Osher Lifelong Learning Institute, Fall 2025

Inequality and Economics

Northwestern University

Host: Geoffrey Woglom, Director
National Economic Education Delegation

Course Schedule

Inequality and Public Policy

- **Week 1 (10/14): The New Inequality, Geoffrey Woglom, Amherst College**
- Week 2 (10/21): Economics of Immigration, Robert Gitter, Ohio Wesleyan University
- Week 3 (10/28): Trade and Inequality Geoffrey Woglom, Amherst College
- Week 4 (11/04): The Black-White Wealth Gap, Jon Haveman, Exec. Director, NEED
- Week 5 (11/11): Climate Change Economics Sarah Jacobson, Williams College
- Week 6 (11/18): AI and Inequality Geoffrey Woglom, Amherst College

Characteristics of Native and Latin Amer. Born Population (Age 16 & up)

	Native Born	Lat. Amer. Born
Labor Force	130 Mil.	13 Mil
< H.S. Educ	5.8%	37.1.%
Poor English	1.9%	77%
Employed	59.2%	64.9%
Unemployed	3.0%	3.5%
Med. Wk. Earn	$1,087	$758
Poverty Rate	13%	17%

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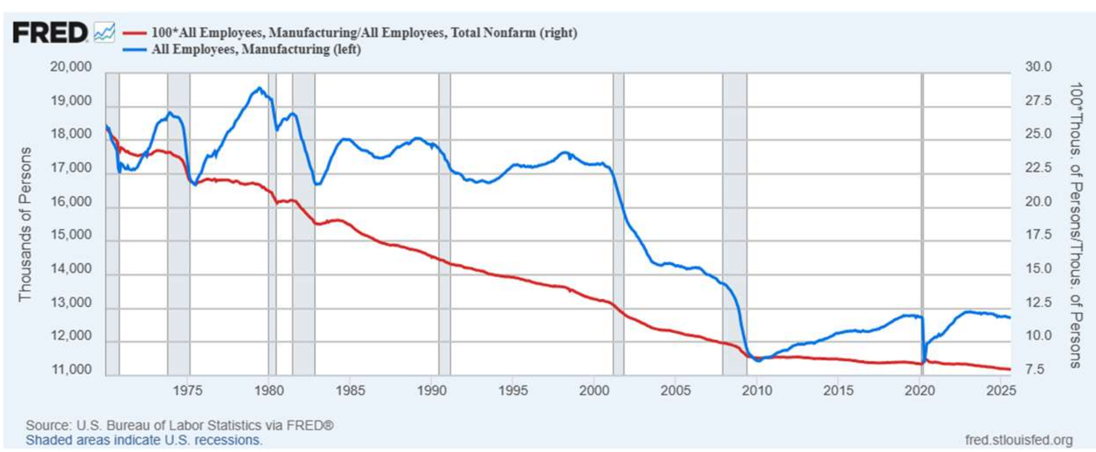
Employment in Manufacturing



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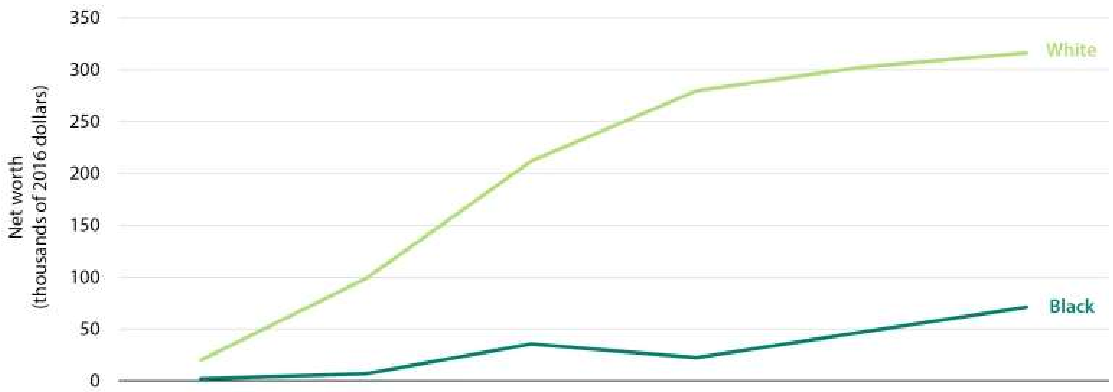
Net Worth by Age and Race

FIGURE 2.
Median Net Worth, by age of Household Head



Source: Survey of Consumer Finances 2016; authors' calculations.
Note: Data are from 2016. Net worth refers to the difference between assets and debt for a household head. Race and ethnicity are those of the survey respondent.

THE HAMILTON PROJECT BROOKINGS

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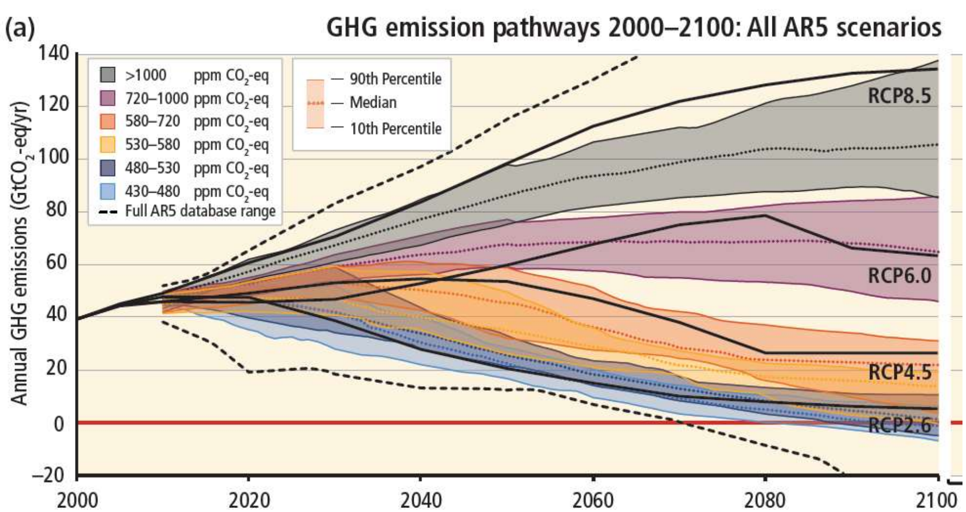
Source: https://www.brookings.edu/blog/up-front/2020/02/27/examining-the-black-white-wealth-gap/

Emissions Trajectories into the Future



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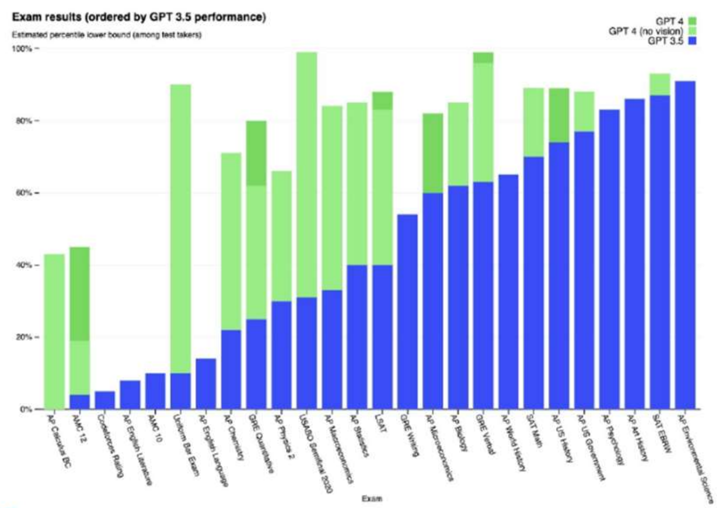
Source: IPCC Assessment Report 5

AI Is Getting "Smarter"



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Eloundo, Manning, Mishkin, Rock (2023) https://ar5iv.labs.arxiv.org/html/2303.10130

Submitting Questions

- Submit questions in the chat. I will try to address questions after 5 are in the chat.
- We will do a verbal Q&A once the material has been presented.
- Slides will be available from the NEED website tonight or tomorrow https://needecon.org/delivered_presentations.php.

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Outline

- Definitions.
- Snapshots of US Inequality.
- Inequality over time.
- Does inequality matter?
- The New Inequality?
- What to do about it.

Economic Inequality: Material Inequality

- **Definition:**
  - The extent to which the distribution of goods and services deviates from complete equality.
  - Material inequality is highly correlated with other kinds of inequality. E.g., life satisfaction, life expectancy.

Different Ways of Thinking About Material Inequality

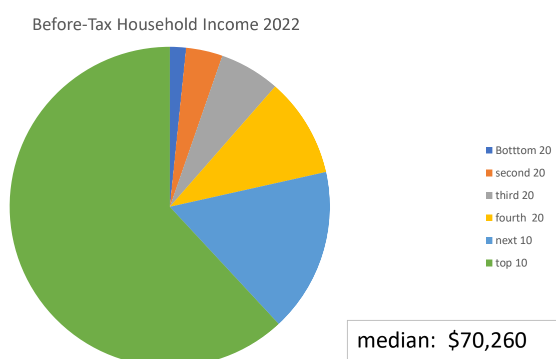
- **Income Inequality**
  - Before taxes and transfers
  - After taxes and transfers
- **Wealth Inequality**

How does wealth differ from income?

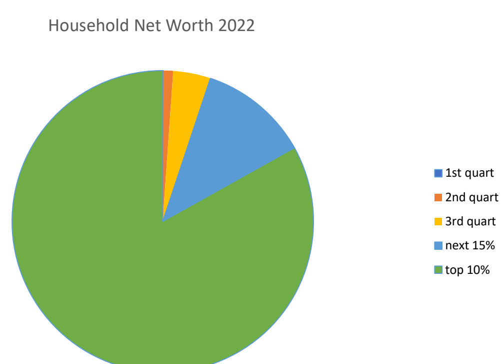
Income is measured over a period of time, say one year and measures ability to consume today.

Wealth is one's accumulated savings, including physical and financial assets (net worth), and measures the ability to consume now and in the future.

Measuring Material Inequality



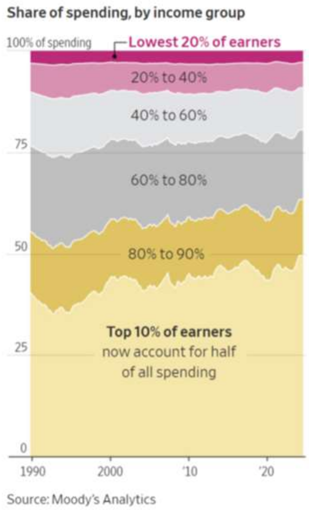
median: $70,260
top 10% 52.3% of total

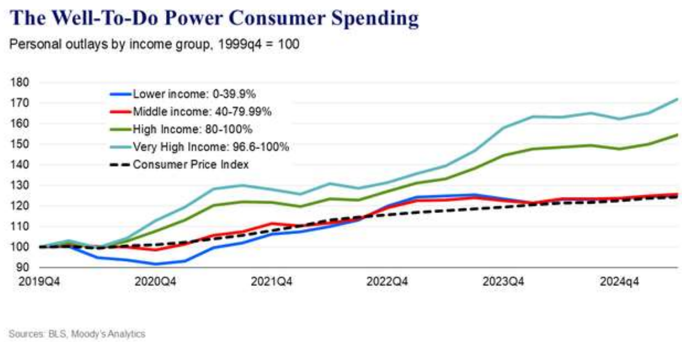


Top 10% comprise 73% of total

Federal Reserve Board "Survey of Consumer Finances"

Shares of Consumption Are Similarly Unequal





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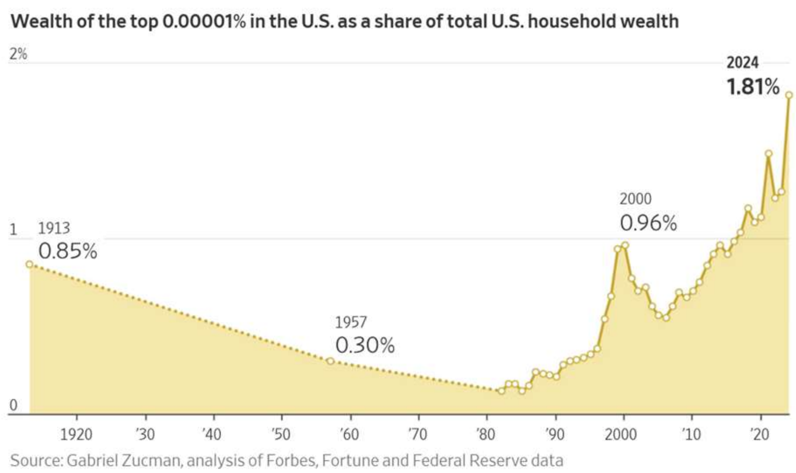
The *WSJ* April 24th

19 Households
$2.6 trillion



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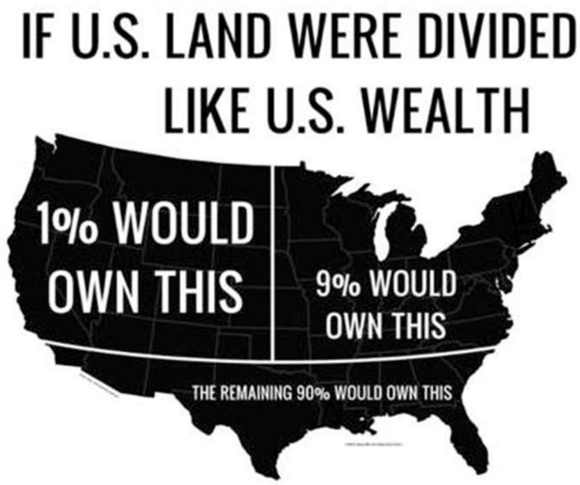
Wealth inequality in America



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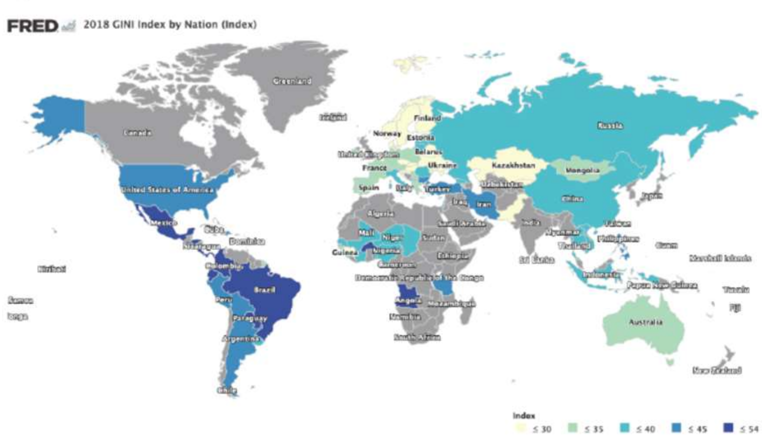
How We Compare to the Rest of the World

Figure 2
Gini Index by Nation



SOURCE: World Bank via FRED®, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/graph/?m=QRFh, accessed April 6, 2021.

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https://files.stlouisfed.org/files/htdocs/publications/page1-econ/2022/09/01/income-and-wealth-inequality_SE.pdf

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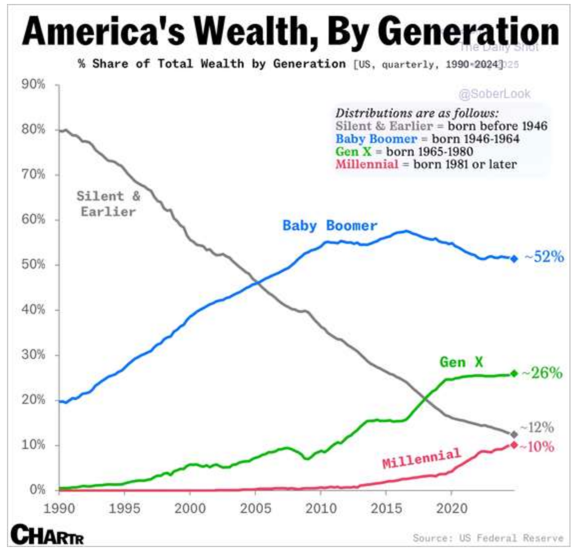
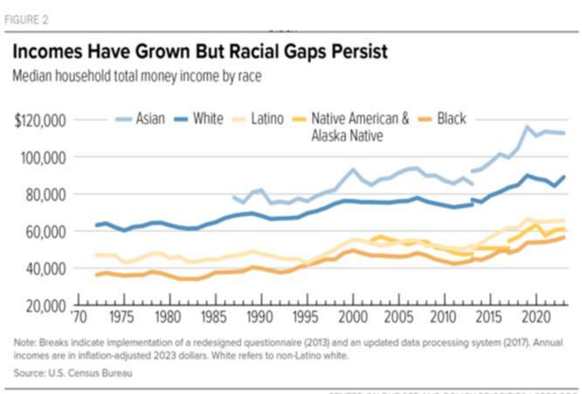
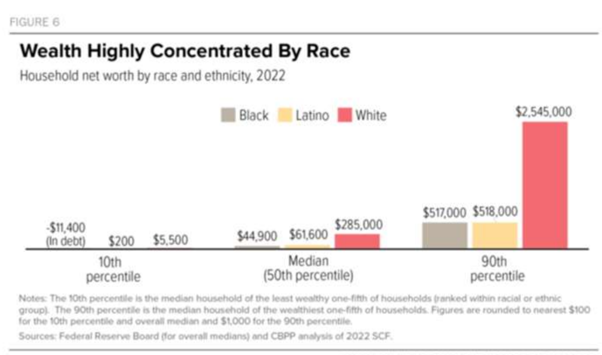
Living Standards Across the Globe



Racial Wage and Wealth Gaps



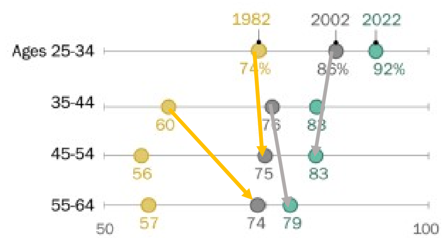


Source: Arloc Sherman, Danilo Trisi, and Joseph Cureton, "A Guide to Statistics on Historical Trends in Income Inequality," Center on Budget and Policy Priorities, Policy Futures, Dec. 11, 2024.

Gender Pay Gaps

Women's pay relative to men's drops most sharply around ages 35 to 44

Median hourly earnings of women in the U.S. as a % of the median hourly earnings of men, by age



Note: Samples include employed workers ages 25 to 64 with positive earnings, working full time or part time, excluding the self-employed.
Source: Pew Research Center analysis of the Current Population Survey outgoing rotation group files (IPUMS).

PEW RESEARCH CENTER

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https://www.pewresearch.org/social-trends/2023/03/01/the-enduring-grip-of-the-gender-pay-gap/

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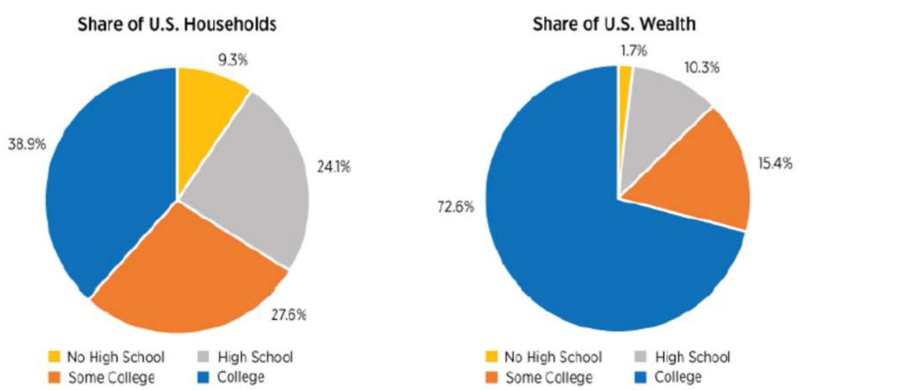
Household Wealth by Education, 2023, Q2



FEDERAL RESERVE BANK OF ST. LOUIS

SOURCES: Distributional Financial Accounts and Institute for Economic Equity calculations.

NOTE: College represents families with at least a bachelor's degree; other education levels represent the families' highest completed education.

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Case and Deaton's Astounding Findings

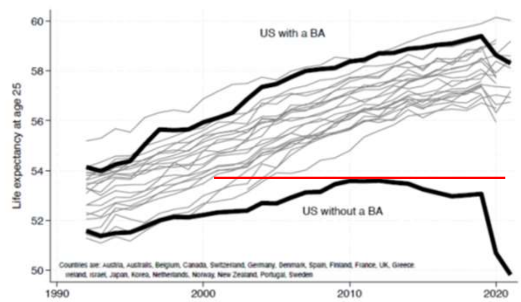
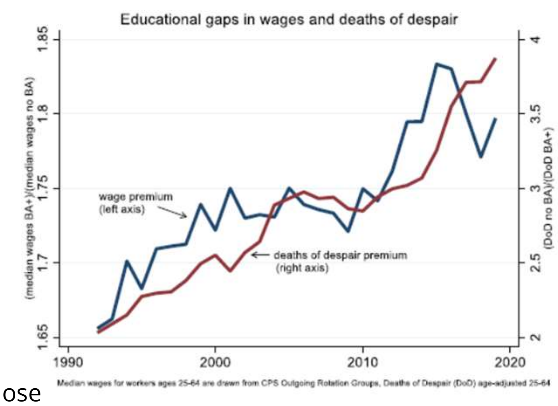


Figure 3: Adult life expectancy for Americans by college degree and for 22 rich countries



Opioids were involved in more than 80,000 overdose deaths in 2021, which was 10 times the number of opioid overdose deaths in 1999. http://wonder.cdc.gov/

Health Care Access And Income

Lack of Access to Quality, Affordable Care Reaches New Recorded High of 35%

If you needed access to quality healthcare today, would you be able to afford it?

% No

	2021 %	2022 %	2023 %	2024 %	Change Since 2021 (pct. pts.)
U.S. total	29	27	31	35	6
Annual household income:					
Less than $24,000	53	50	53	64	11
$24,000-<$48,000	46	46	45	57	11
$48,000-<$90,000	33	30	35	37	4
$90,000-<$120,000	23	17	19	22	-1
$120,000-<$180,000	13	14	17	16	3
$180,000+	8	7	7	8	0

West Health-Gallup Healthcare Indices Study, Nov. 18-Dec. 27, 2024 (n=6,296)

GALLUP

Percentage of U.S. Adults Categorized as Cost Desperate Reaches a New High of 11%

The percentage of Americans who lack access to quality, affordable care and have recently been unable to pay for needed care and medicine is rising much faster among Black and Hispanic adults and those from lower-income households, creating wider gaps in access to care.

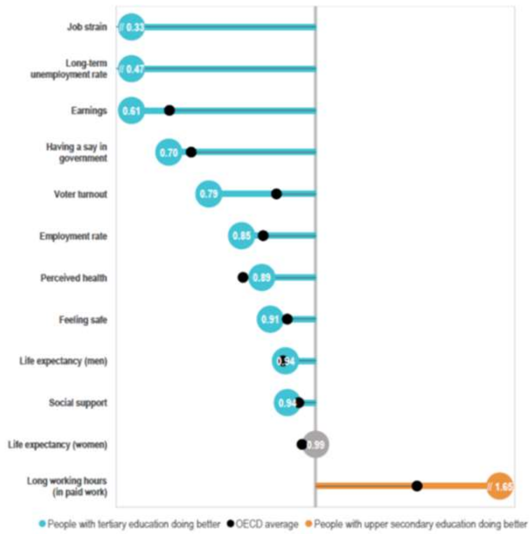
	2021 %	2022 %	2023 %	2024 %	Change Since 2021 (pct. pts.)
All adults	8	7	8	11	3
Race/Ethnicity:					
White adults	8	6	7	8	0
Black adults	9	7	11	14	5
Hispanic adults	10	11	14	18	8
Annual household income:					
Less than $24,000	14	11	15	25	11
$24,000-<$48,000	13	14	16	19	6
$48,000-<$90,000	11	9	10	12	1
$90,000-<$120,000	4	5	2	5	1
$120,000-<$180,000	3	3	3	3	0
$180,000 or more	2	2	2	1	-1

West Health-Gallup Healthcare Indices Study, Nov. 18-Dec. 27, 2024 (n=6,296)

GALLUP

Education Matters for Broader Measures of Inequality

Ratio of indicators of well being



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OECD, "How's Life in the United States?" https://www.oecd.org/wise/Better-Life-Initiative-country-note-United-States.pdf \

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Summary of Snapshot

- **Top 10% earns over 50% of total income and 70% of total wealth**
- **US is one of the more unequal countries in the industrialized world.**
- **Earning a BA is important for**
  - Earnings.
  - Life Satisfaction.
  - Life Expectancy.
- **Trends appear to be getting worse.**

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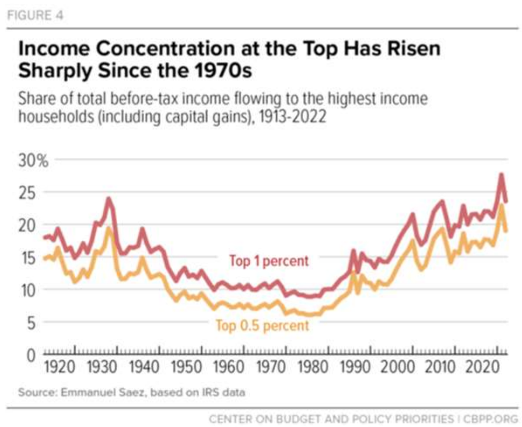
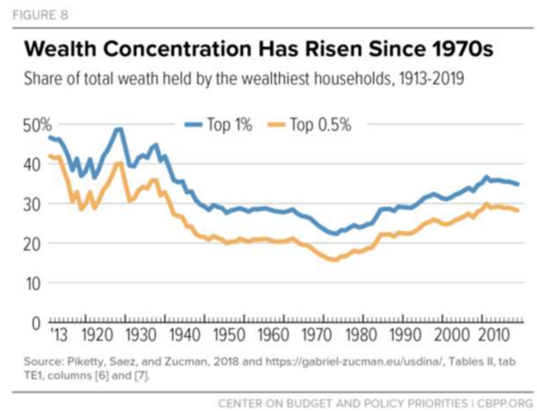
How Did We Get Here: The Long View





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Source: Arloc Sherman, Danilo Trisi, and Joseph Cureton, "A Guide to Statistics on Historical Trends in Income Inequality," Center on Budget and Policy Priorities, Policy Futures, Dec. 11, 2024.

Historical Trends in Material Inequality

- **The "Great Convergence": 1935-1978**
- **The "Great Divergence:" 1979-?**
  - Income growth in the middle and lower parts of the distribution slowed.
  - Incomes at the top continued to grow strongly.

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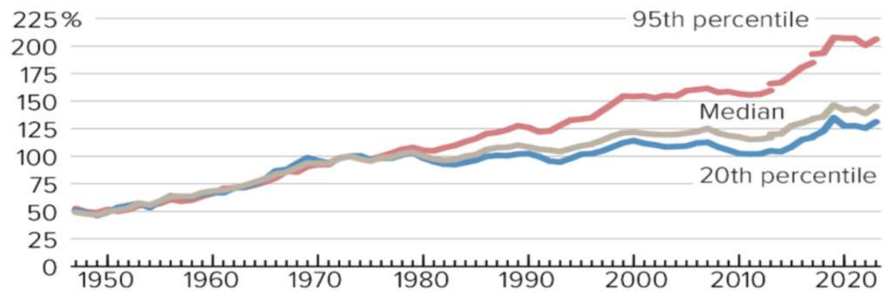
Source: Chad Stone, Danilo Trisi, Arloc Sherman, and Roderick Taylor, "A Guide to Statistics on Historical Trends in Income Inequality," Center on Budget and Policy Priorities, Policy Futures, May 15, 2018.

The Abrupt Increase in Inequality

FIGURE 1

Income Gains Widely Shared in Early Postwar Decades — But Not Since Then

Real family income between 1947 and 2023, as a percentage of 1973 level



Note: Breaks indicate implementation of a redesigned questionnaire (2013) and an updated data processing system (2017).

Source: CBPP calculations based on U.S. Census Bureau Data

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

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Source: Arloc Sherman, Danilo Trisi, and Joseph Cureton, "A Guide to Statistics on Historical Trends in Income Inequality," Center on Budget and Policy Priorities, Policy Futures, Dec. 11, 2024.

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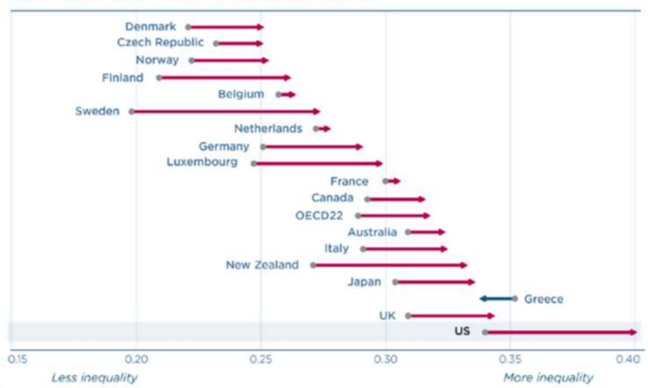
Increasing Inequality is Not Just US Phenomenon

Figure 1: Change in Gini coefficient, 1985 to 2013



Note: 1985 data refer to 1985 or closest available year. 2013 data refer to 2013 or nearest available year. The Gini coefficient measures how equally income is distributed across a population, from 0 (perfectly equal) to 1 (all income to one person).

Source: Organization for Economic Cooperation and Development (OECD), "In It Together: Why Less Inequality Benefits All."

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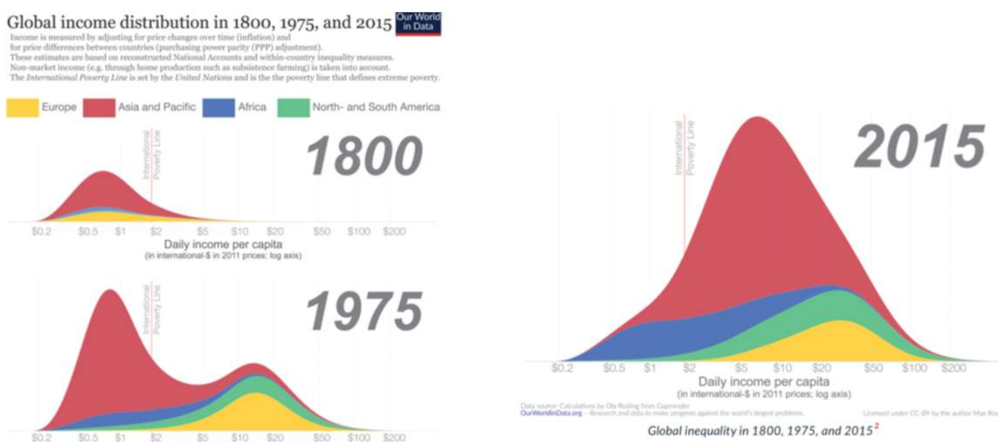
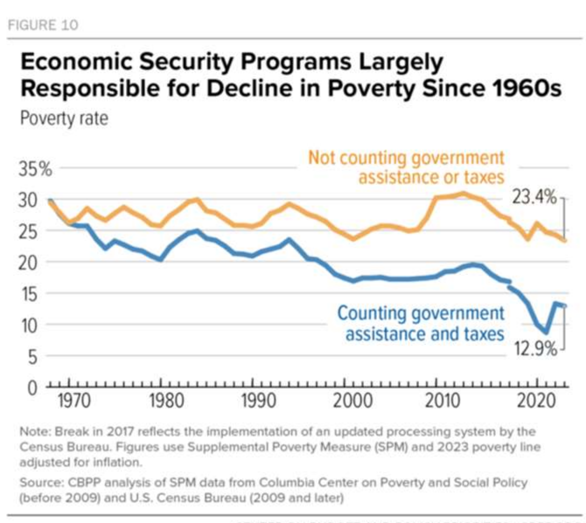
But Global Inequality is Falling!

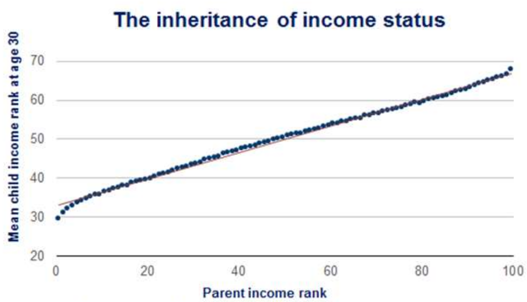


Global inequality in 1800, 1975, and 2015[2]

"Inequality Doesn't Matter; Poverty Does" (?)

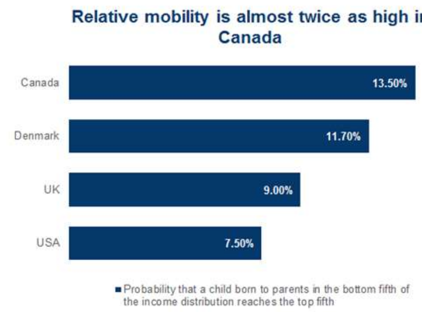


“Inequality Doesn’t Matter with Intergenerational Mobility (Horatio Alger)” (?)



Source: Chetty et al., "Where is the land of opportunity? The geography of intergenerational mobility in the United States," Figure IIa: Association between children's and parent's percentile rank

BROOKINGS



Sources: Chetty et al., "Where is the land of opportunity? The geography of intergenerational mobility in the United States" (USA); Blanden and Machin, "Up and down the generational income ladder in Britain: Past changes and future prospects," (UK); Boserup, Kopczuk, and Kreiner, "Intergenerational Wealth Mobility: Evidence from Danish Wealth Records of Three Generations." (Denmark); Corak and Heisz, "The intergenerational earnings and income mobility of Canadian men: Evidence from longitudinal tax data" (Canada)

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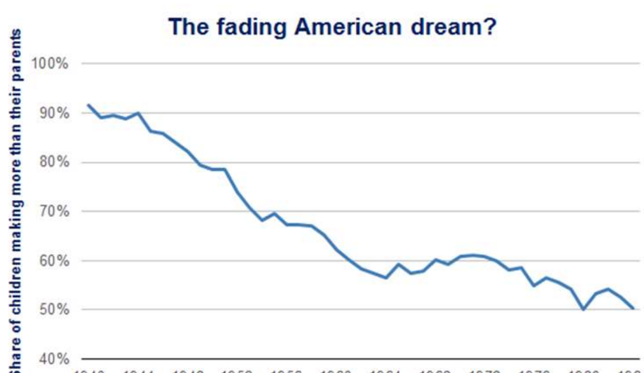
Inequality Doesn’t Matter because Children Are Better Off Than Their Parents (?)



Source: Chetty et al., "The fading American dream: Trends in absolute income mobility since 1940"

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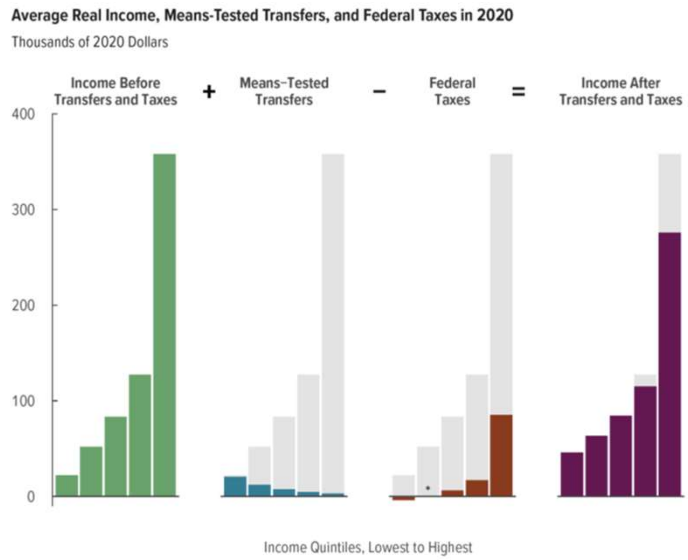
Tax and Transfer Programs and Inequality



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https://www.cbo.gov/system/files/2023-11/59509-household-income_2019-2020.pdf

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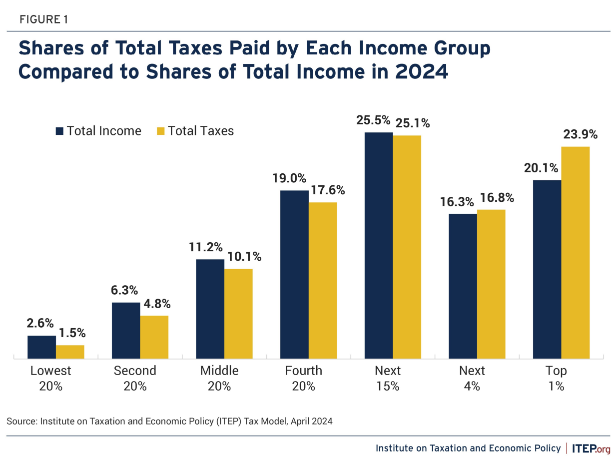
What about State Taxes?



But, this analysisis ignores transfers like Food stamp and Medicaid. Most recently, a more comprehensive analysis was done. No pretty pictures, but here is the conclusion:

"We…found that the federal tax and transfer system is progressive, while state systems are close to proportional, on average."
https://www.minneapolisfed.org/research/staff-reports/fiscal-progressivity-of-the-us-federal-and-state-governments

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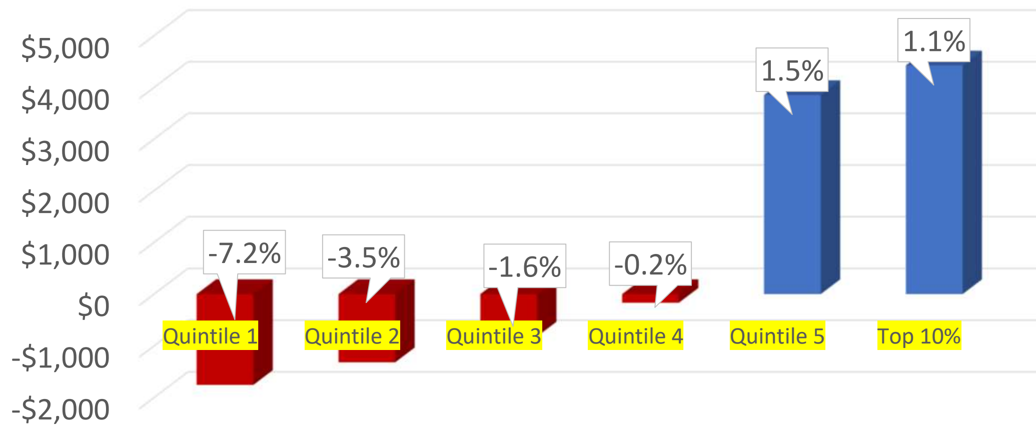
Big Beautiful Bill & Tariffs



Source: https://budgetlab.yale.edu/

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Market Forces and Inequality

- **Changing demand patterns**
  - Technology and “skill-biased technological change”
  - Increased Trade and Globalization
  - Industry composition
    - PCs instead of typewriters
    - Services instead of goods
    - Professional services instead of personal services
- **Competition in labor markets**
  - Unionization
  - Market concentration
  - Immigration (?)

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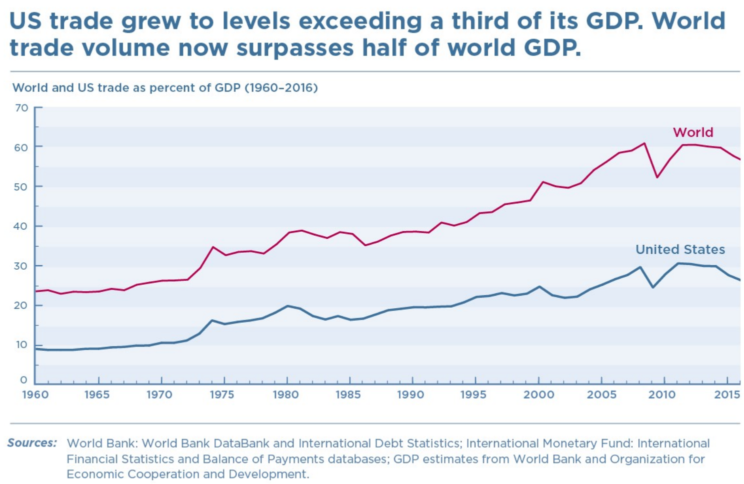
Technological Change and Inequality

- **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
- **Technological change may result in "winner take all" outcomes.**
  - This likely favors a small group of individuals.
  - But of course the relative winners can change rapidly.
- **Both aspects increase inequality by increasing the rewards to:**
  - Those with significant labor market skills and college degrees.
  - Owners over workers.
- **What will AI do to this story?**

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.
  - But Globalization lifted 300 million Chinese out of poverty.

History of Globalization



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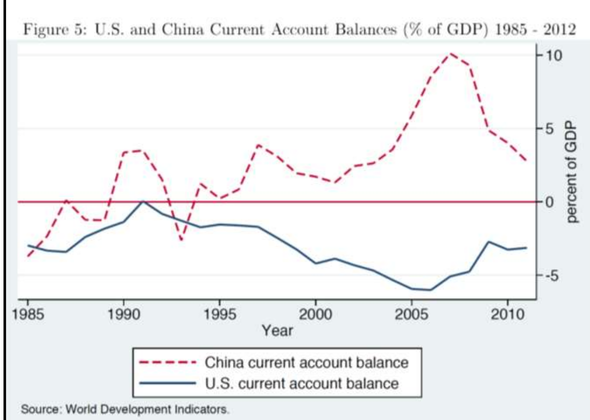
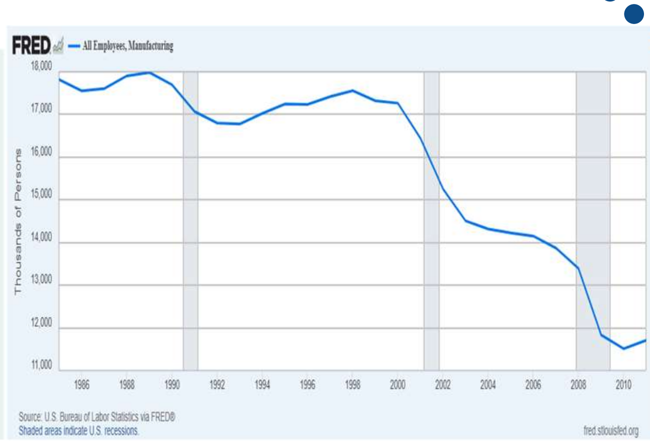
The China Shock





Reminder: China Joins WTO in December of 2001

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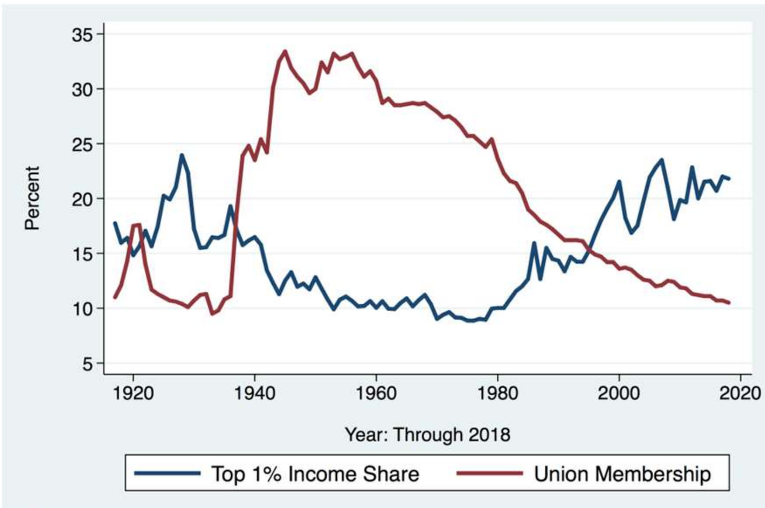
Declining Unionization



Unionization Rates

- **1983:** 20.1%
- **2022:** 10.1%

Unionization Rates

- **Public:** 33.1%
- **Private:** 6.0%

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Source: https://inequality.org/facts/income-inequality/, Bureau of Labor Statistics and Emmanueul Saez, University of Califonria, Berkeley

Why Does Inequality Matter?

- **Economic Reason: too much inequality slows economic growth.**
- **Ethical Reasons: concern for our neighbors. (What makes a Good Society?)**
- **Political Reasons: political polarization leads to government paralysis and an inability to take needed action.**

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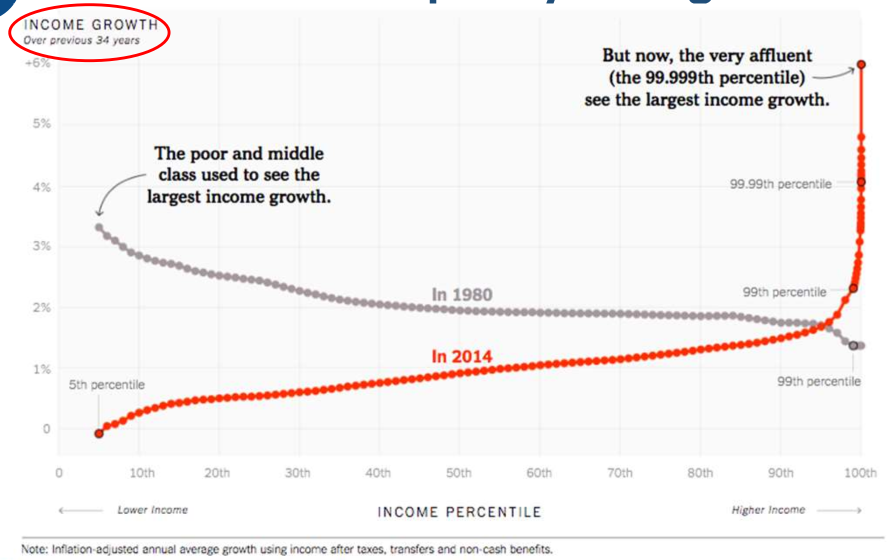
How Has Income Inequality Changed?



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Source: https://www.nytimes.com/interactive/2017/08/07/opinion/leonhardt-income-inequality.html

Average Income Growth by Generation

Generation	Bottom 50%	Middle 40%	Top 10%	Top 1%
Greatest (46-70)	2.85	2.57	2.03	1.27
Boomer (70-94)	0.15	1.20	1.86	2.28
Gen X (94-15)	0.61	0.93	1.94	2.56

Distributional National Accounts: Methods and Estimates for the United States (with T. Piketty and E. Saez, Accessed from: https://gabriel-zucman.eu/usdina/ and my calculations.

Something changed in the nature of our economy and society somewhere at about the same time as the rise in inequality.

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New Inequality due to Meritocracy

- **Greatest Generation and Meritocracy**
  1. GI Bill.
  2. High-paying, unionized manufacturing jobs.
- **Boomers**
  1. 1960s: SATs become more important and legacy status less for college.
  2. Economy is more competitive which tended to lessen prejudices against Catholics and Jews.
  3. Society is more “meritocratic?”
  4. The rise of suburbs
     a. Less socioeconomic and racial diversity.
     b. Investments in high quality public schools.
- **Gen X**
  1. Affluent, college educated boomers invest heavily in children’s education.
  2. Globalization, automation and the related decline in unionization eliminates high-paying blue collar jobs.

NATIONAL ECONOMIC EDUCATION DELEGATION

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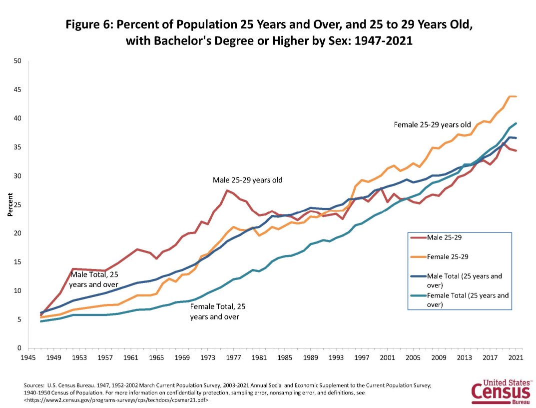
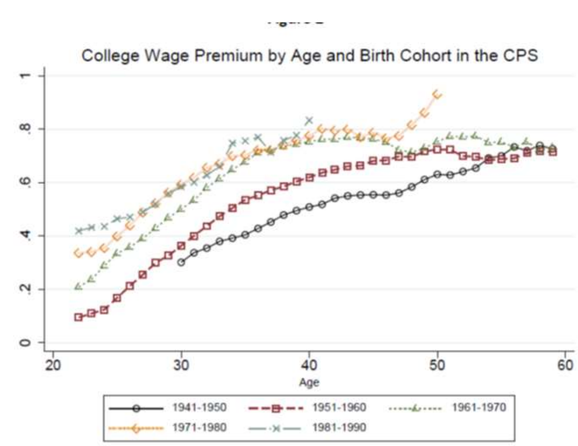
The Continuing Importance of Education





David Deming, “Why Do Wages Grow Faster for Educated Workers,” NBER Working Paper 31373, 6/23

NATIONAL ECONOMIC EDUCATION DELEGATION

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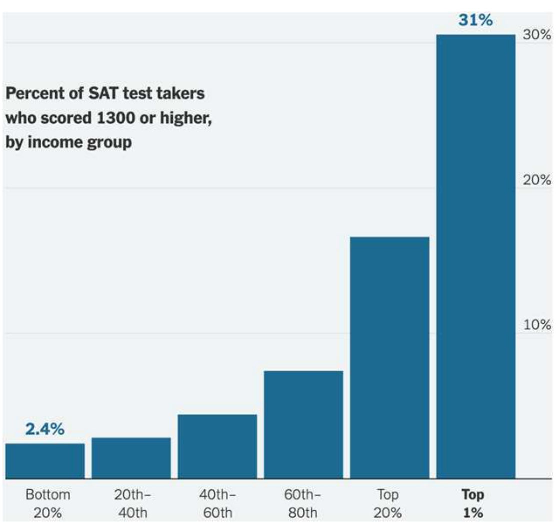
Is it Still a "Meritocracy?"

- The key question is whether there is equal opportunity for a college education.
- Without equal access, the meritocracy based on educational attainment becomes an aristocracy.

To Emphasize Educational Access Issue



What do these numbers reflect?

It gets worse. With "All Students" instead of "test takers," the bottom 20% scoring above 1300 falls to 0.6%

And worse(er?)…

Elite schools twice as likely to admit student from a high income family as a low to middle income family with the same test scores.

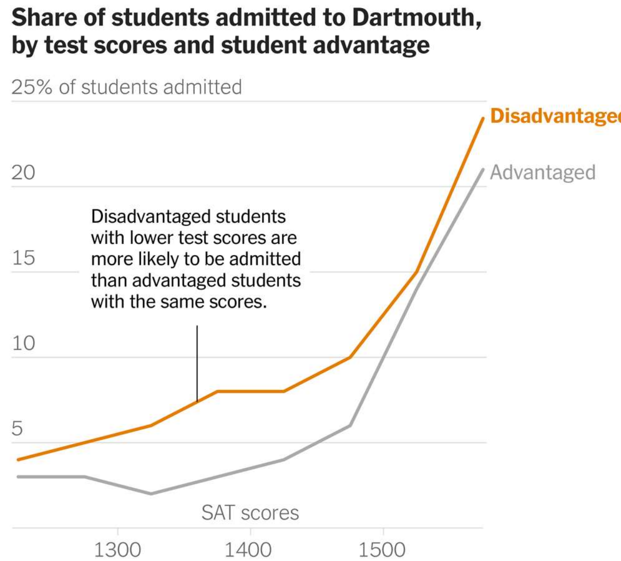
Higher admission rates for the high income is due to: 1) "Legacies; 2) higher "non-academic" rankings; 3) Athletic recruitment

https://www.nytimes.com/interactive/2023/10/23/upshot/sat-inequality.html

Reinstate the SAT!

- **Don't Let the Bad be the Enemy of the Better!**

  - •Harvard
  - •Yale
  - •Dartmouth
  - •Brown
  - •Cornell
  - •Caltech
  - •Georgetown
  - •MIT
  - •Vanderbilt



NATIONAL ECONOMIC EDUCATION DELEGATION

Our Imperfect Meritocracy Hurts Rich and Poor

- **Poor are hurt because there is less equality of opportunity**
- **Poor are hurt because in a "meritocracy" your lack of success is due to your failings.**
- **Rich are hurt because they have to work harder to confirm their status.**
- **Rich are hurt because they make their children compete at an earlier age (Tiger Moms, SAT prep courses).**
- **We are all hurt because of the growing segregation between the rich and poor and increasing polarization**

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What to do About Inequality?

- **Government policies to reduce material inequality:**
  1. Greater Progressivity of Tax/Transfer System.
  2. Fix Social Security and Medicare Funding, but ***NOT*** by raising age of eligibility. (https://www.brookings.edu/articles/fixing-social-security-blueprint-for-a-bipartisan-solution/)
  3. Tax capital gains at death.
  4. Encourage re-unionization of industry. (?)
  5. Put limits on low-skilled immigration. (?)
  6. Raise Minimum Wage (?)
  7. Industrial policies to provide meaningful work for non-BAs. (?)

What To Do about the "New Inequality"

1. **Research shows that high-quality birth-to-five programs for disadvantaged children can deliver a 13% return on the investment. (James Heckman)**
2. **Somehow improve public schools.**
3. **Encourage students from low-income families to apply to quality colleges (Carolyn Hoxby)**
4. **Encourage colleges to practice affirmative action based on socioeconomic status (William Bowen).**
5. **Invest in community colleges.**
6. **Reinstitute National Service to lessen socioeconomic and racial segregation. (?)**

A Bigger Thinker: Michael Sandel

1. Reducing material inequality is insufficient; we need to raise social recognition and esteem for all people.
2. "Broad democratic equality of condition," that goes beyond equal opportunity.
3. Renewing the dignity of work.
4. Rethinking merit: educating the elite about the role of luck and family background.
5. Ongoing public discussion about moral questions.
6. Promote solidarity and a shared vision; e.g., how should we regulate AI?

Readings on the New Inequality

https://sites.google.com/view/macro-current-issues/new-inequality

Next Week: Immigration

	Native Born	Lat. Amer. Born
Labor Force	130 Mil.	13 Mil
< H.S. Educ	5.8%	37.1.%
Poor English	1.9%	77%
Employed	59.2%	64.9%
Unemployed	3.0%	3.5%
Med. Wk. Earn	$1,087	$758
Poverty Rate	13%	17%

Let's Hear from You!

Geoffrey Woglom
grwoglom@amherst.edu

My Google site:

https://sites.google.com/view/macro-current-issues/new-inequality

Contact NEED: Info@NEEDEcon.org