billion less	\$10,100 less
21-40	\$189 billion less	\$8,582 less
BOTTOM 20%	\$136 billion less	\$5,623 less

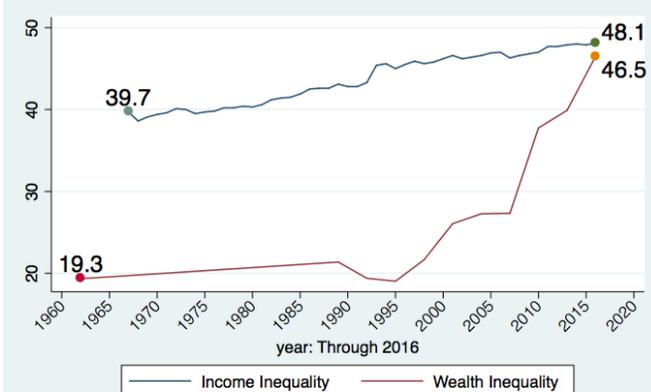
* Compared to what incomes would have been had all income groups seen the same growth rate in 1979-2005 as they did during previous decades. Source: Jacob Hacker, Yale University; Paul Pierson, UC-Berkeley



Growth Has Been Primarily at the Very Top



Income and Wealth Inequality



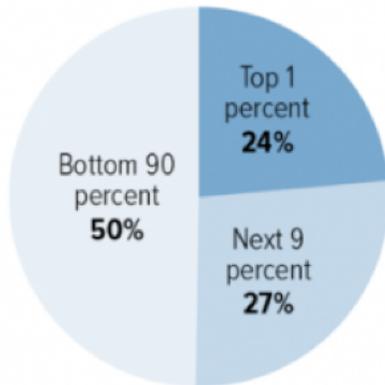
Income Inequality (Gini)

- US: 48.1%
- CA: 49.0%
- Marin: 52.5%
- Santa Clara: 46.45%

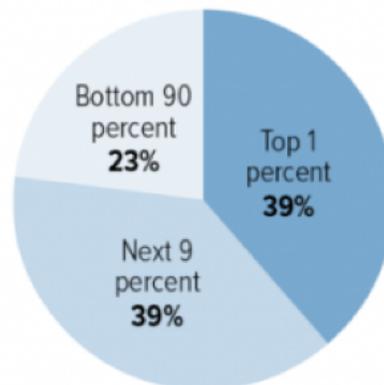
Source: U.S. Census Bureau and Board of Governors
 INCOME INEQUALITY is measured by the Gini coefficient.
 WEALTH INEQUALITY is the ratio of the mean wealth of the top decile to median overall wealth.
 Wealth data are only available for 1962, and at three year intervals beginning in 1989.

Wealth Inequality Exceeds Income Inequality

Distribution of before-tax income, 2016

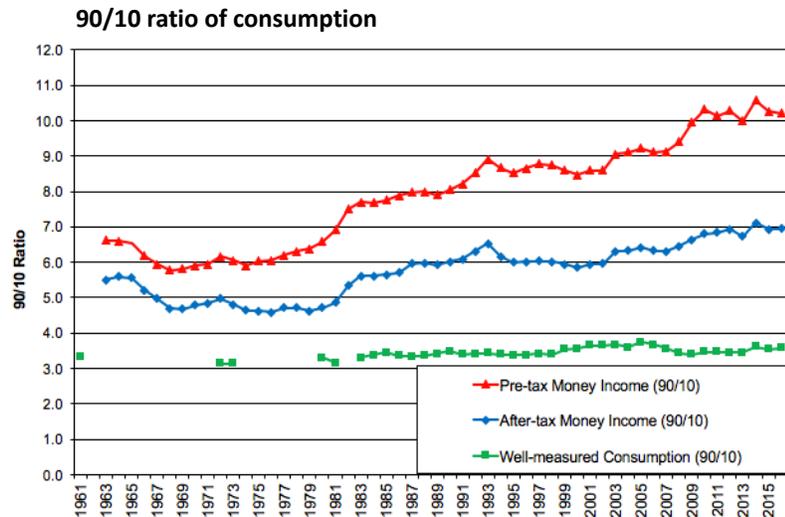


Distribution of wealth, 2016



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.

A Third Measure of Inequality: Consumption



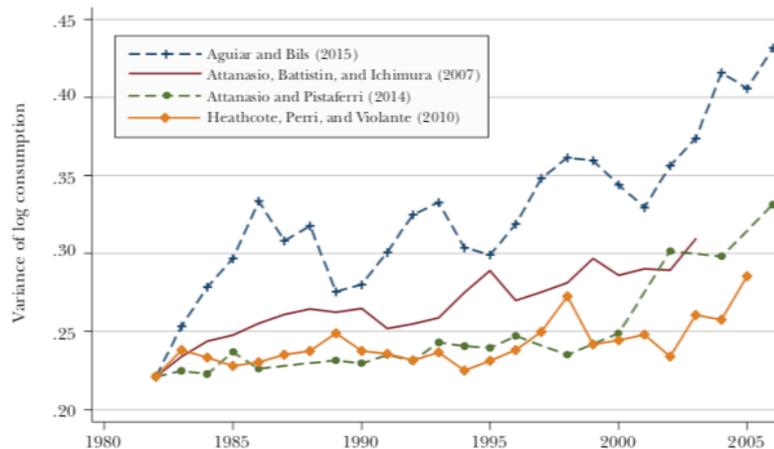
Consumption Inequality

- 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



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Source: Orazio P. Attanasio and Luigi Pistaferri, "Consumption Inequality," Journal of Economic Perspectives, Volume 30, #2, Spring 2016, page 11, Figure 1.

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Case Study: Economic Research

- **Early, controversial result is published**
- **Flurry of effort to understand the result**
- **Growing body of evidence**
- **Consensus reached**
 - Not always
 - Sometimes data continue to conflict
 - Often merely a preponderance of evidence drives understanding
- **Why has this happened with consumption inequality?**
 - Inadequacy of data and methods



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Summary: Consumption Inequality

- **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**



Outline

- **Definition**
- **Measurement**
- **How does it happen?**



Where Does Inequality Come From?

- **Labor Characteristics**

- Demographics
- Personal Choices
- Immigration

- **Market Forces**

- Technology
- Changing demand patterns
- Competition for labor

- **Government Policy**

- Market influence
- Redistribution



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Where Does Inequality Come From?

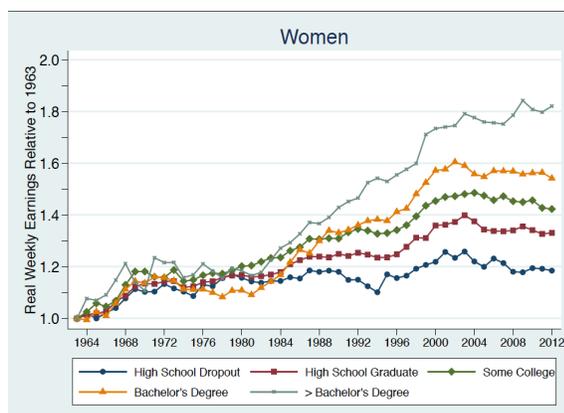
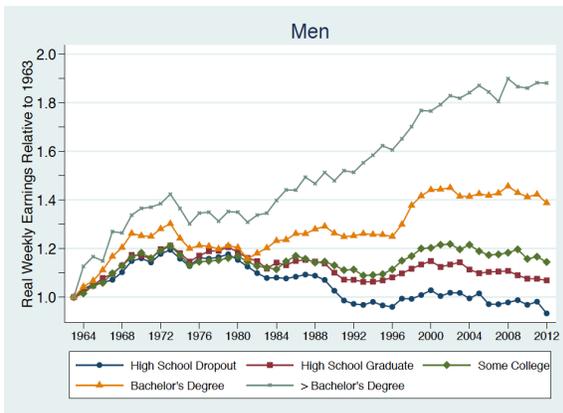
- **Labor Characteristics**

- Demographics
 - Age distribution
- Personal Choices
 - Educational attainment
 - Effort
 - Priorities
 - Household composition
- Immigration



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Wage Inequality by Gender and Education



Market Forces and Inequality

• Changing demand patterns

- Technology
- Globalization
- Industry composition
 - o PCs instead of typewriters
 - o Services instead of goods
 - o Professional services instead of personal services

• Competition in labor markets

- Unionization
- Market concentration

Government Policy and Inequality

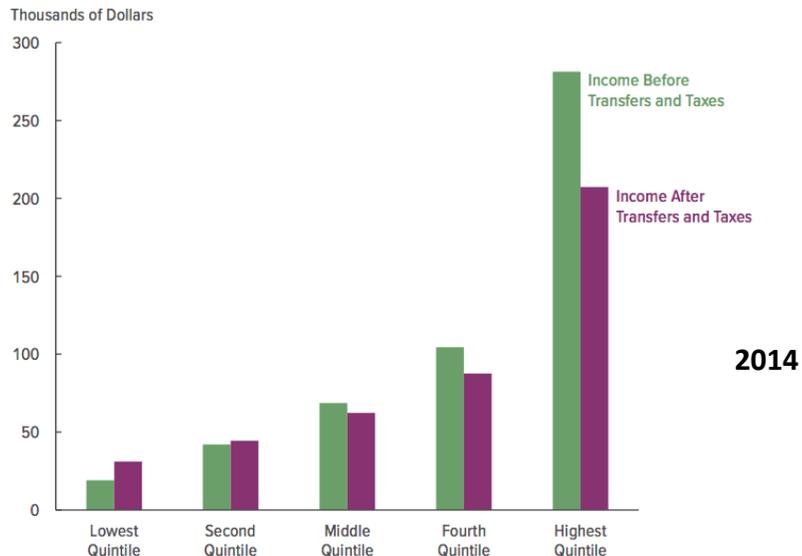
- **Market Influence: PRedistribution**

- Characteristics of labor
 - o Access to education
- Effects on labor demand
 - o Market regulation
 - Competition policy
 - o Labor regulations
 - Minimum wage, overtime, health insurance, etc.

- **REdistribution**

- Tax Rates
- Income support
 - o Direct aid
 - o Food stamps

Tax and Transfer Programs and Inequality



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**
 - PRedistribution – affecting markets
 - Redistribution – affecting incomes



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