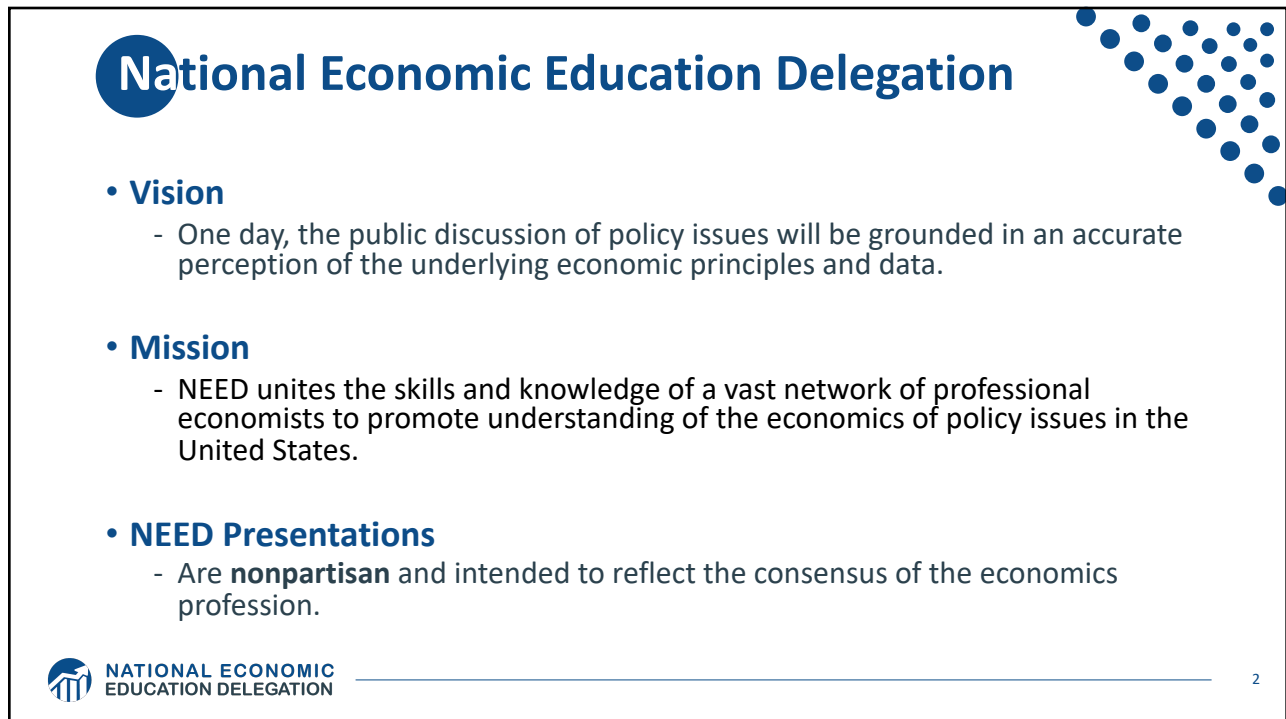
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Economic Inequality

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OLLI, Santa Clara University
May 17, 2021

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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: 53 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: 585+ 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: 44 Ph.D. Economists**

- Aid in slide deck development

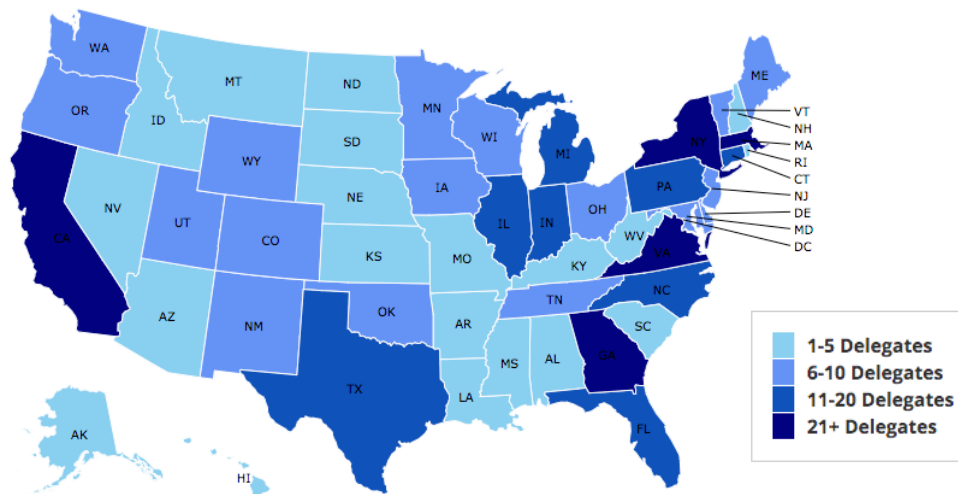


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Where Are We?



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Credits and Disclaimer

- **This slide deck was authored by:**
 - Jon Haveman, Executive Director of NEED
- **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?**
- **Does it matter?**
- **Is it a problem?**
- **What to do about it**



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Previous Lectures ...

- **Income inequality is clearly increasing in the U.S. and in other advanced countries.**
- **Wealth inequality is higher than income inequality in advanced countries**
- **The causes of growing Income Inequality appear to be largely driven by:**
 - The market – technology, competition, and trade
 - Changing institutions.



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What you'll hear today

- **Does inequality matter?**
- **How much inequality is too much?**
- **Addressing inequality:**
 - Redistribution: Tax and transfer programs
 - Pre-distribution programs



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Why Does Inequality Matter?

- **Too little inequality can:**

- Reduce individual motivation
- Slow economic growth

- **Too much inequality can:**

- Reduce individual motivation
- Slow economic growth

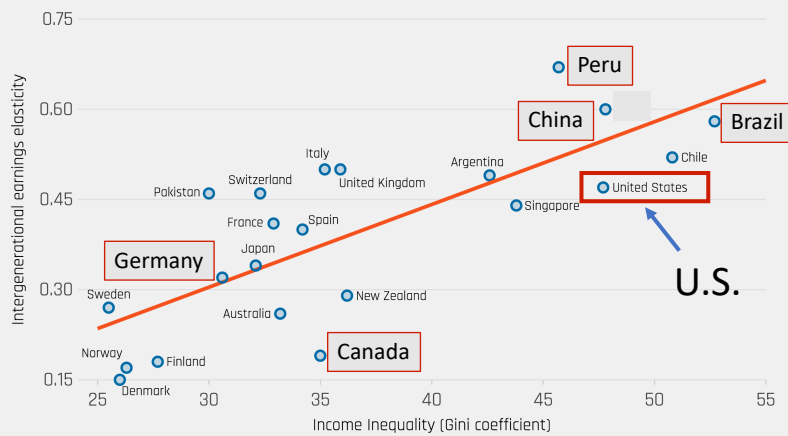
- **Too much inequality may also:**

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



The Great Gatsby Curve: high inequality tends to mean low mobility

More inequality is associated with less mobility across generations



Source: Miles Corak, "Income Inequality, Equality of Opportunity, and Intergenerational Mobility," Journal of Economic Perspectives 27 [3]: 79-102; "All the Ginis," available at <http://www.worldbank.org/en/research/brief/all-the-ginis> [last accessed 9/28/2018]

A pattern of unequal growth has made it more common for children to earn less than their parents

Research shows that a child born in 1950 in the United States has about an 80% chance of having higher household income than their parents at age 30. A child born in 1980 has just a 50% chance.

Growth was shared equitably in these years (poorest to richest)

1 1950
A child born in 1950 in a household with median income of \$29k was likely to out earn their parents...

2 1980
...even if their household at age 30 had below median income.

3 If their household had income in the middle of the income distribution, they could earn at least \$47k.

6 Households at the top of the middle 20% earn just \$55k, and households in the bottom quintile earn less than \$16k.

Income Distribution (1980):
 > \$85k Top 20%
 \$47-63k Middle 20%
 < \$28k Bottom 20%

Most growth went to the rich in these years (poorest to richest)

4 1980
But a child born in 1980 in a household with median income of \$53k had to find a better job than their parents...

5 2010
...just to earn the same amount of money at age 30.

6 Households at the top of the middle 20% earn just \$55k, and households in the bottom quintile earn less than \$16k.

Income Distribution (2010):
 > \$92k Top 20%
 \$35-55k Middle 20%
 < \$16k Bottom 20%

Notes: Incomes shown are for households. Growth as shown in the bar charts is National Income Growth from Thomas Piketty, Emmanuel Saez, and Gabriel Zucman's Distributional National Accounts dataset. Growth in the first period is 1962-1980 because by quintile growth does not extend back to 1950. Source: Chetty, Raj, and others. 2017. "The Fading American Dream: Trends in Absolute Income Mobility since 1940." Science 356 [6336]: 398-406. Thomas Piketty, Emmanuel Saez, and Gabriel Zucman, "Distributional National Accounts: Methods and Estimates for the United States," The Quarterly Journal of Economics 133, no. 2 (May 1, w018): 553-609

Equitable Growth

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U.S. – Racial Differences

Figure 3L Share of children from various earnings fifths ending up in the bottom fifth as adults, by race

Earnings fifth as children	African American (%)	White (%)
Bottom	50.8%	26.3%
Second	35.7%	20.5%
Middle	34.1%	15.6%
Fourth	27.2%	14.7%
Top	21.3%	11.3%

Odds of staying poor, if born poor (African American: 50.8%, White: 26.3%)

Odds of becoming poor, if born rich (African American: 21.3%, White: 11.3%)

Source: Authors' analysis of Mazumder (2011, Table 7)

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Economic Policy Institute, *State of Working America*, 2012

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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.



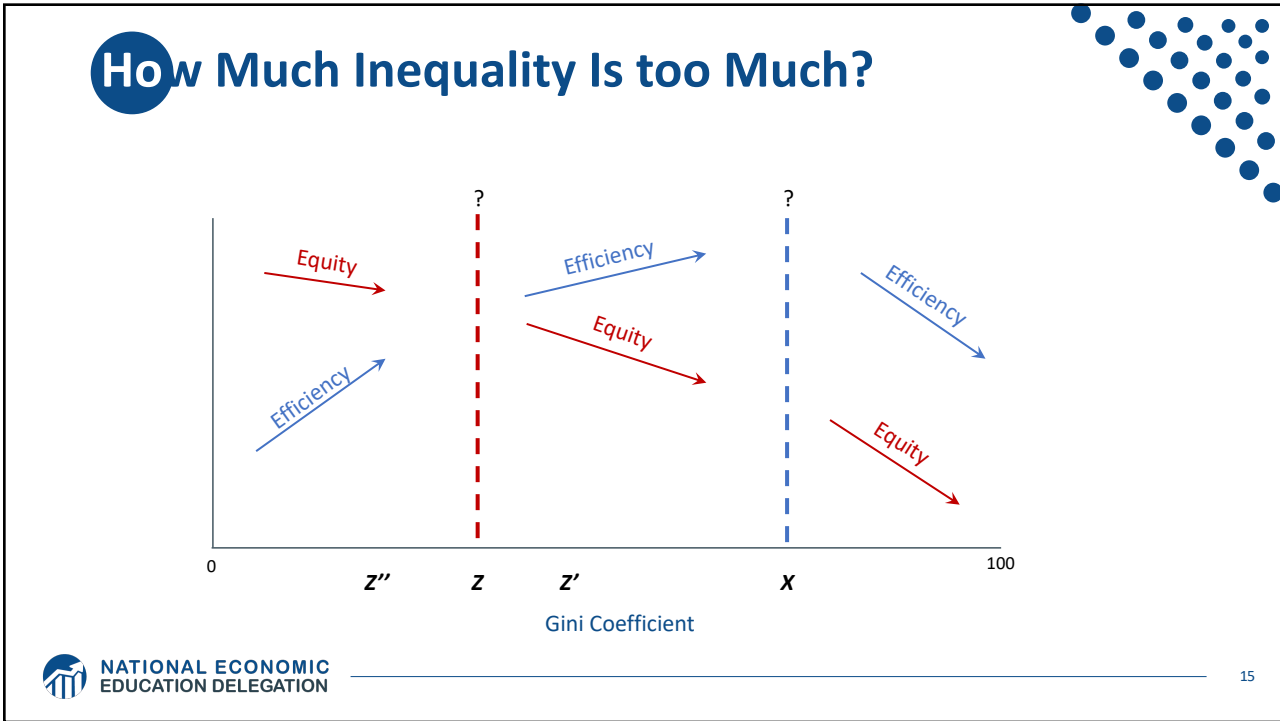
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What you'll hear today

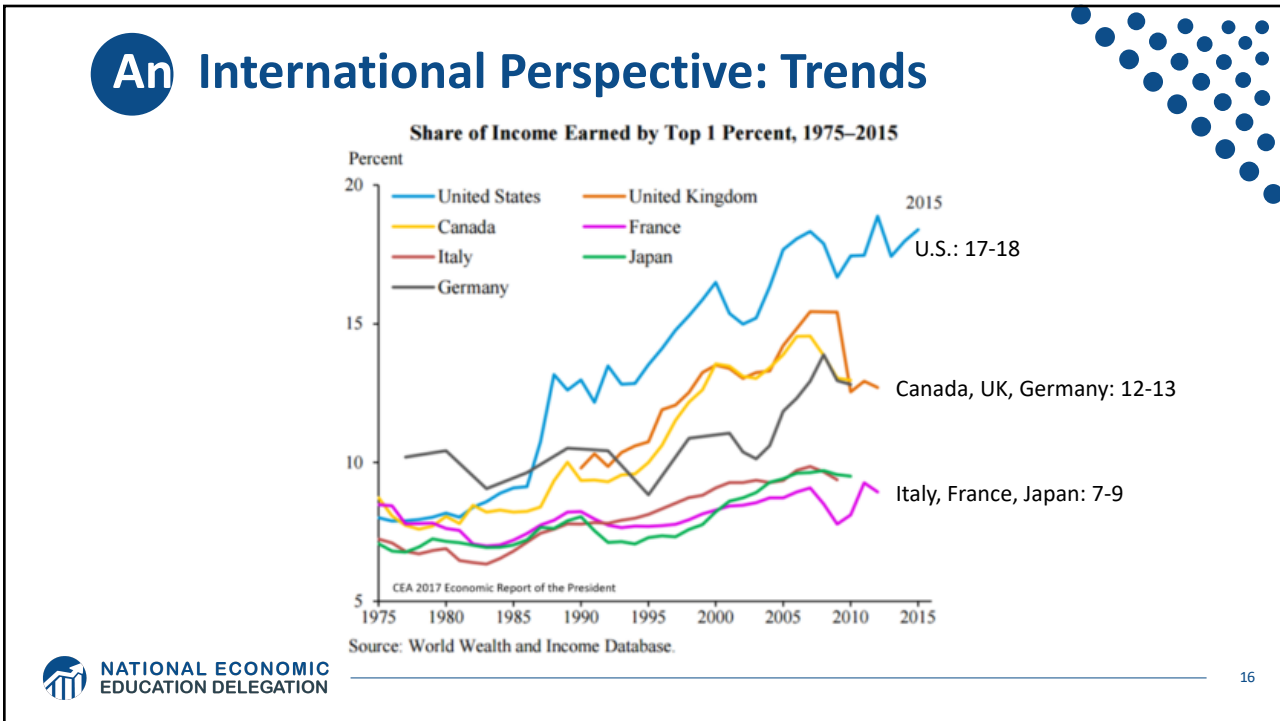
- Does inequality matter?
- How much inequality is too much?
- Addressing inequality:
 - Redistribution: Tax and transfer programs
 - Pre-distribution programs



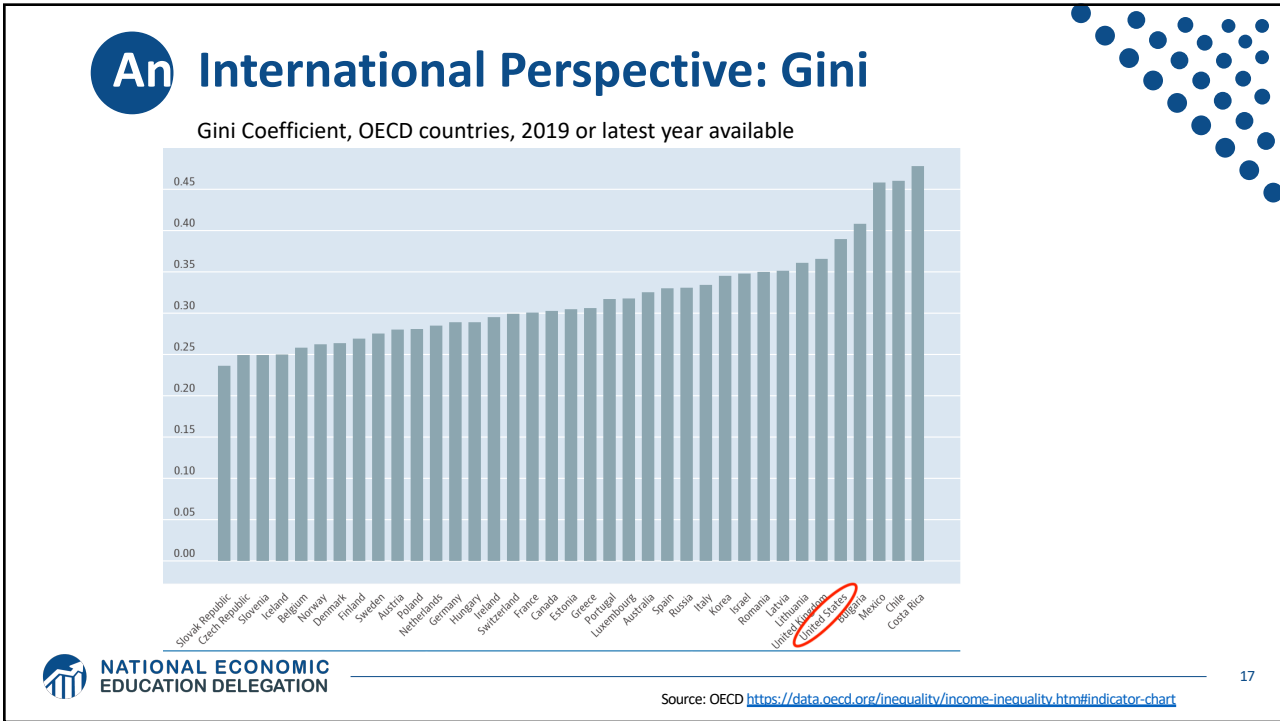
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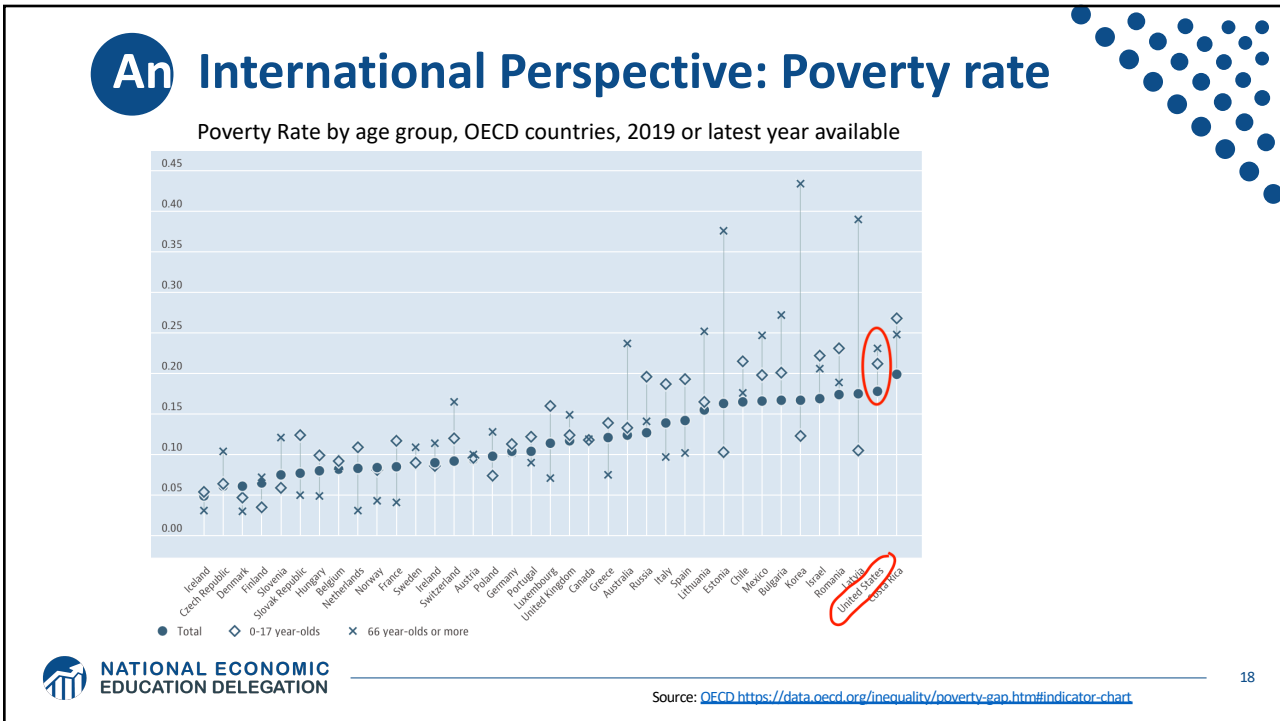
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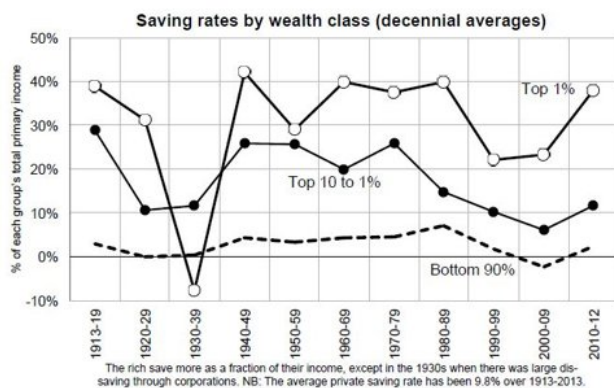


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But the High-Income Households Save More



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

- Facilitates the Consumption of: **Wealth**
- Which facilitates the consumption of: **Leisure**



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What you'll hear today

- Does inequality matter?
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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?**

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Addressing Inequality: Immediately Available Policy Solutions (1/2)

- **RE-distribution**
 - Tax and transfer programs
- **PRE-distribution**
 - Access to healthcare and education
 - Strengthen labor unions
 - Collective bargaining
 - Other policies that favor labor over business owners
 - Minimum wages



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Tax and Transfer Potential Policies

• Government transfers

- Full employment policies: unemployment benefits, Trade-Adjustment Assistance
- Earned Income Tax Credit (EITC)
- Child Tax Credit (CTC)

Social safety nets

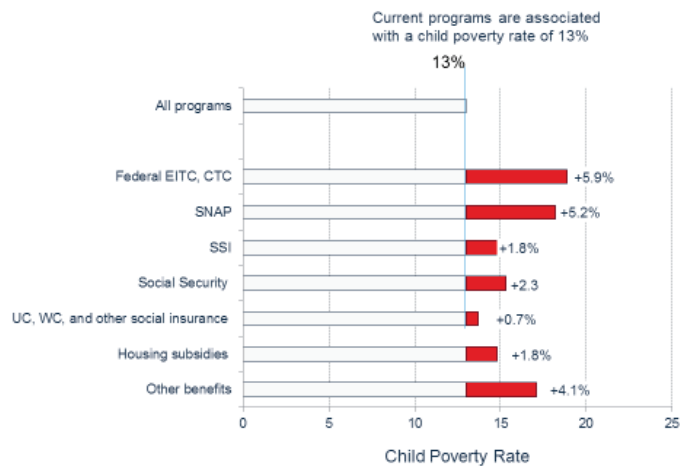
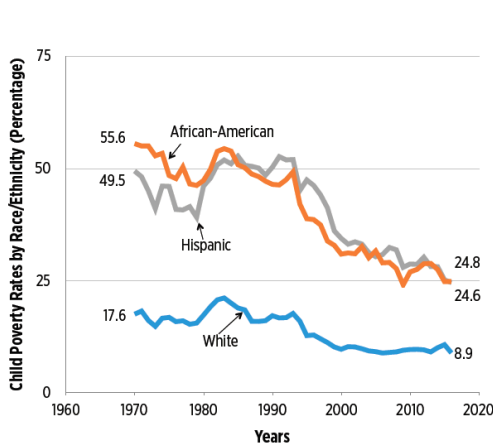
- Expand access to health care
- Relax eligibility conditions for SNAP
- Housing vouchers, Supplemental Security Income, Social Security Disability Insurance
- Universal Basic Income

• Tax Policies

- Reduce payroll tax, introduce wealth tax, keep estate tax, introduce value-added tax

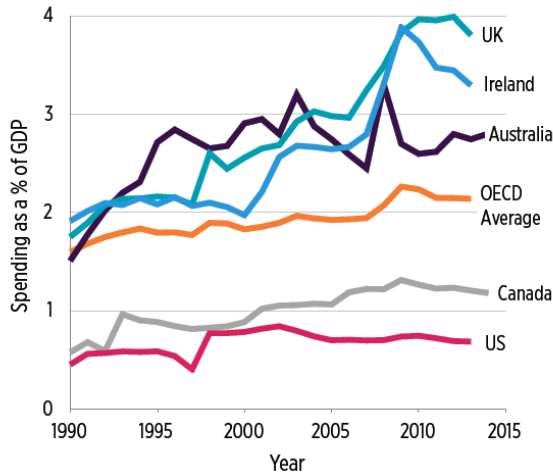


Current Programs and Child Poverty



Source: A Roadmap to Reducing Child Poverty, National Academy of Sciences, 2019

Public Spending on Families and Children



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Addressing Inequality: Immediately Available Policy Solutions (1/2)

• RE-distribution

- Tax and transfer programs

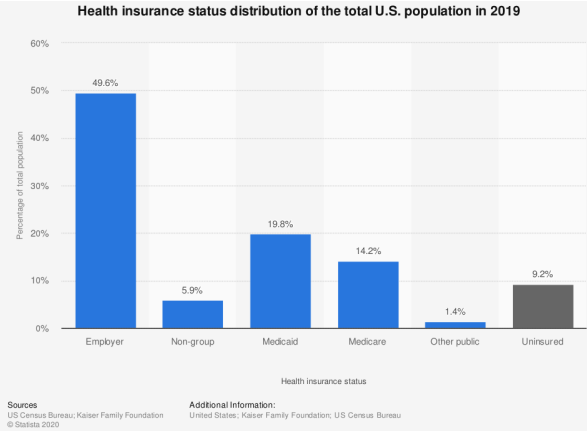
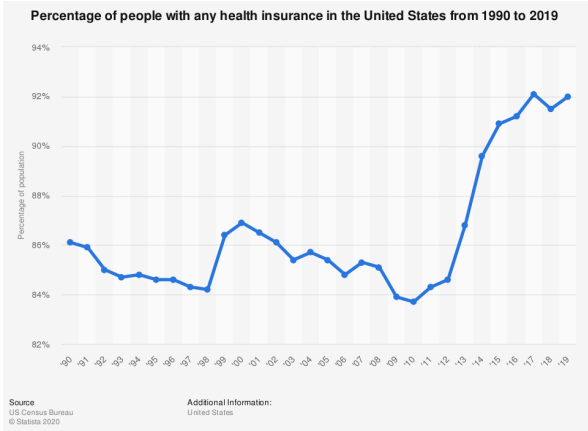
• PRE-distribution

- Access to healthcare and education
- Strengthen labor unions
- Collective bargaining
- Other policies that favor labor over business owners
- Minimum wages



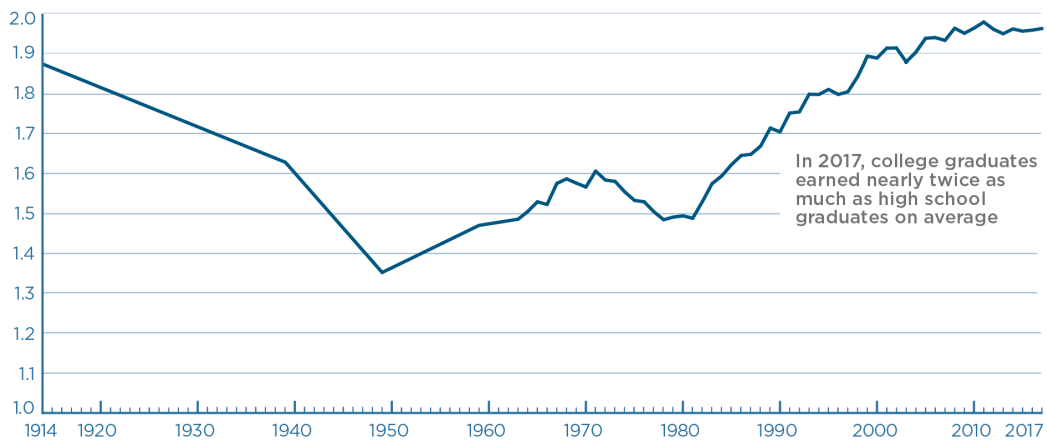
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Health Insurance Coverage



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The College Premium



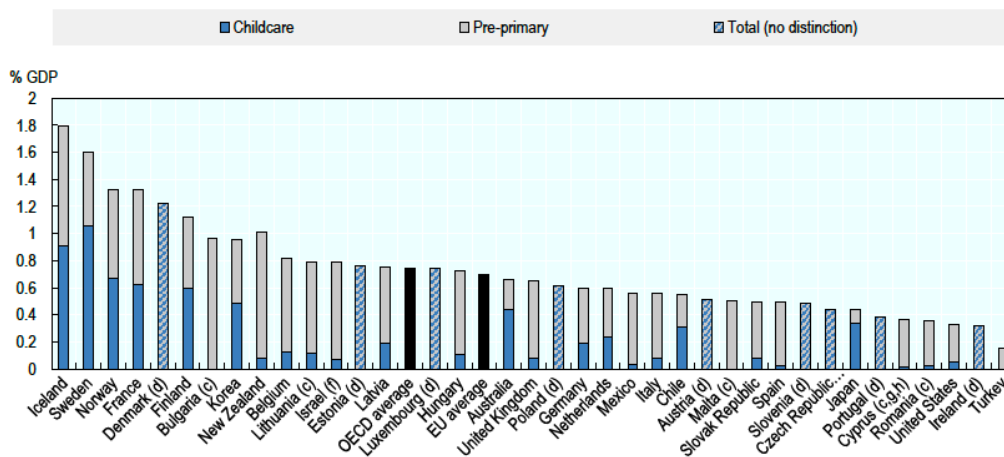
Source: Autor, Goldin, and Katz (2020).

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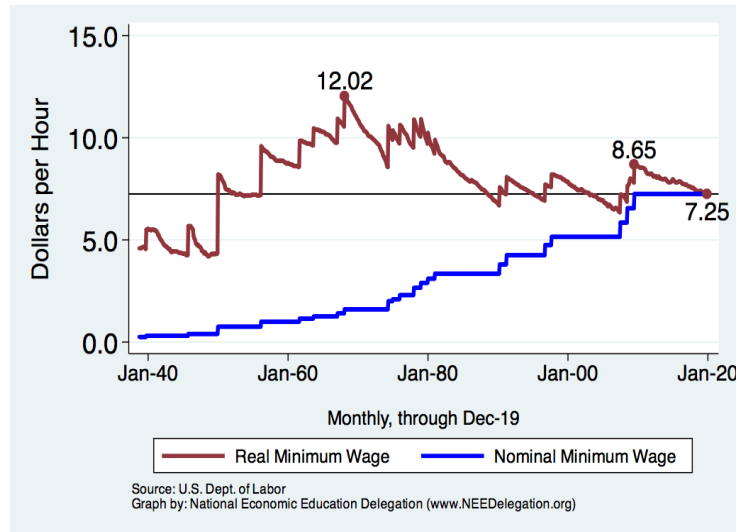
Early Child Education

- High-quality birth-five programs for disadvantaged kids can deliver a 13% per year return on investment improving education, employment, health outcomes and savings on later remediation costs.
- Early education has tremendous benefits for kids. Research shows that kids who experience quality early learning:
 - Are 25% more likely to graduate high school (Perry School Project)
 - Are four times more likely to have completed a bachelor’s degree or higher (The Abecedarian Project)
 - Earn up to 25% more in wages as an adult (The Jamaican Study)
- Government-provided universal preschool education and childcare could financially benefit low-skilled and low-income workers and keep women in the workforce.

Early Education – International Perspective

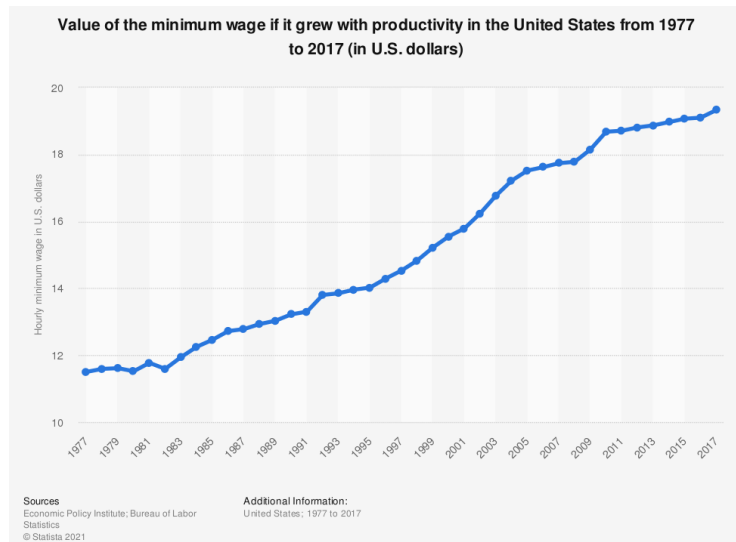


Historical Values of Minimum Wages



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Minimum Wages and Productivity



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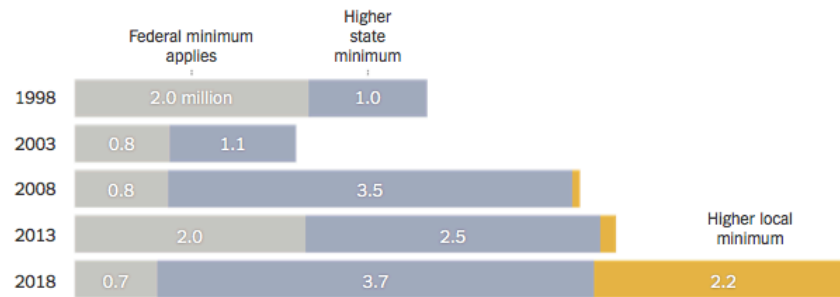
Historical Share of Workers paid Minimum Wage



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Most Minimum Wage Workers Aren't Bound by the Federal Minimum Anymore

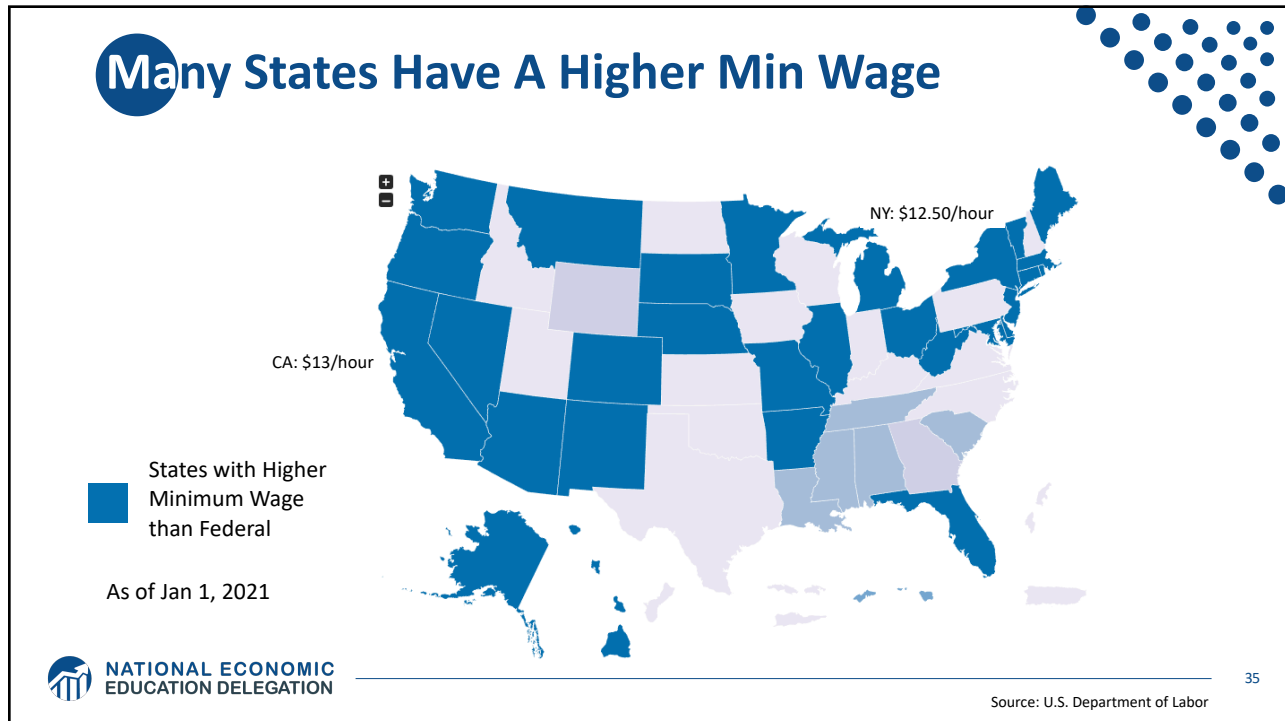
Millions of workers:



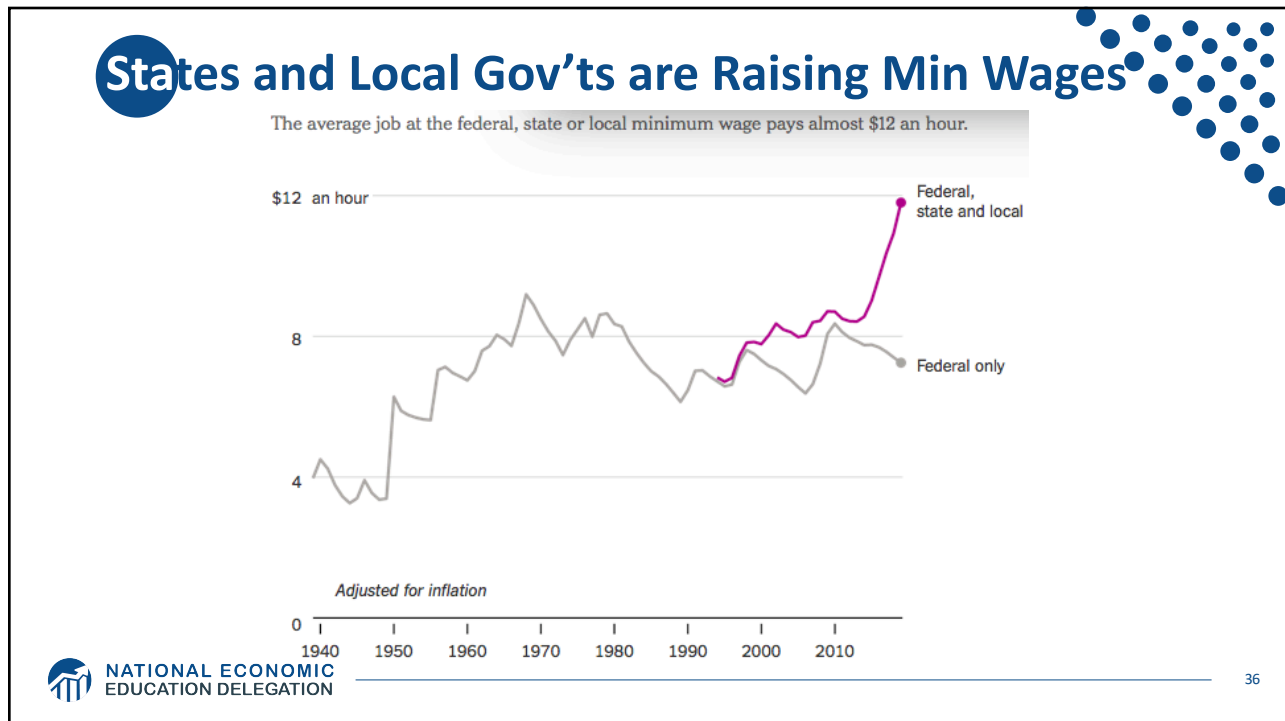
Includes farm workers and tipped incomes

Source: Author's analysis of Current Population Survey; data from the Berkeley Center for Labor Research and Education, as well as Kavya Vaghul and Ben Zipperer (2016).

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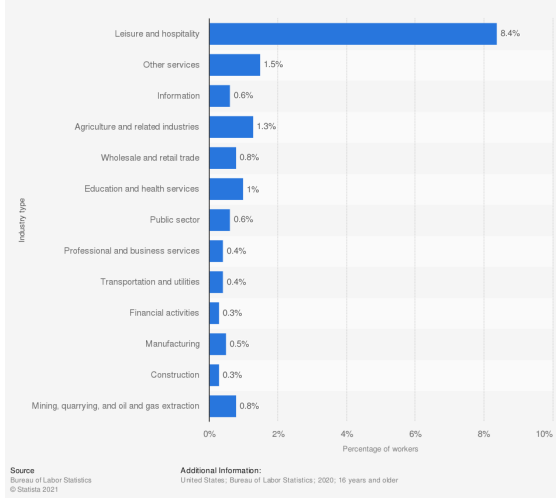
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Industries with Workers paid Min Wage

Percentage of workers paid hourly rates with earnings at or below the minimum wage in the U.S. in 2020, by industry



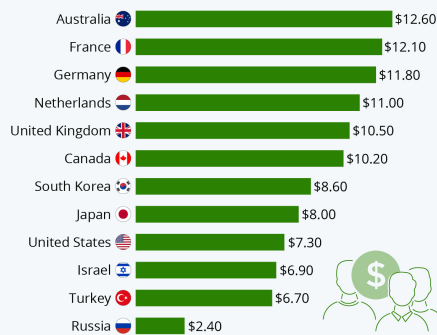
Source: Bureau of Labor Statistics © Statista 2021
 Additional Information: United States; Bureau of Labor Statistics; 2020; 16 years and older

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Minimum Wage – International Comparison

How America's Minimum Wage Compares

Real hourly minimum wage in selected OECD countries in 2019*



* Constant prices (PPP) with figures rounded. U.S. data refers to the federal minimum wage (figure is higher in some states)
 Source: OECD

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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.

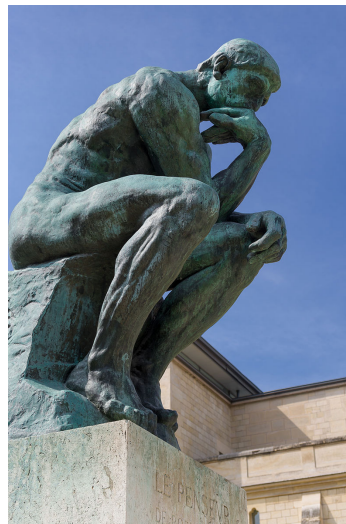


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What to do About Inequality?

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



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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.



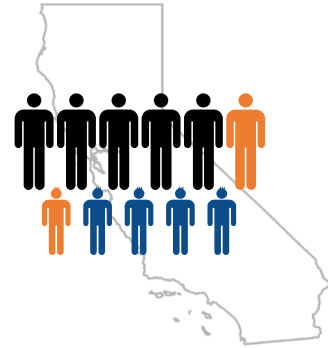
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Summary

- **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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Child poverty across U.S. States

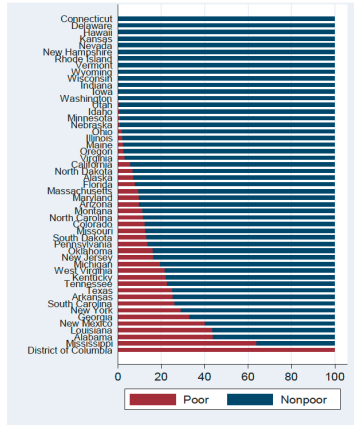


FIGURE D2-12 Children under 18 in persistently poor and nonpoor counties (%), by state.
SOURCE: U.S. Population Estimates, 2016 Vintage, Census Bureau. Data as of July 1, 2015.