

## 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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- **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 (Last Week)
- Measurement (Last Week)
- How does it happen? (Last Week)
- What happened? (Today)
- Does it matter? (Today)
- Is it a problem? (Today)
- What to do about it (Today)



## Where Does Inequality Come From?

- **Labor Characteristics**

- Demographics
- Personal Choices
- Immigration

- **Market Forces**

- Technology
- Changing demand patterns
- Competition for labor

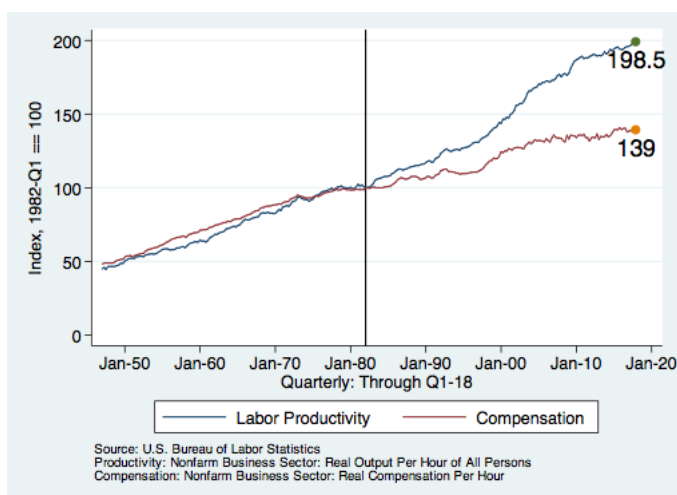
- **Government Policy**

- Market influence
- Redistribution



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## Labor Income is Unhinged from Productivity



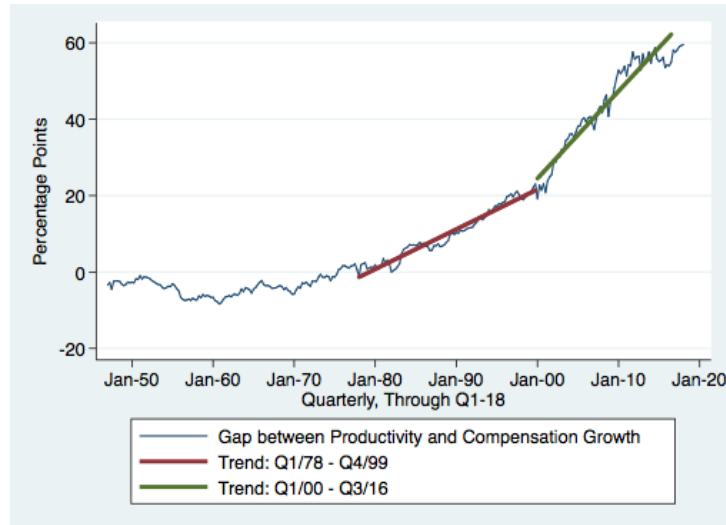
### Why?

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

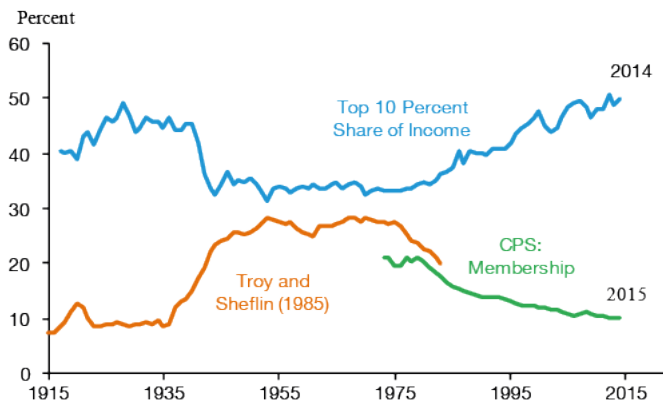


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## Labor Share Gap Acceleration



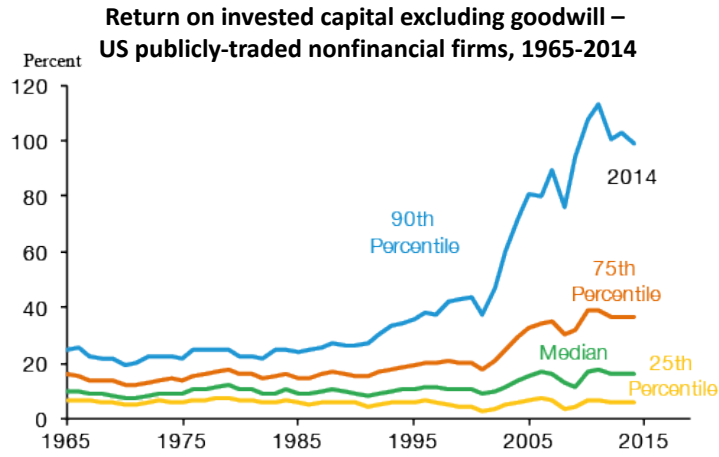
## Declining Unionization



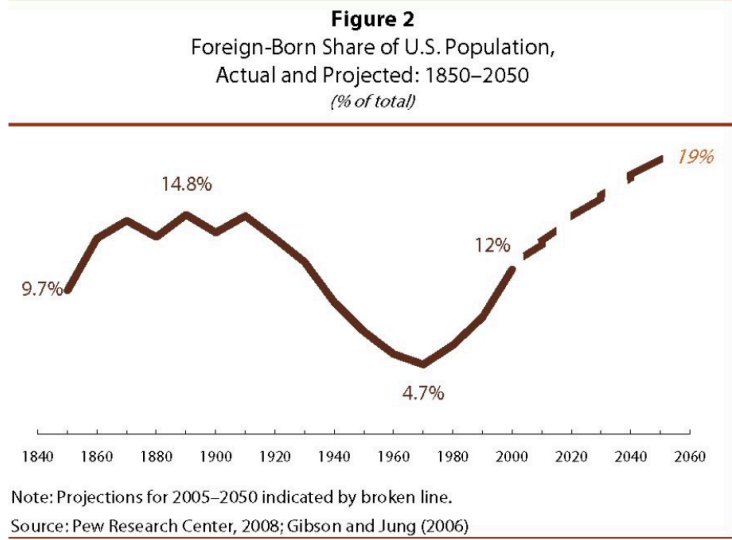
### Unionization Rates

- 1983: 20.1%
- 2017: 10.7%

# Competition in the Economy



# Immigration



# Immigration

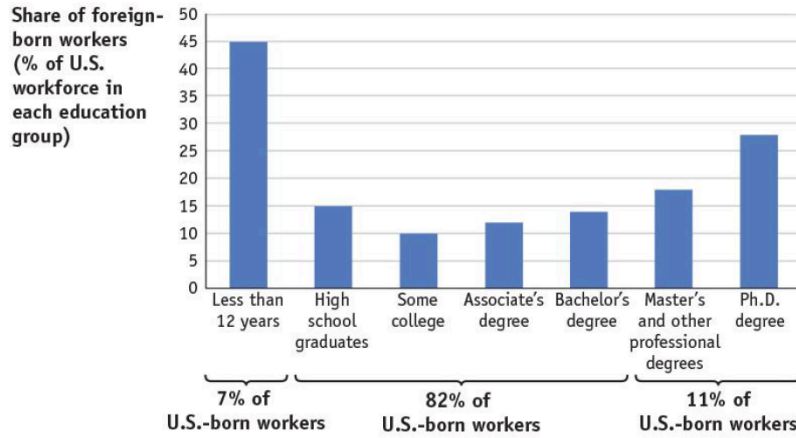
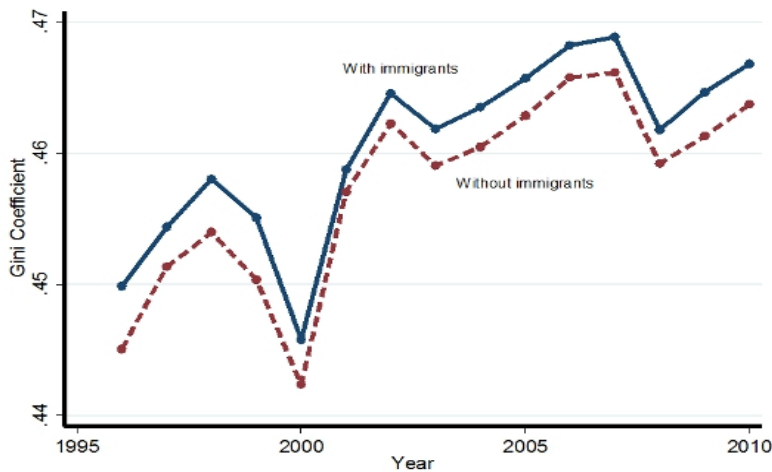


Figure 5.10  
 Feenstra/Taylor, *International Economics*, 4e, © 2017 by Worth Publishers  
 Data from: 2013 American Community Survey, U.S. Census Bureau.

# Immigration and Inequality



Source: Ping Xu, James C. Garand, and Ling Zhu, "How immigration makes income inequality worse in the U.S.," October, 2015, Figure 1.

## 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

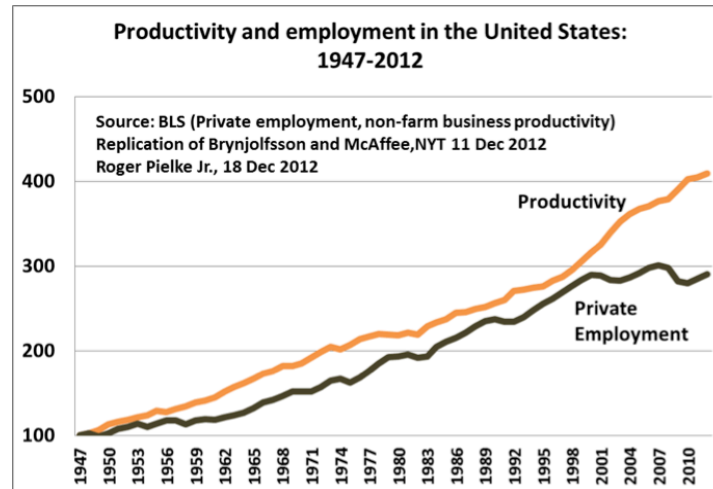


## Technological Change and Inequality

- **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.
- **Both aspects increase inequality by increasing the rewards to:**
  - Those with significant labor market skills
  - Owners over workers



## Technology Benefits Ownership over Labor



## 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





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

- **Outsourcing**

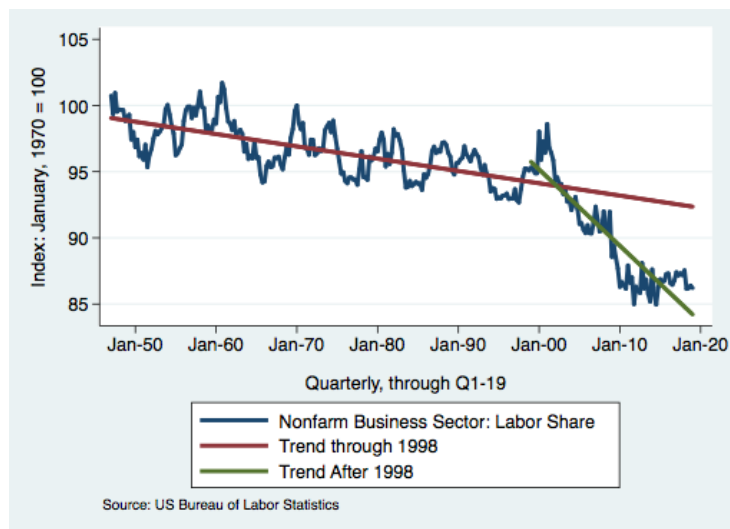
- Similar channel as with merchandise trade

- **Trade in services**

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



## Effects of the Unhinging?

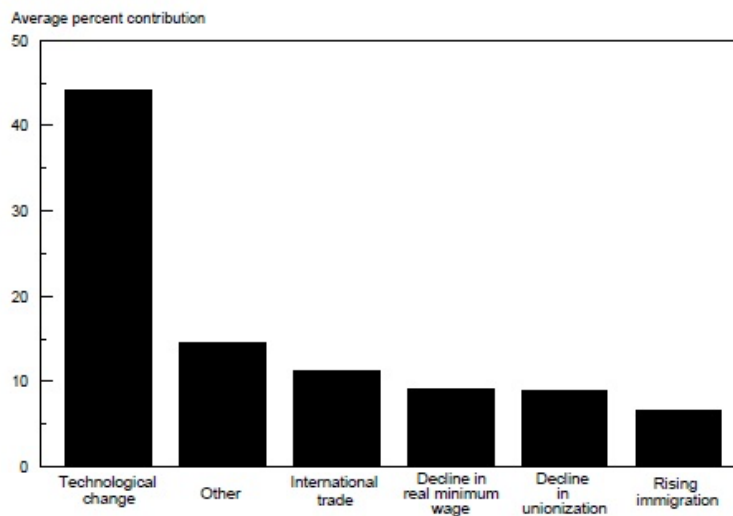


## What is driving increasing inequality?

- **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.



## 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

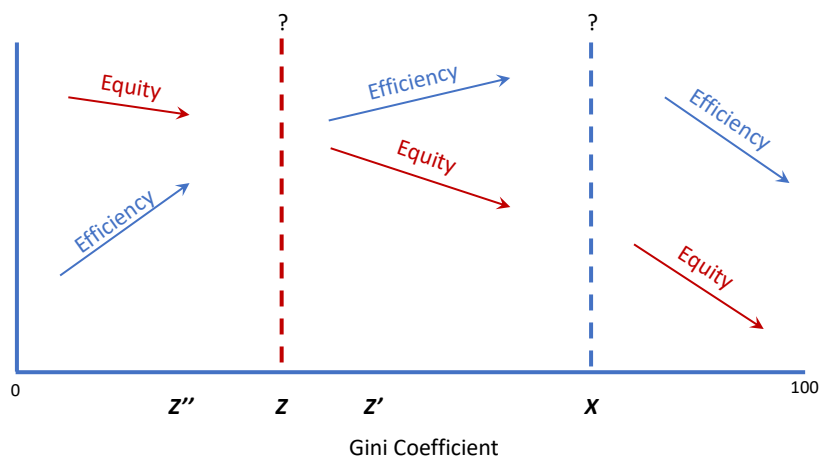
- **Too much inequality may also:**

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



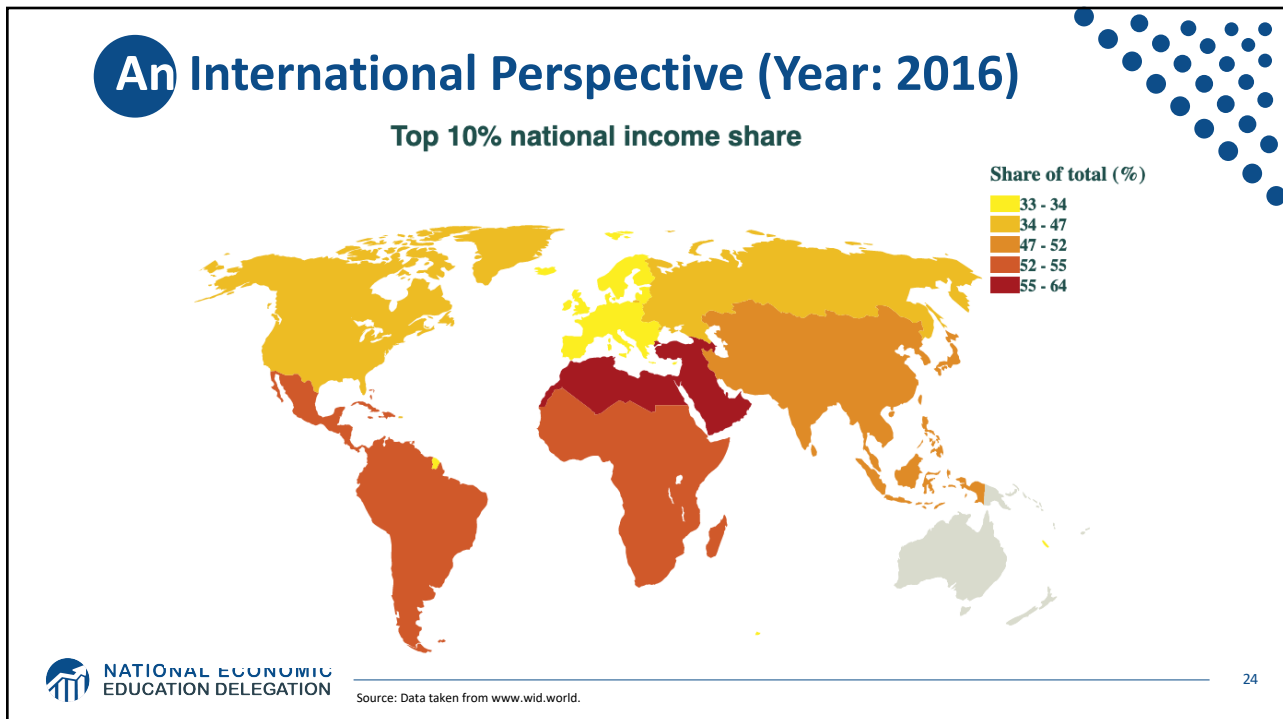
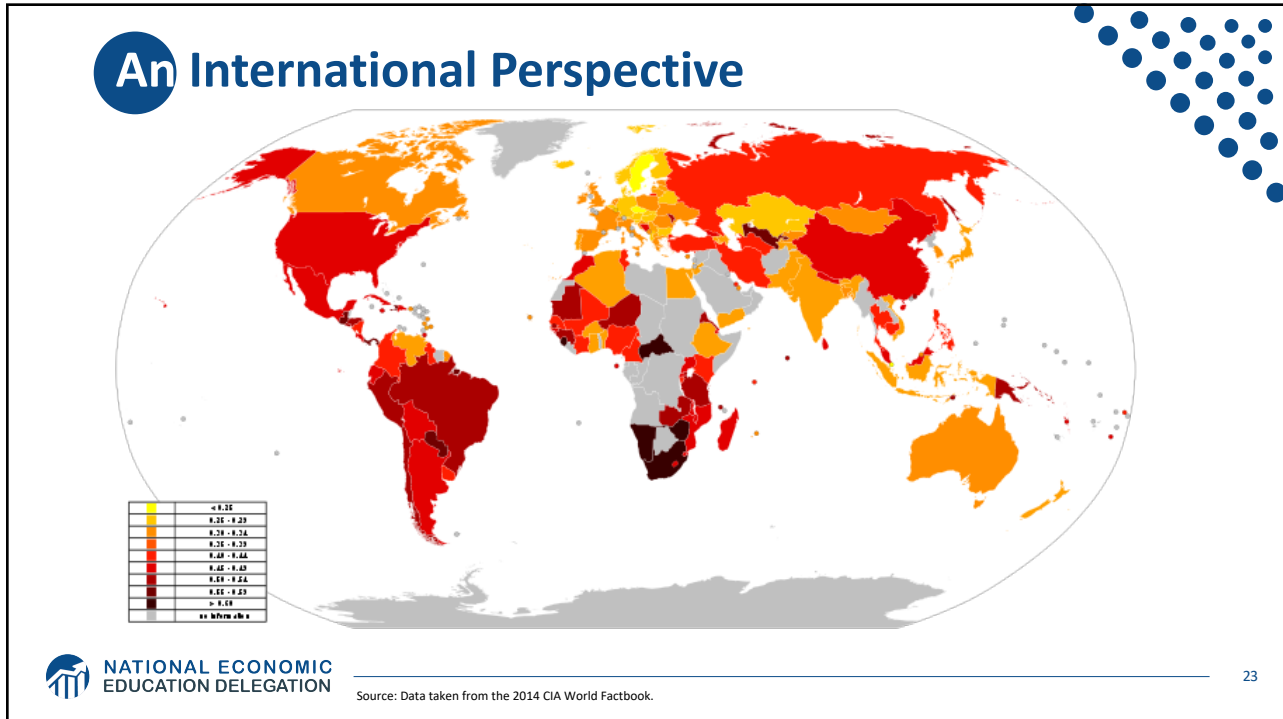
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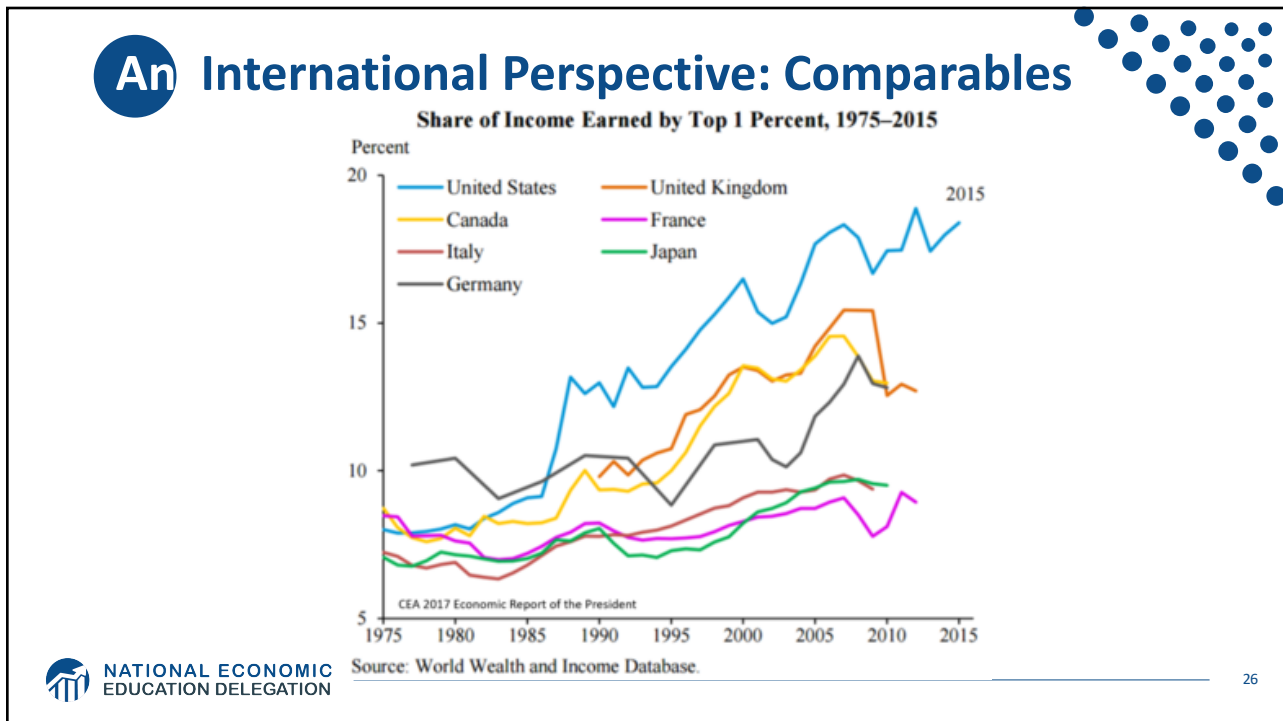
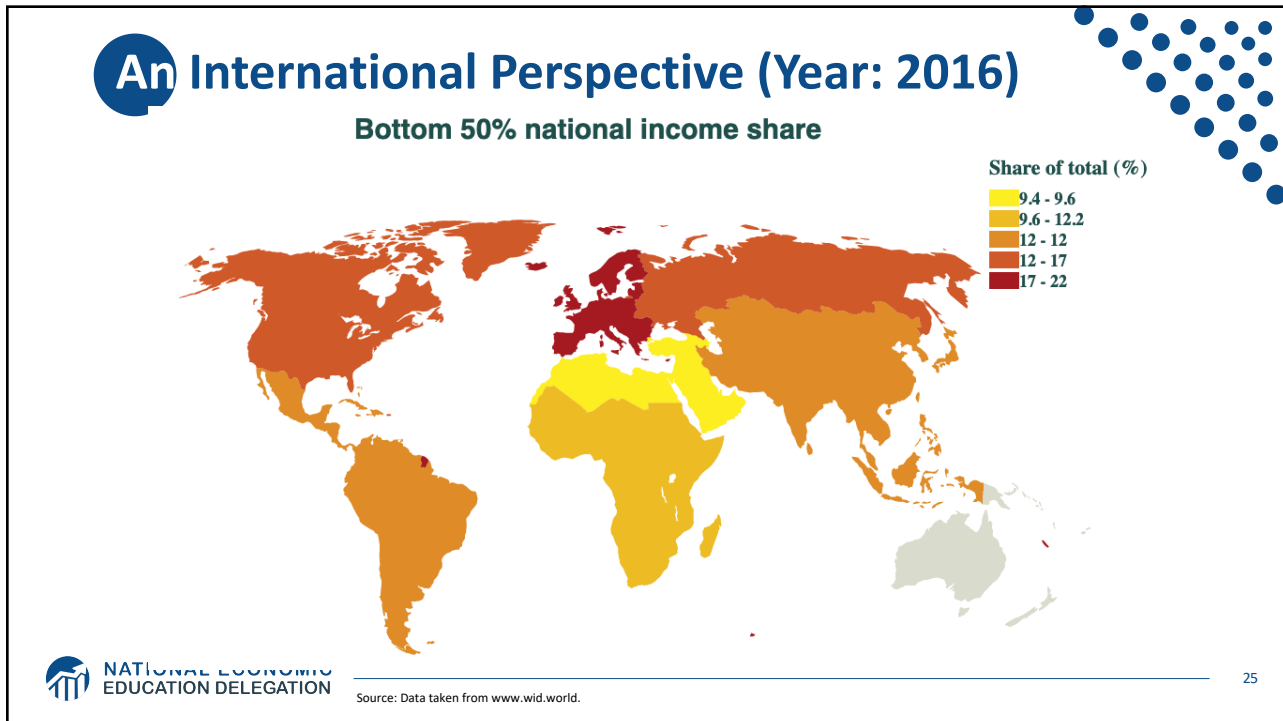
## How Much Inequality Is too Much?



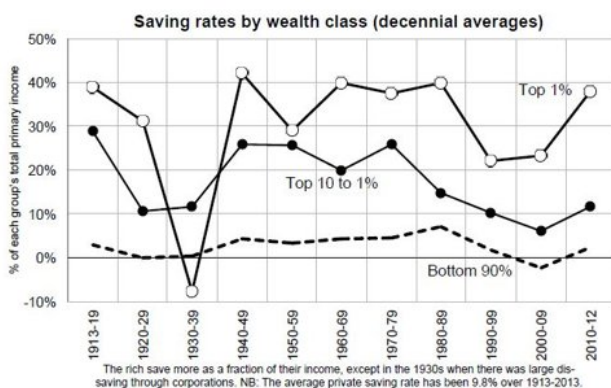
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## But the High-Income Households Save More



Source: Emmanuel Saez and Gabriel Zucman, *The Distribution of U.S. Wealth, Capital*

Facilitates the Consumption of:

Wealth

Which facilitates the consumption of:

Leisure



## Addressing Inequality: Is It A Problem?

### • Why it might be a problem.

- Economic issues (Efficiency)
  - o There is evidence that at some level, increased inequality slows economic growth.
  - o Or, inequality concentrates resources among investors.
- Noneconomic issues (Equity)
  - o 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 (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
    - Universal pre-K
    - Upgrade quality of elementary schools in low-income areas



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## What to do About Inequality?

- Nothing?
- Redistribution?
- PRE-distribution?
- Access to resources?



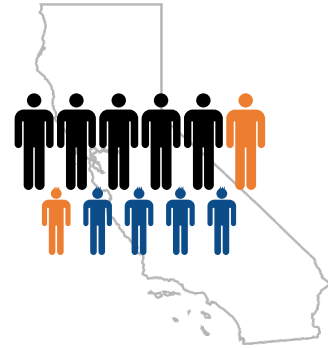
## Tension in Policy Solutions

- **Is it possible to increase growth at the same time that you reduce income inequality?**
  - Common refrain among some that government intervention in the economy is always and everywhere bad for growth.
- **Possibly: expanding equality of access promotes the full utilization of resources.**
  - Expanding equality of access requires resources likely from the well-to-do.



## 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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