

**NATIONAL ECONOMIC
EDUCATION DELEGATION**

Income Inequality in the U.S. and Globally

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May 10, 2021

The background image shows a seesaw on a brick wall. On the higher end, a single person stands. On the lower end, a group of many people stands, illustrating the concept of income inequality.

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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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Outline

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

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Previous Lecture ...

- **Income inequality is clearly increasing in the U.S. and in other advanced countries.**
- **Wealth inequality is higher than income inequality in advanced countries**



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What you'll hear today

- **Where does inequality come from?**
- **Market Forces**
 - Labor Unions
 - Competition in the economy
 - Immigration
 - Technological Change
 - Globalization
- **Government Policy**



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Where Does Inequality Come From?

- **Labor Characteristics**

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

- **Market Forces**

- Technology
- Changing demand patterns
- Competition for labor

- **Government Policy**

- Market influence
- Redistribution



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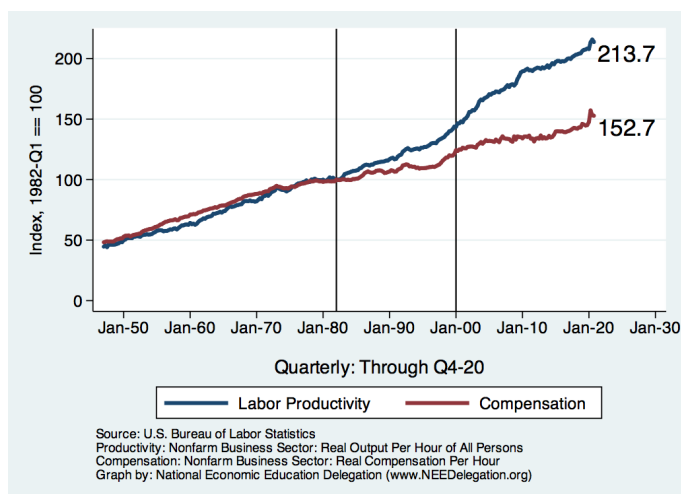
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Market Forces and Inequality

- **Changing demand patterns**
 - Technology
 - Globalization
 - Industry composition
 - PCs instead of typewriters
 - Services instead of goods
 - Professional services instead of personal services
- **Competition in labor markets**
 - Unionization
 - Market concentration

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Labor Income is Unhinged from Productivity

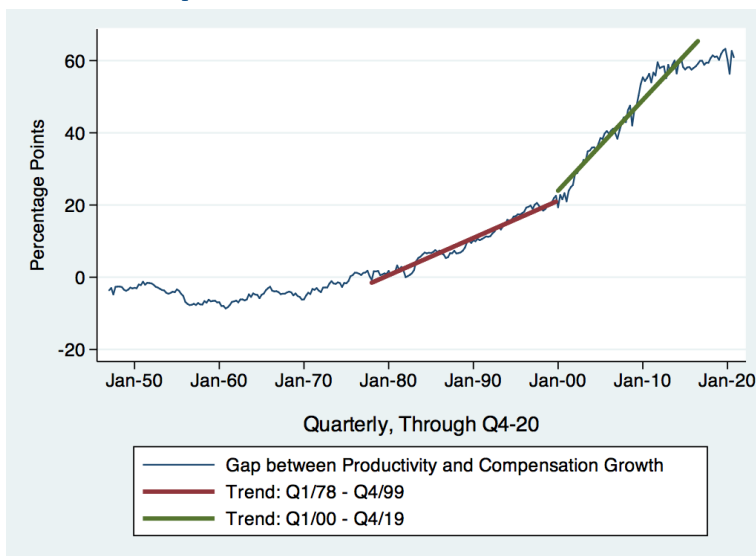


Why?

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

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Labor Share Gap Acceleration



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What you'll hear today

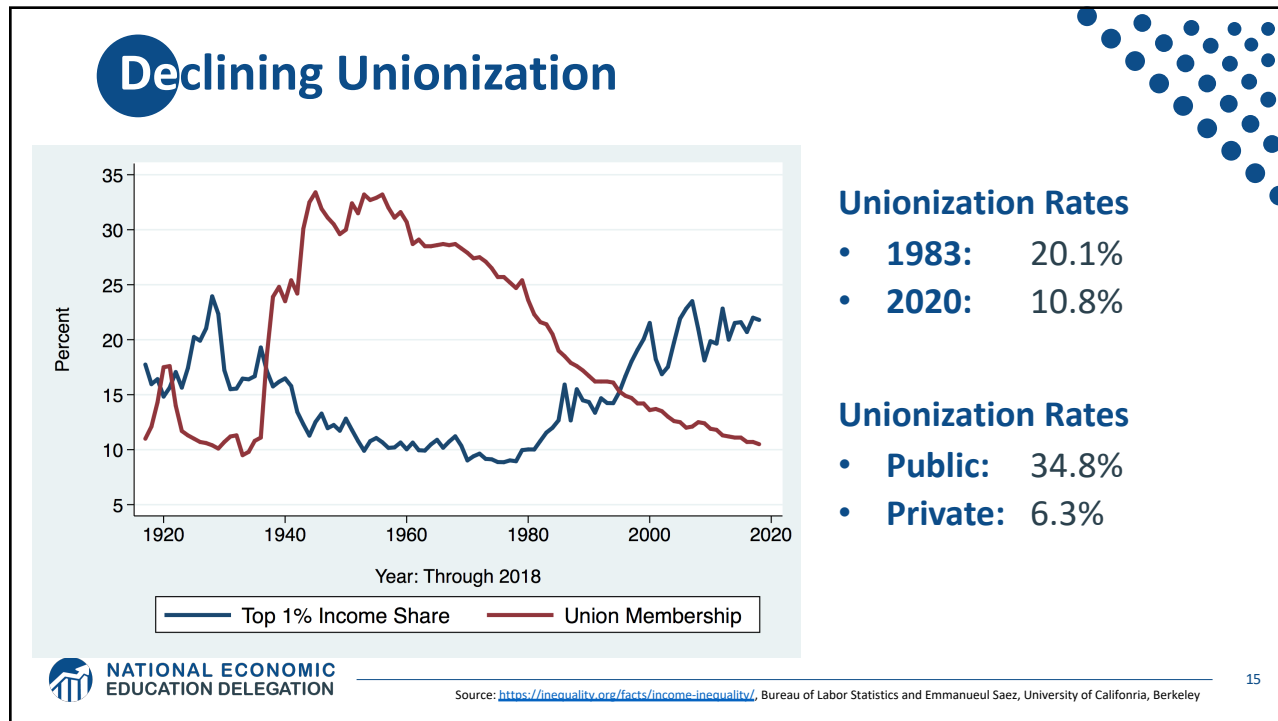
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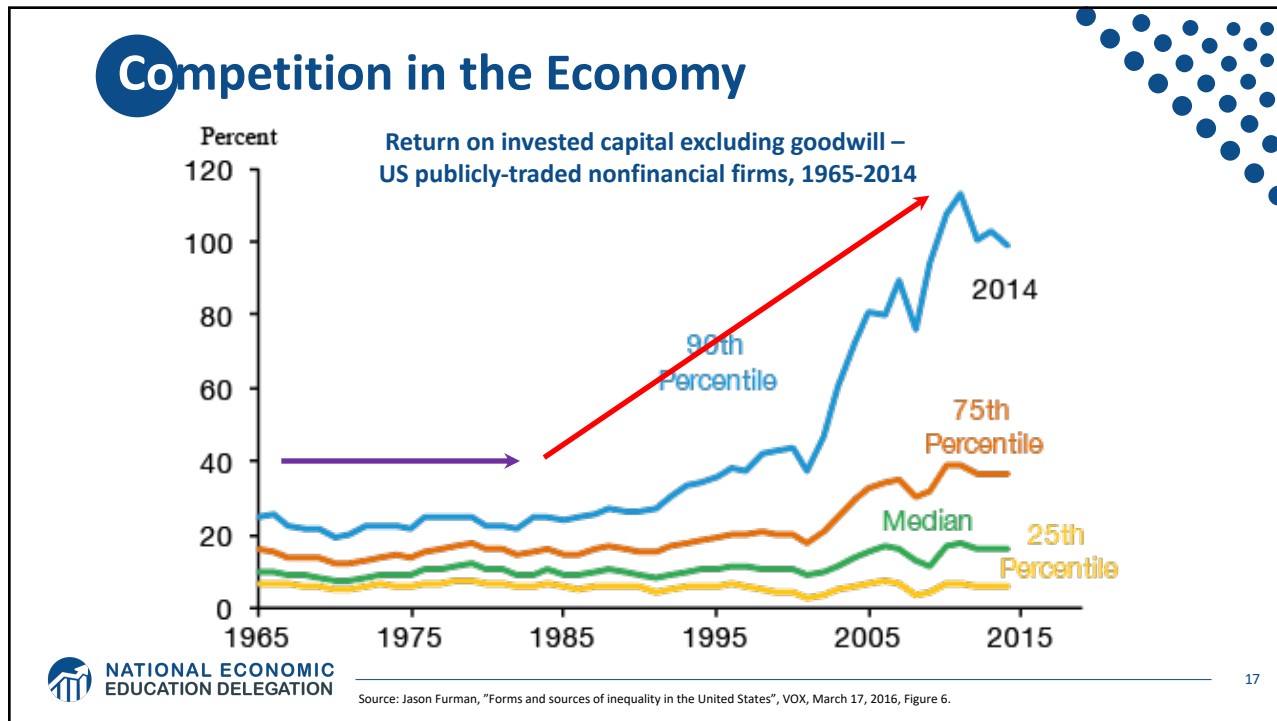
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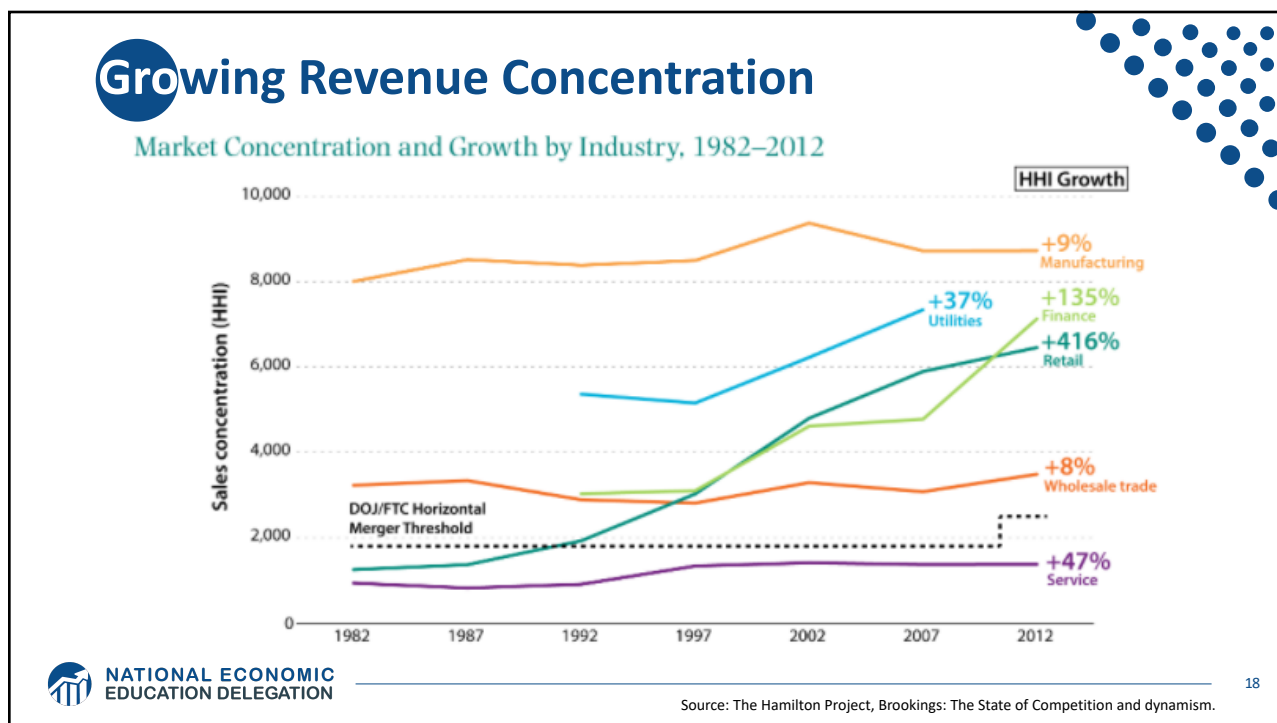
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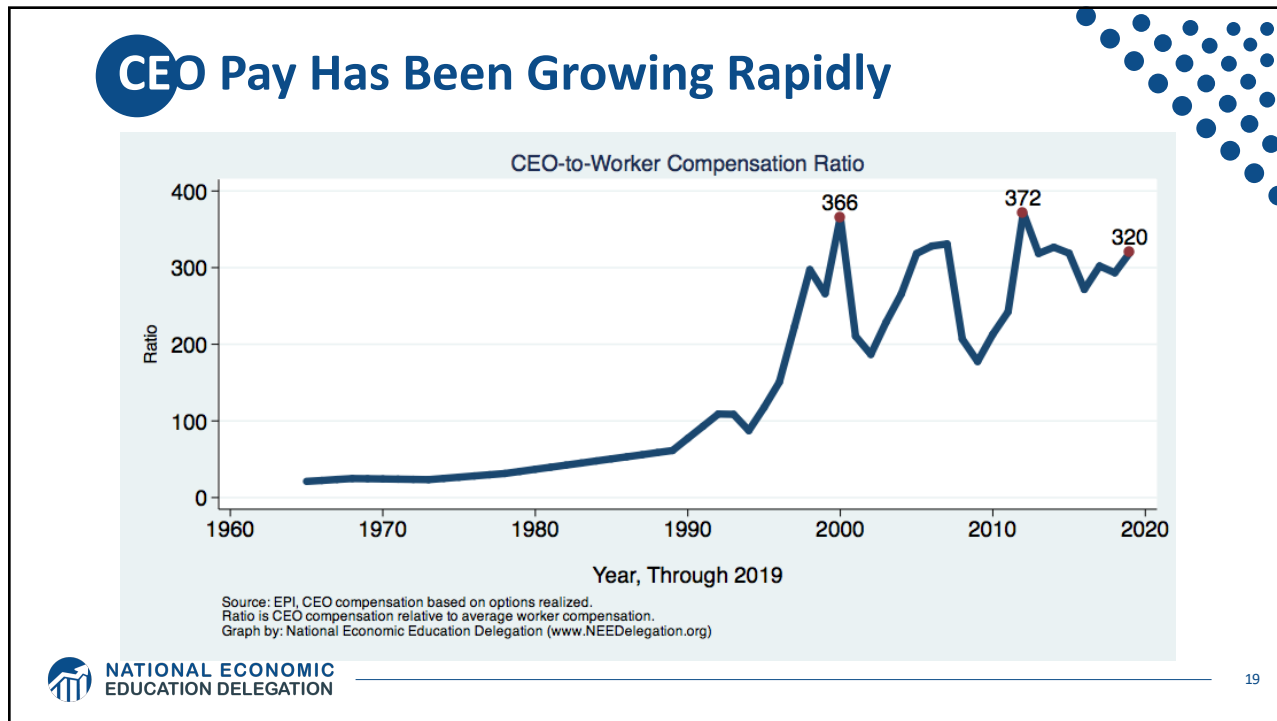
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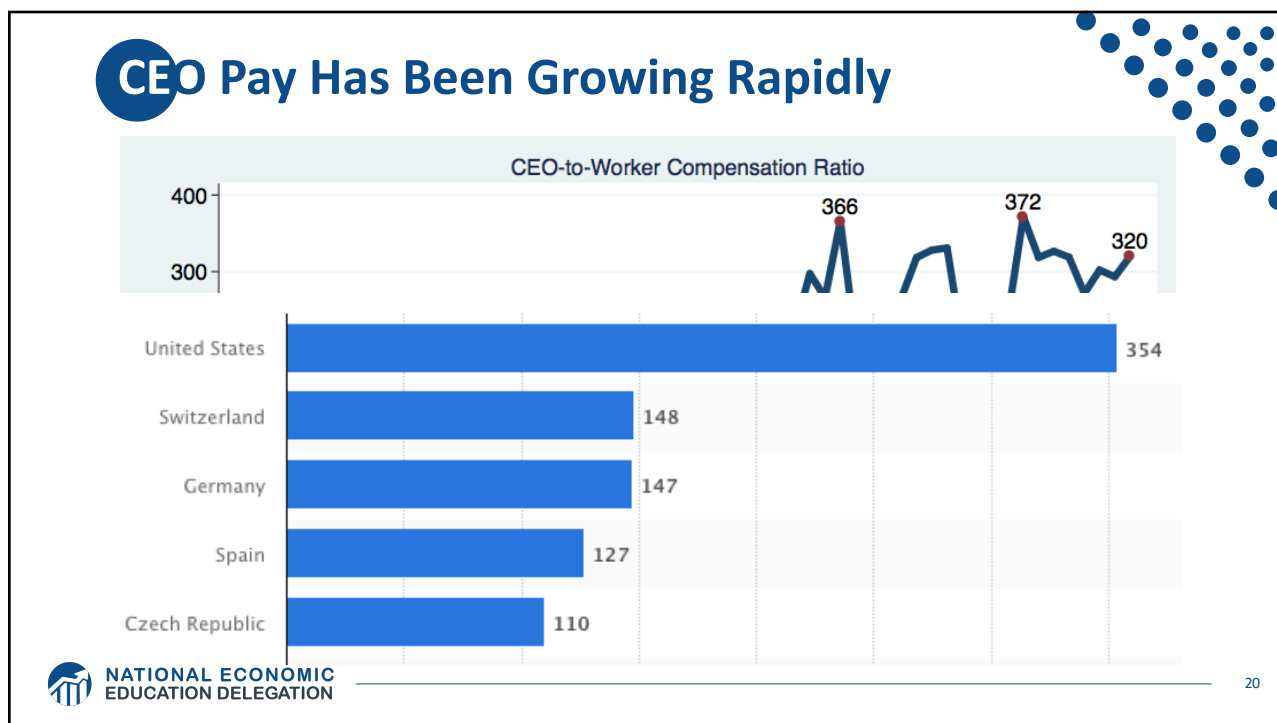
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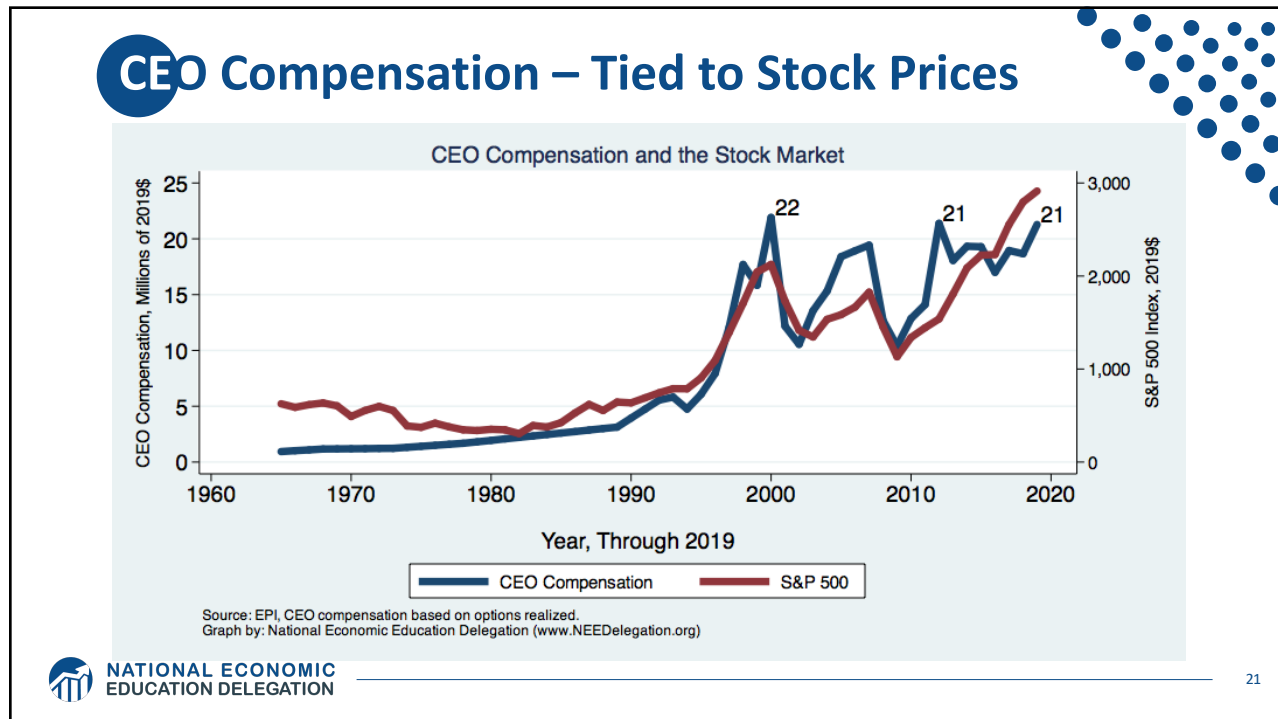
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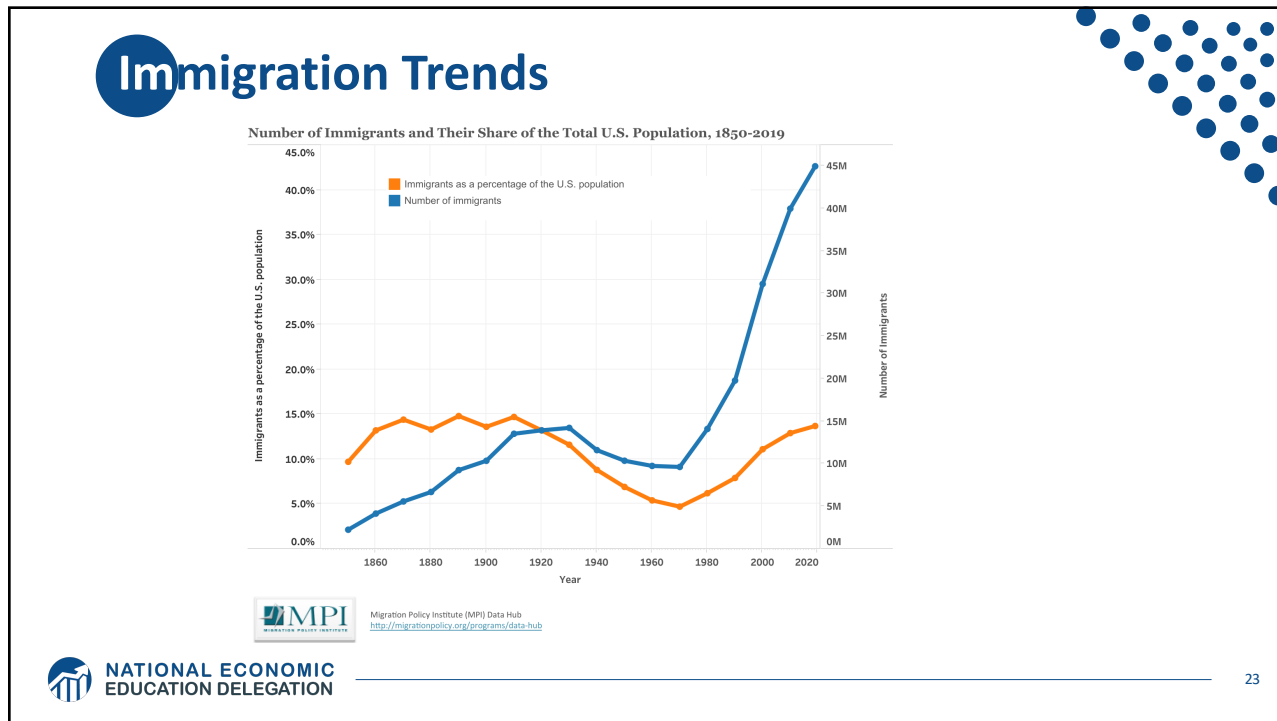
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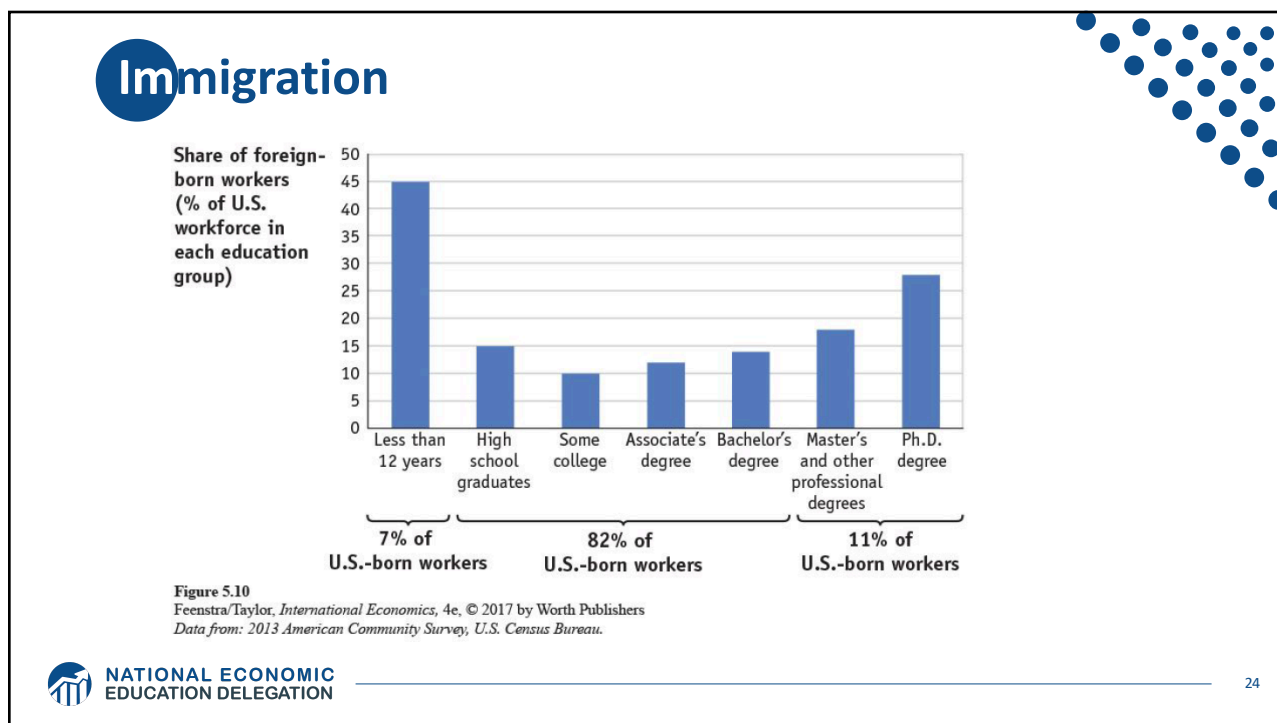
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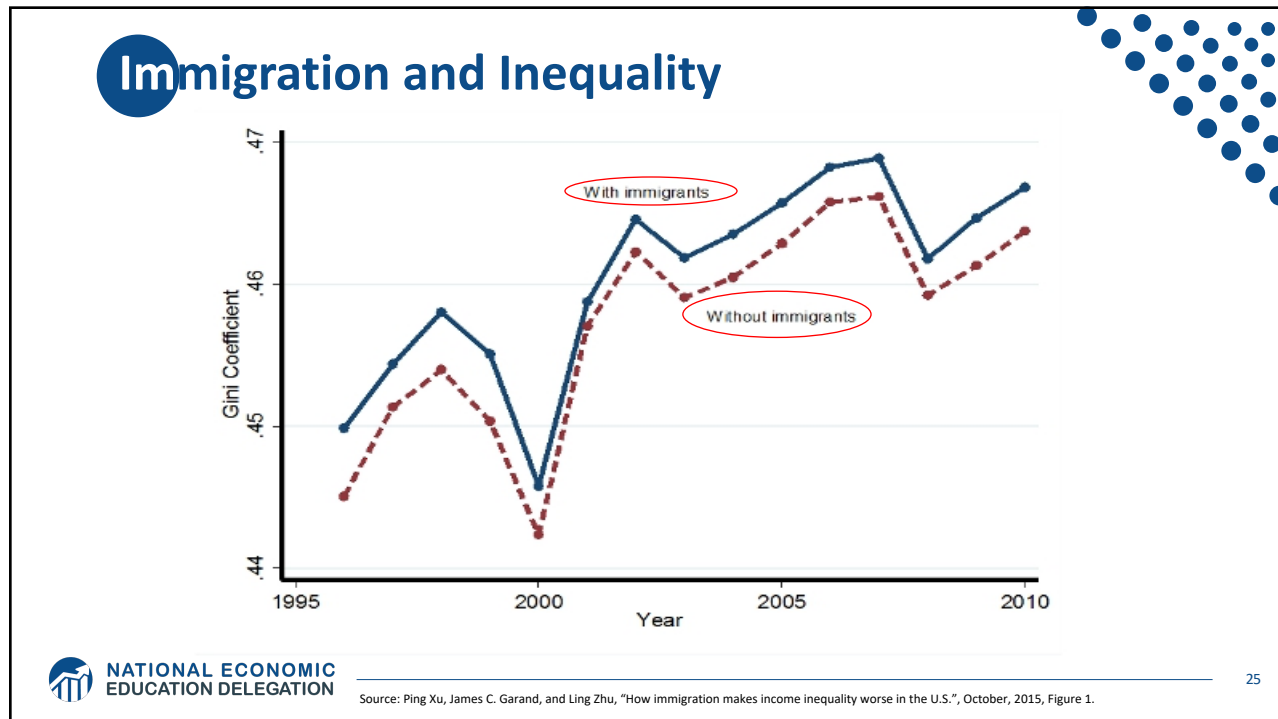
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Immigration and Inequality- Summary

- **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

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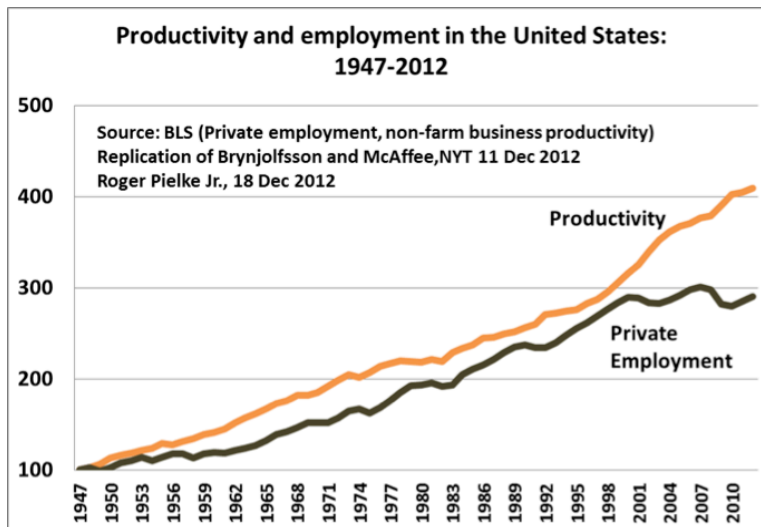
Technological Change and Inequality

- **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 likely favors a small group of individuals.
- **Both aspects increase inequality by increasing the rewards to:**
 - Those with significant labor market skills.
 - Owners over workers



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Technology Benefits Ownership over Labor



Technology can Hurt Low Income Workers



Early on, technology was good to low income workers



Until it was bad for them....

A Modern Example: Uber & Lyft

- **Technology:**

- Facilitates market power for owners.
- Reduces bargaining power for labor.
- Shifts costs of doing business onto labor.

- **Modern day Robber Barons?**

- Ruthlessly absorbing as much income as they can.
- Lack of regard for labor.



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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

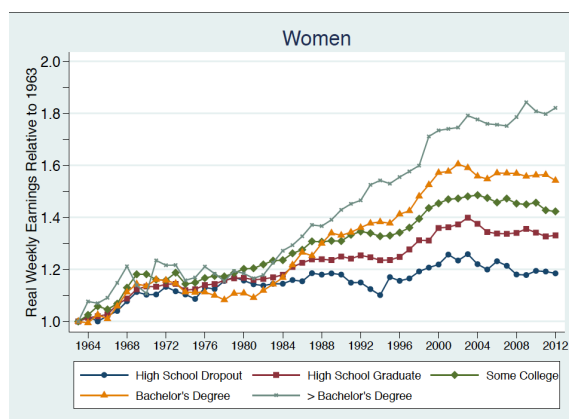
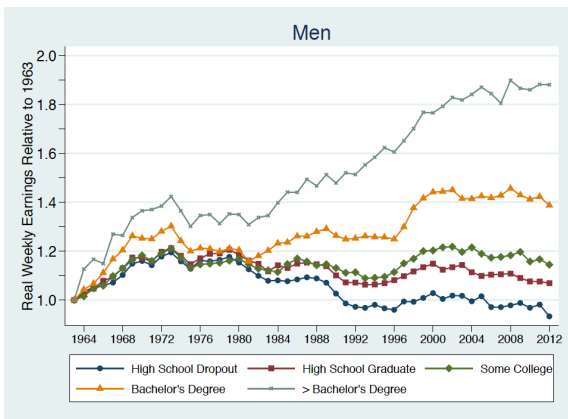
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Mechanisms for the Effects of Globalization

- **Merchandise trade**
 - Importing goods that are made with low-skilled workers and exporting goods that are made with high-skilled workers
 - Lowers 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
- **Intuitively: The same as if we were to move the actual workers.**

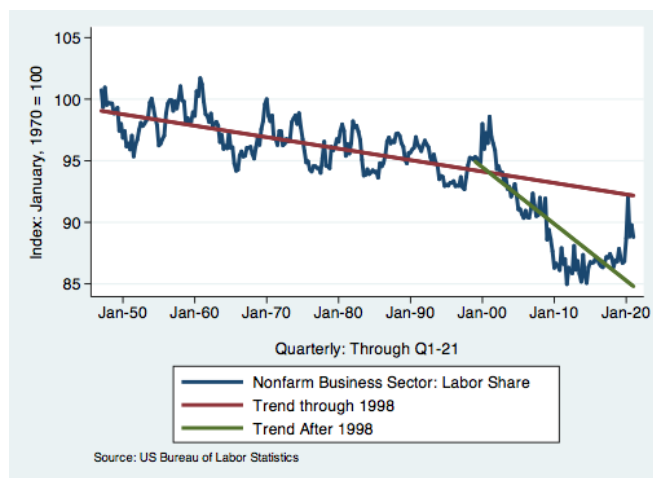
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Wage Inequality by Gender and Education



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Effects of the Unhinging?



Labor's Share of Income

1960: 66%

2011: 56%

2016: 58%

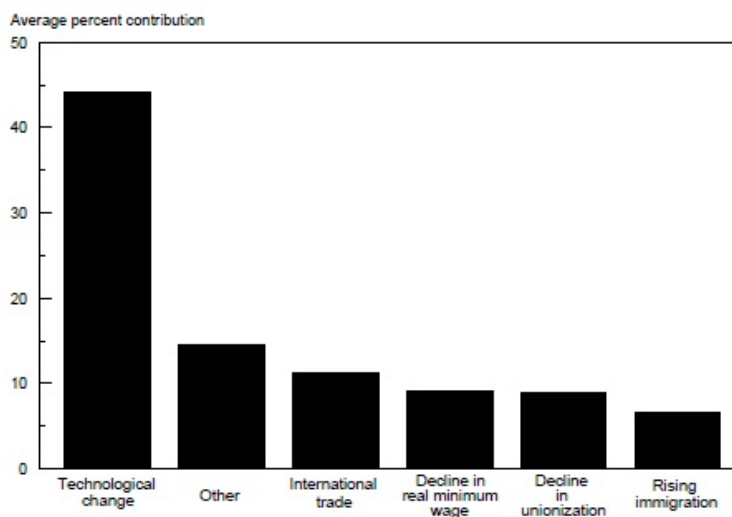
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What is driving increasing inequality?

- **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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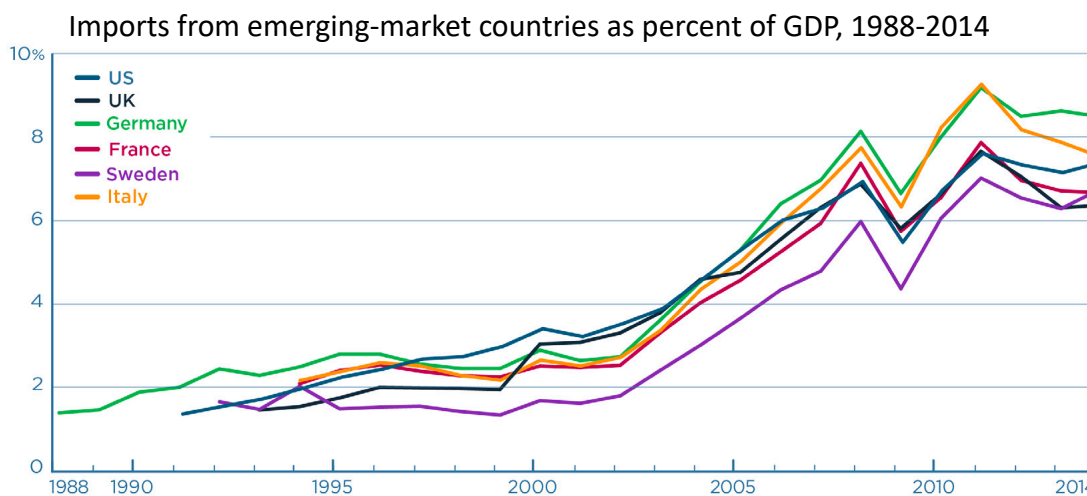
Sources of Inequality Through Late 1990s



Source: Federal Reserve Bank of New York.

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International Comparison



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Source: Peterson Institute of International Economics, "How to fix economic inequality"

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Government Policy and Inequality

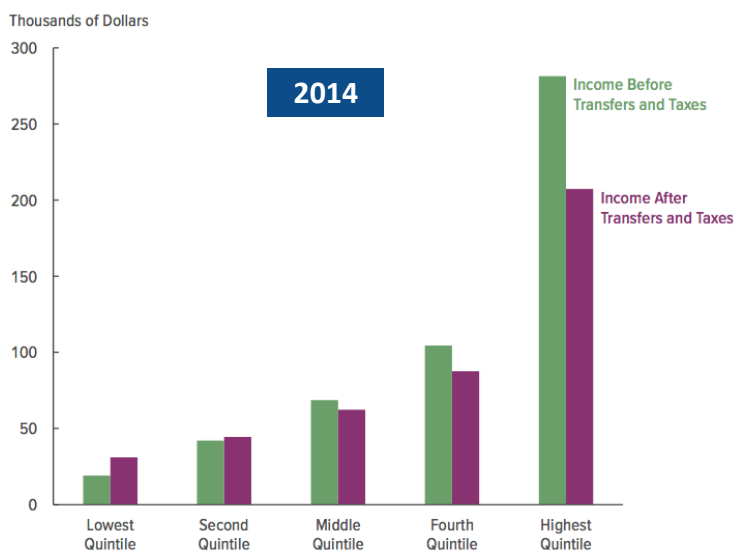
- **Market Influence: PRE-distribution**

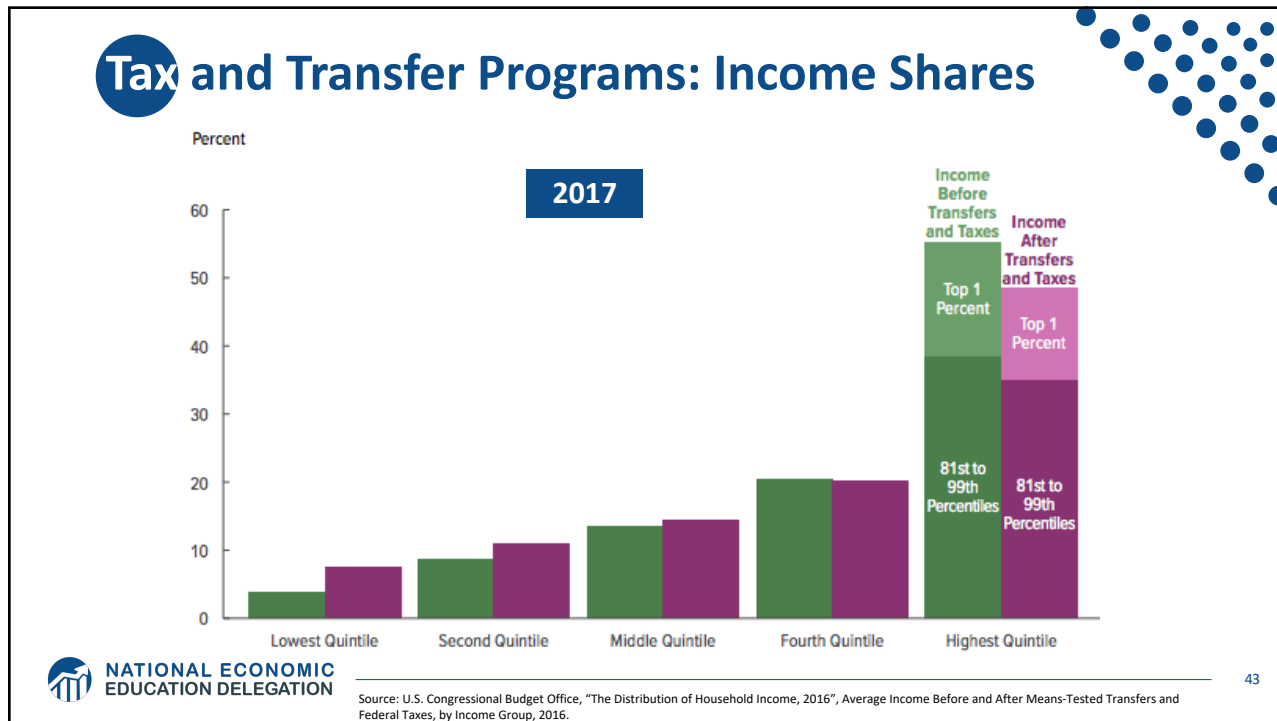
- Characteristics of labor
 - o Access to education
- Effects on labor demand
 - o Market regulation
 - Competition policy
 - o Labor regulations
 - Minimum wage, overtime, health insurance, etc.

- **RE-distribution**

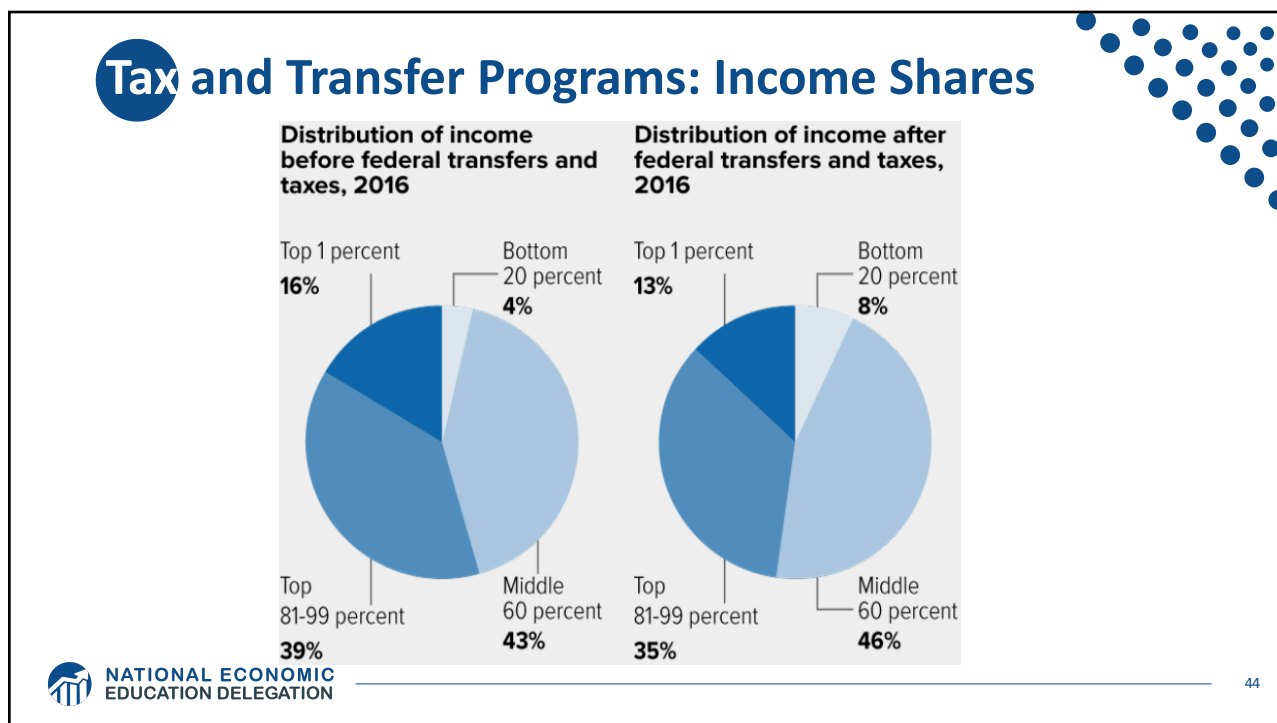
- Tax Rates
- Income support
 - o Social security
 - o Earned Income Tax credit
 - o Food stamps
 - o Medicaid and Medicare
 - o Housing subsidies
 - o Trade Adjustment Assistance
 - o Child and Dependent Care Tax Relief

Tax and Transfer Programs and Inequality

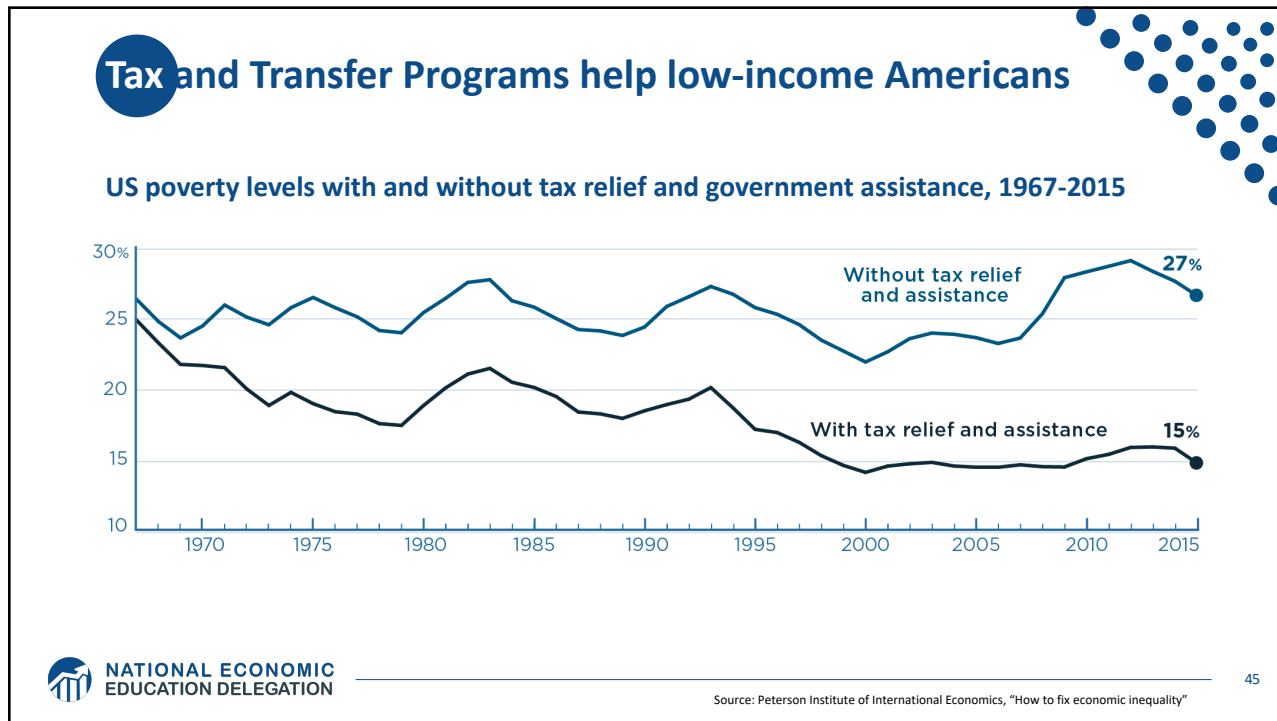




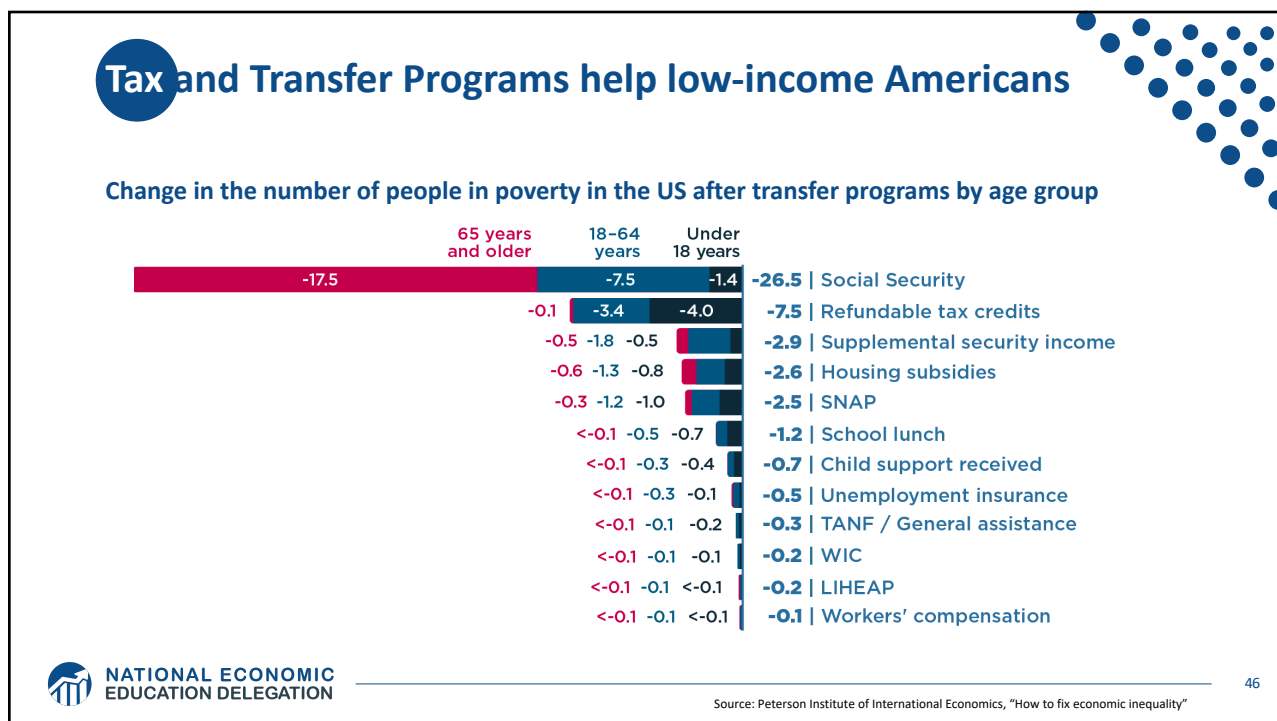
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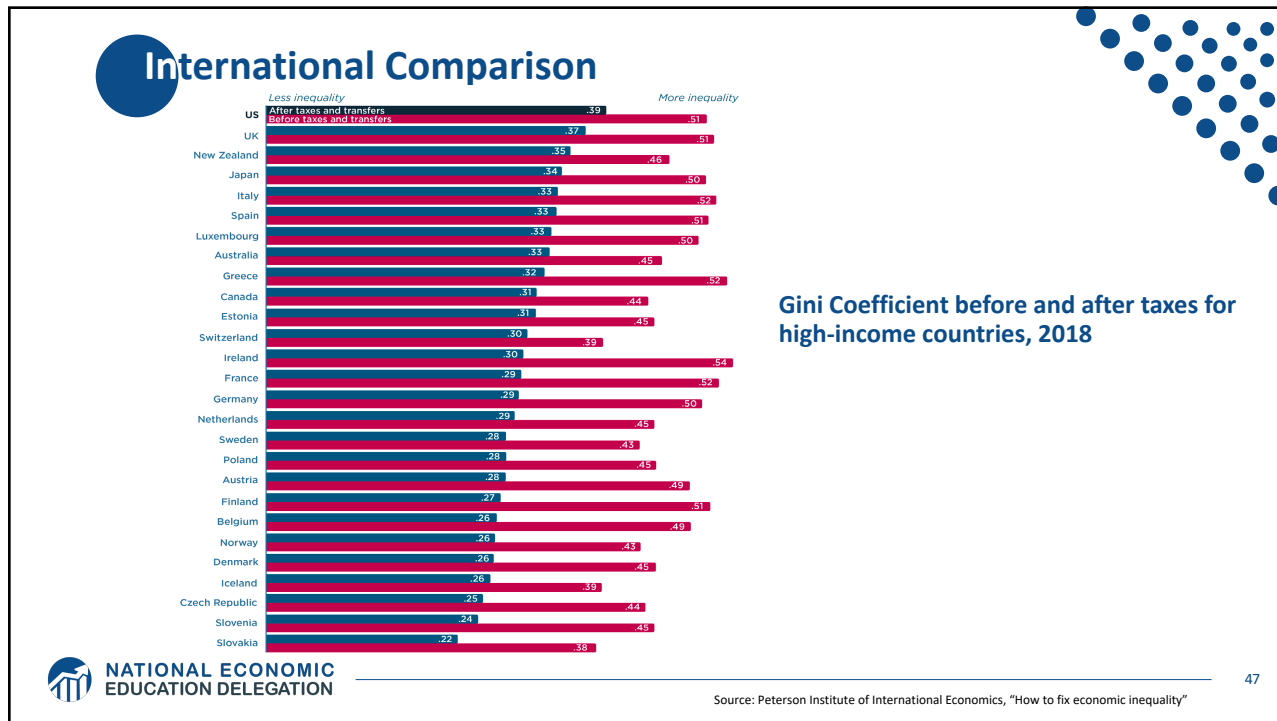
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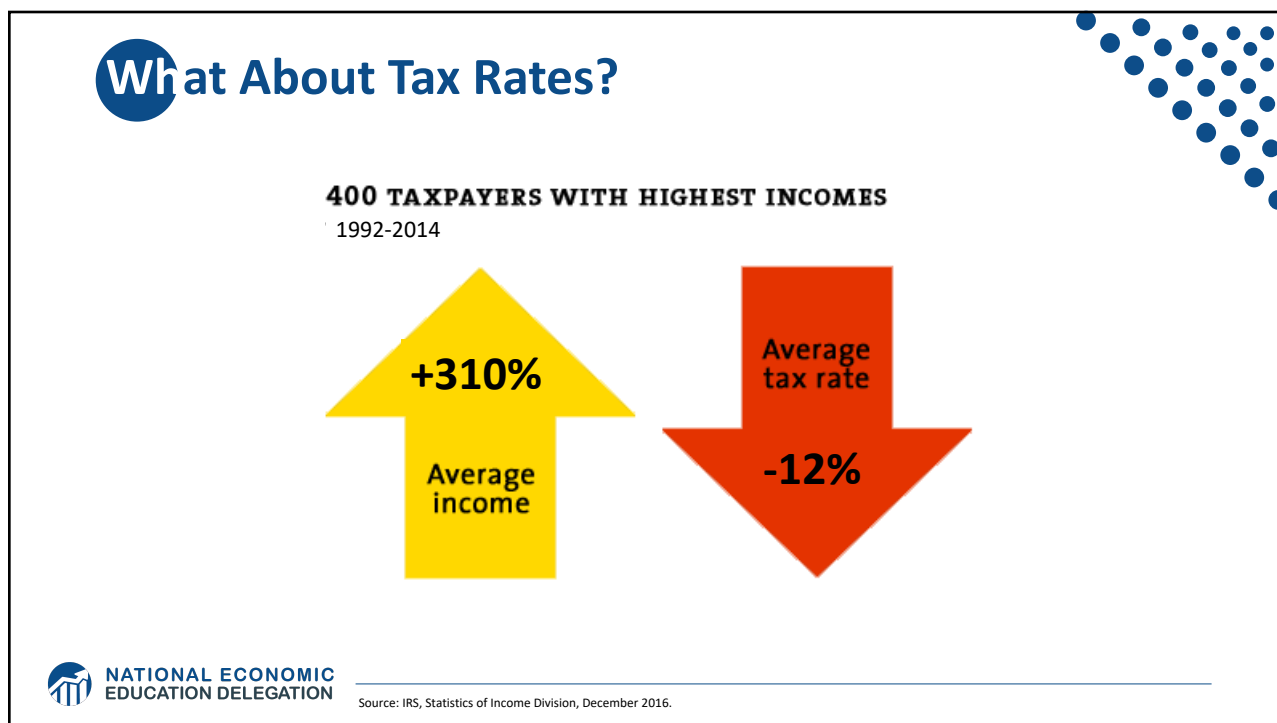
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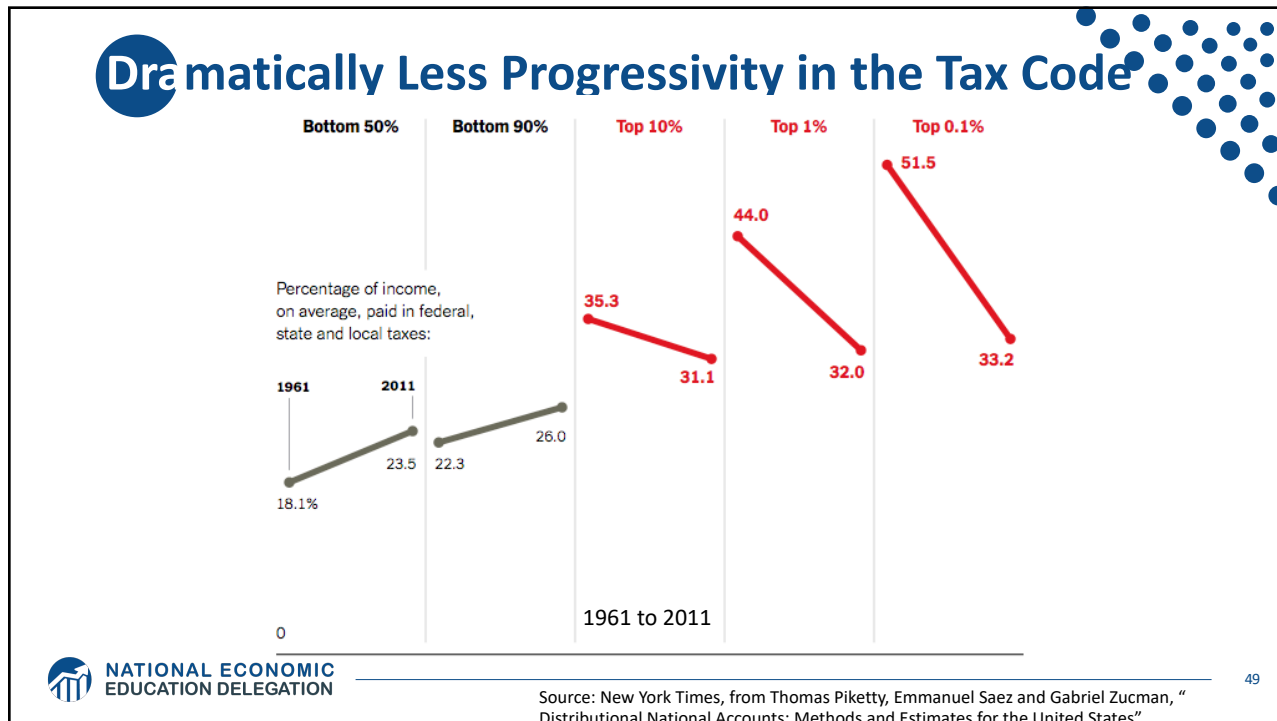
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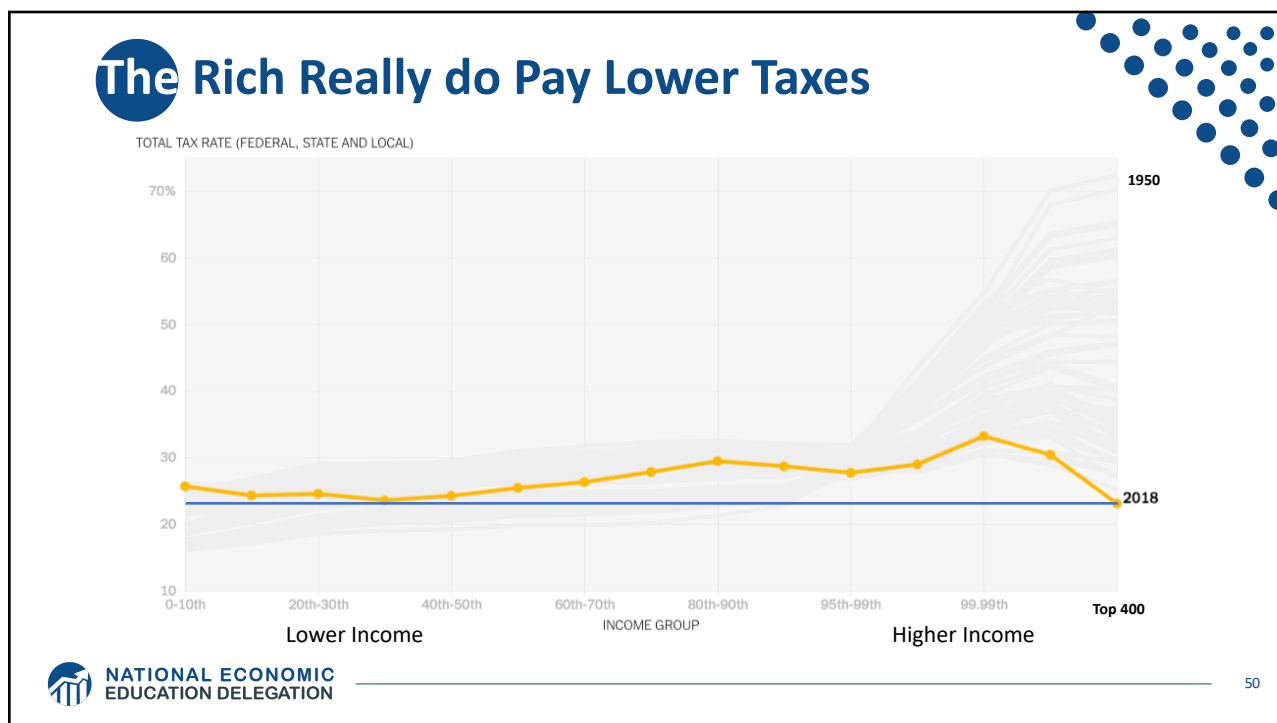
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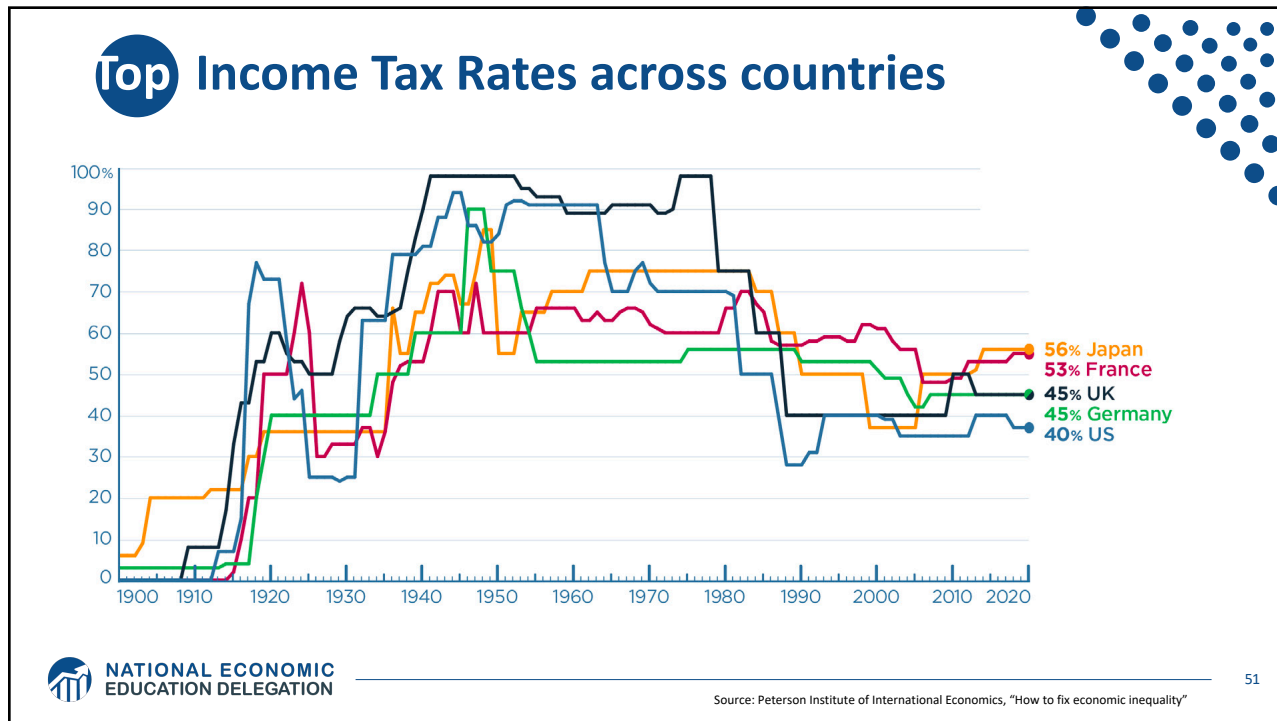
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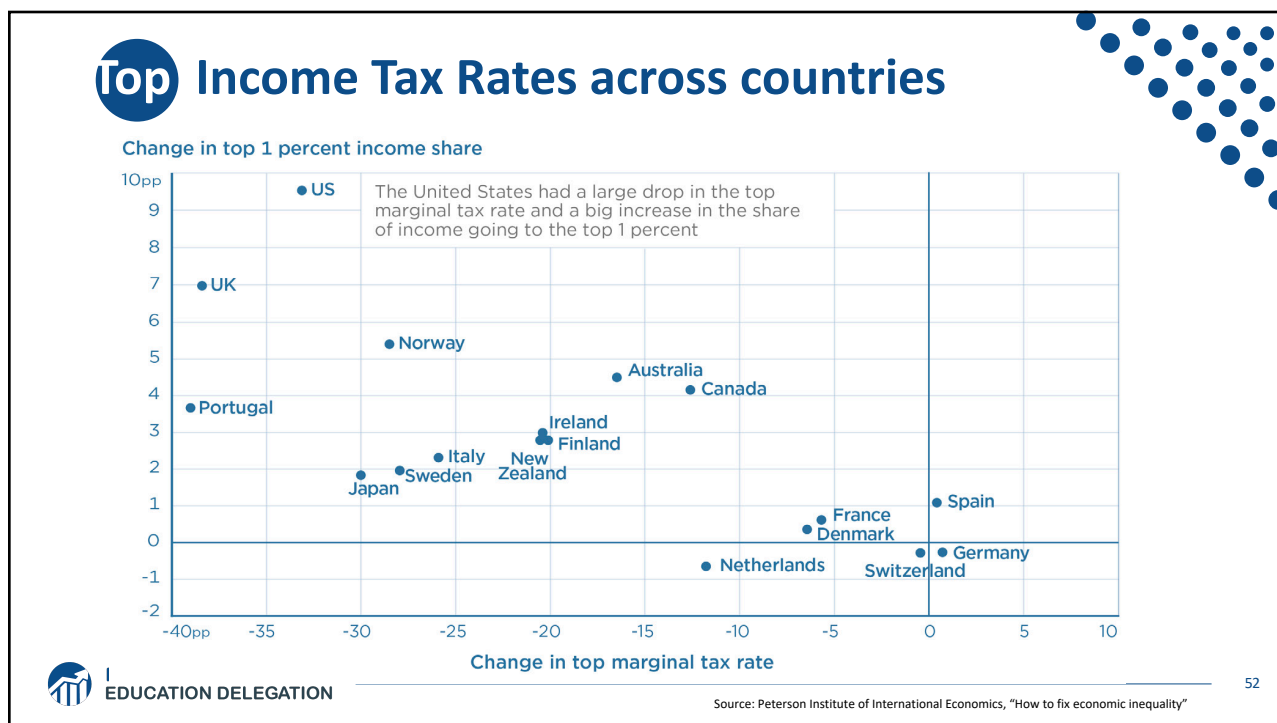
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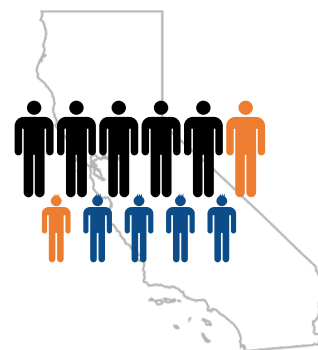
Where Does Inequality Come From? Summary

- **Labor characteristics**
 - What do workers bring to the market?
- **Market forces**
 - How does the market value the labor characteristics?
- **Government policies**
 - PRE-distribution – affecting markets
 - Redistribution – affecting incomes

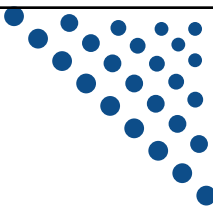
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Summary

- **The causes appear to be largely driven by:**
 - The market – technology, competition, and trade
 - Changing government policy and institutions.




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Next Lecture ...

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

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Thank you!

Any Questions?

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