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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: 54 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)
- 4 Nobel Prize Winners
 - o Akerlof, Smith, Maskin, Bernanke

- **Delegates: 652+ 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: 48 Ph.D. Economists**

- Aid in slide deck development

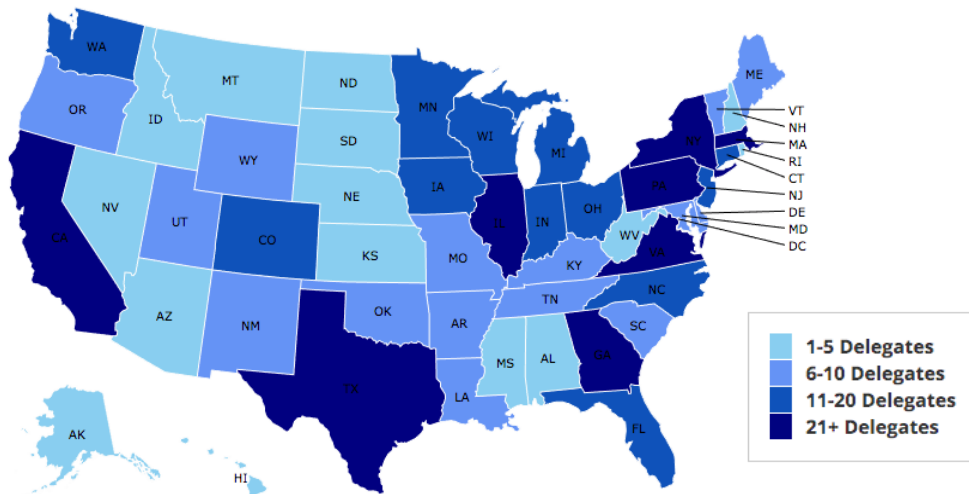


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Where Are We?



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Available NEED Topics Include:

- US Economy
- Healthcare Economics
- Climate Change
- Economic Inequality
- Economic Mobility
- Trade and Globalization
- Minimum Wages
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- Black-White Wealth Gap
- Autonomous Vehicles
- Healthcare Economics



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Credits and Disclaimer

- **This slide deck was authored by:**
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- **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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Economic Inequality: Income

- **Definition:**

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



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Different Ways of Thinking About Inequality

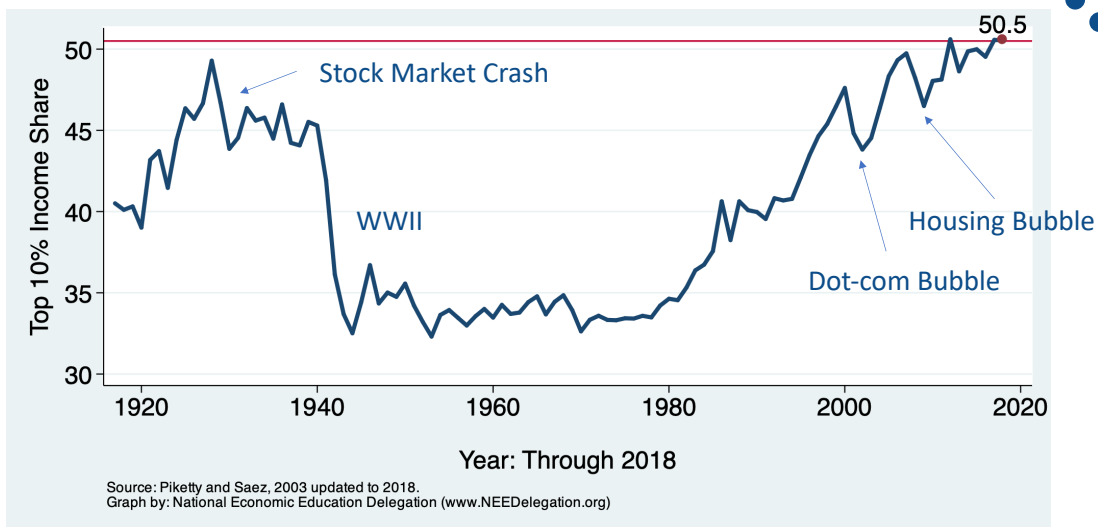
- **Income Inequality**
 - Before taxes and transfers
 - After taxes and transfers
- **Wealth Inequality**

How does wealth differ from income?

Income is measured over a period of time, say one year.

Wealth is one's accumulated savings, including physical and financial assets (net worth).

National Income Inequality: Share of Top 10%



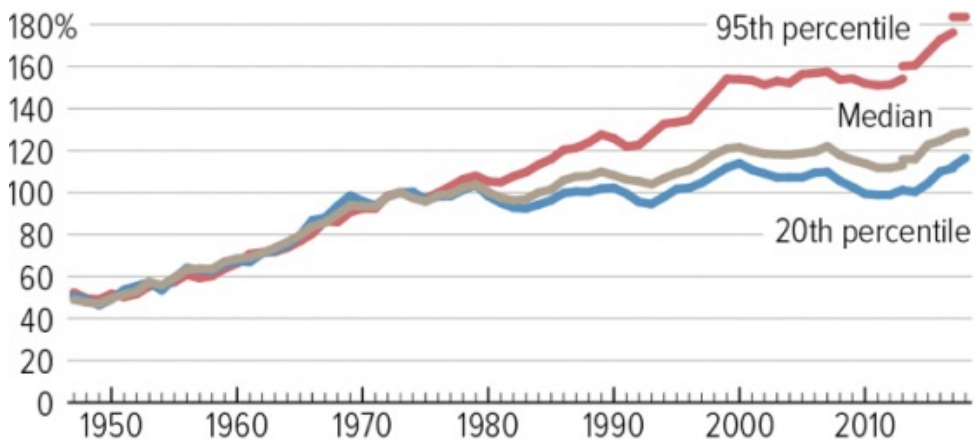
Recent Facts on Income Inequality

- **Beginning in the 1970s, income gaps widened.**
 - Income growth in the middle and lower parts of the distribution slowed.
 - Incomes at the top continued to grow strongly.

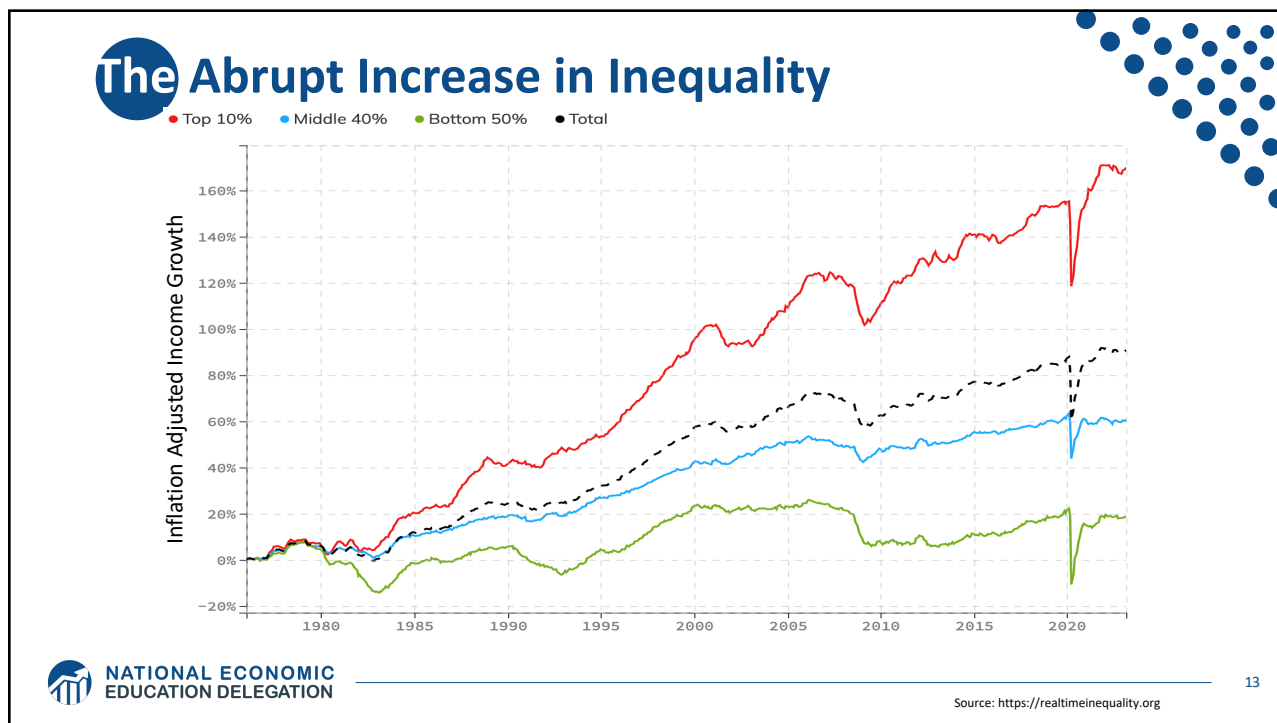
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The Abrupt Increase in Inequality

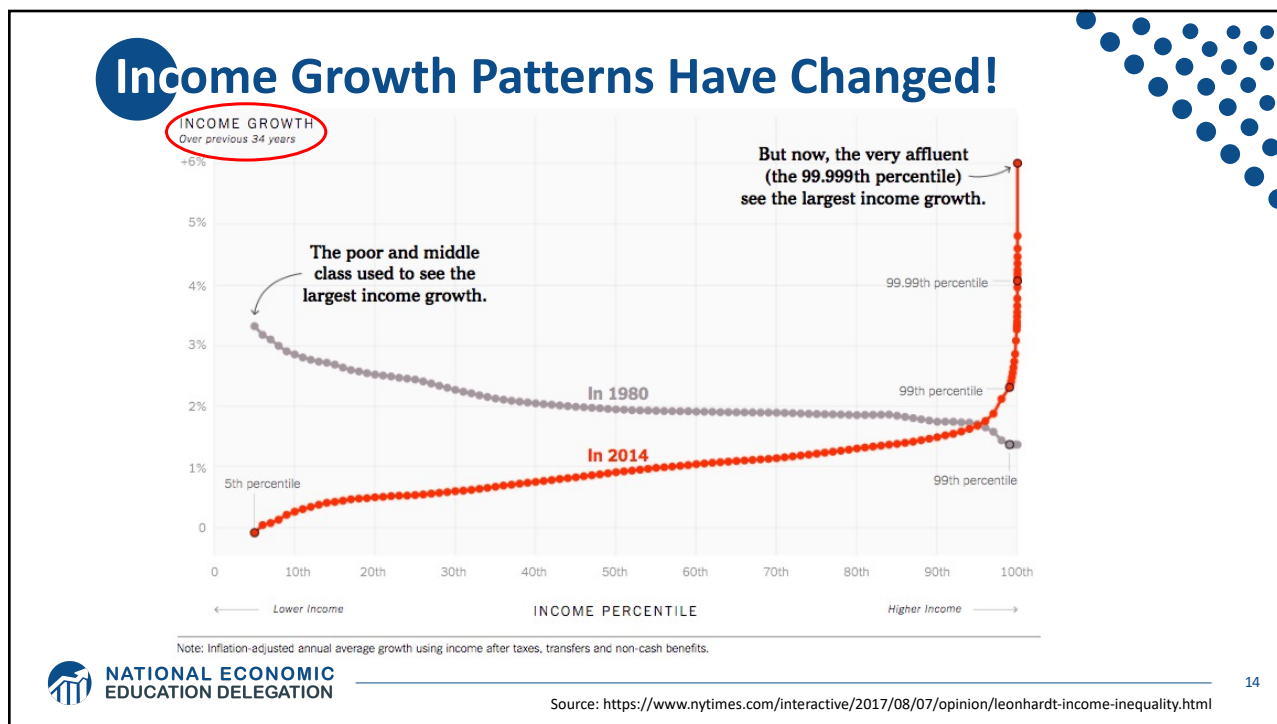
Real family income between 1947 and 2018, as a percentage of 1973 level



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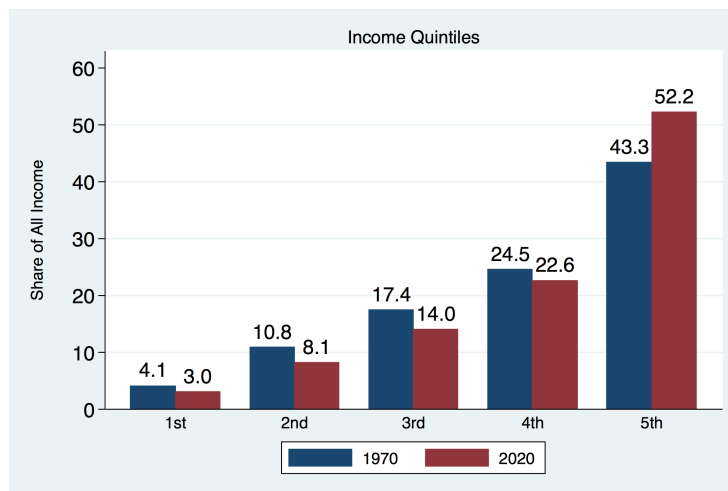


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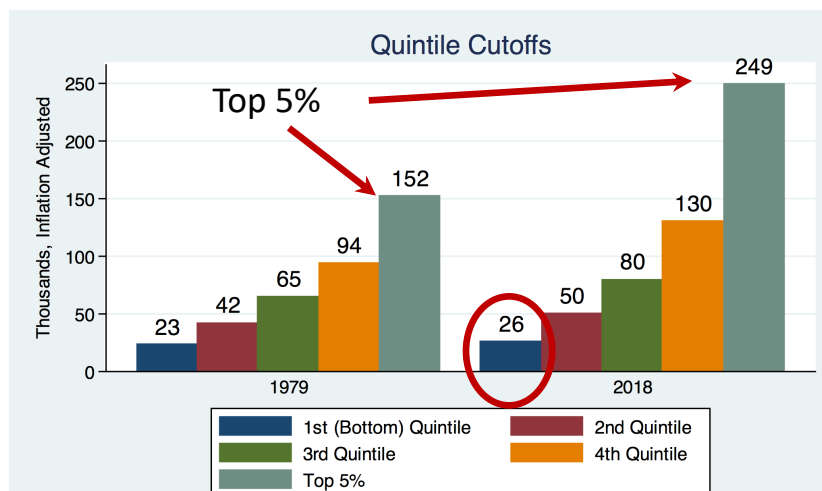
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Income Share Changes Between 1970 and 2020



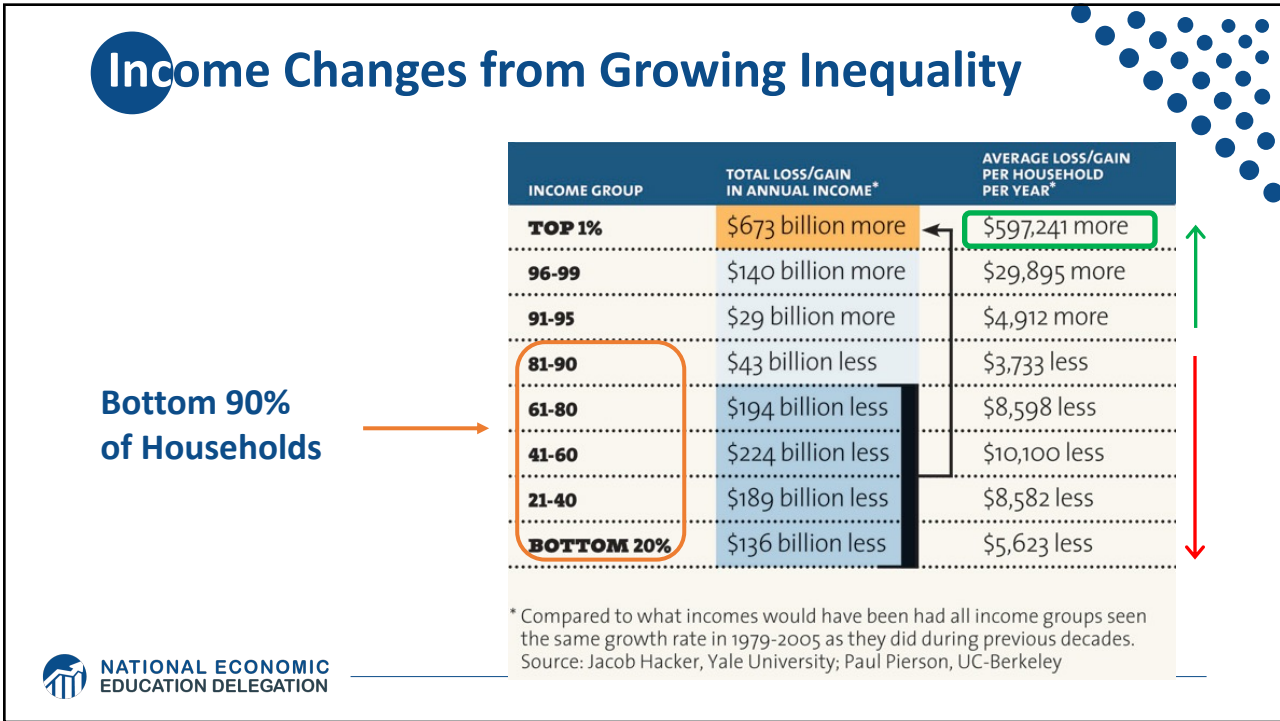
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Quintile Income Cutoffs

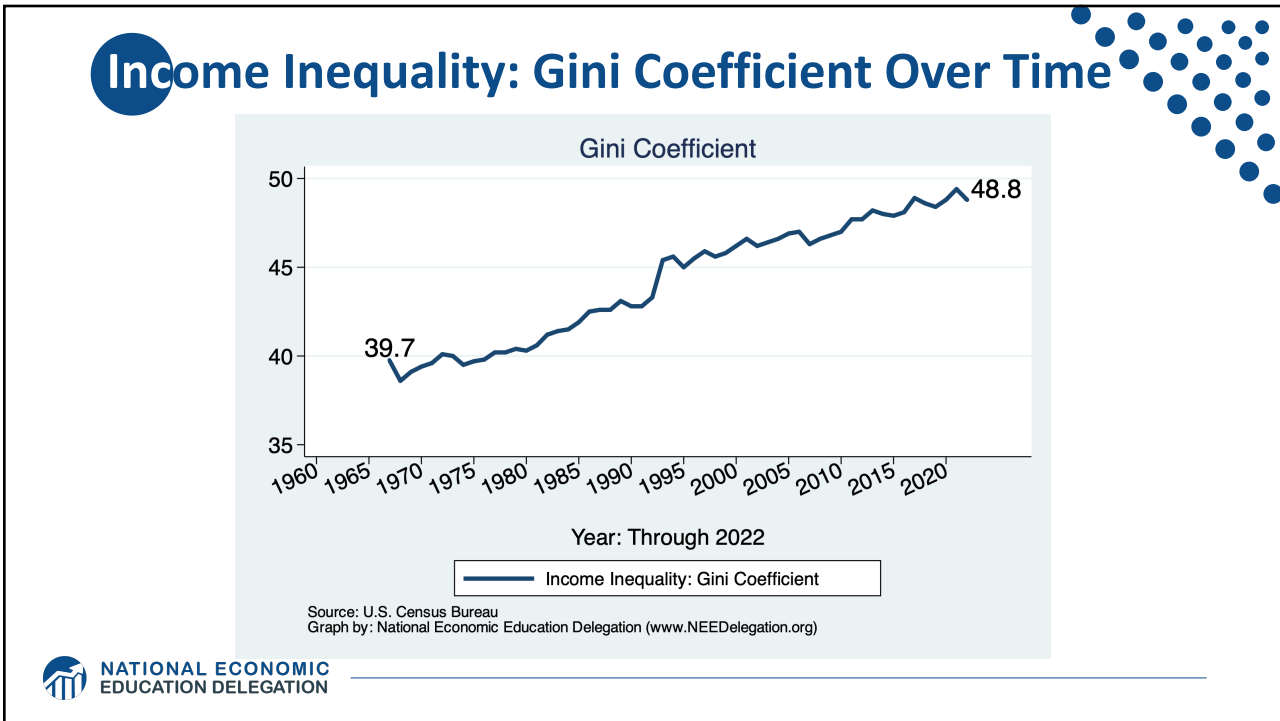


Source: U.S. Census Bureau
Produced by: National Economic Education Delegation (www.NEEDelegation.org)

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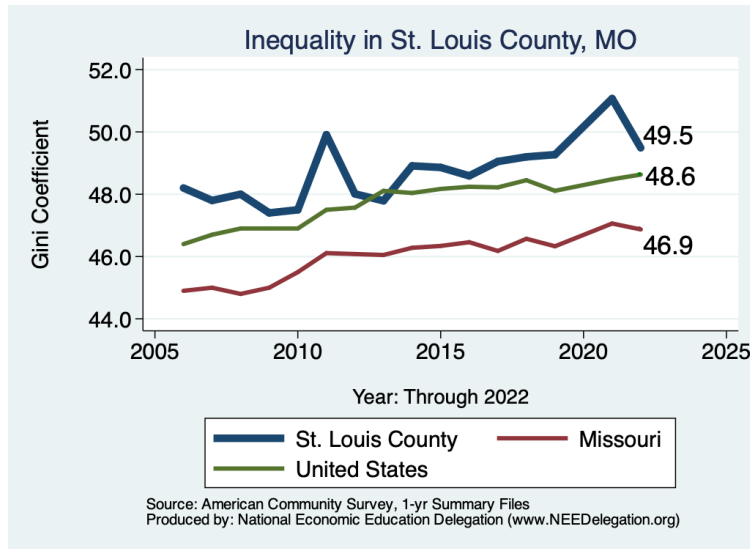


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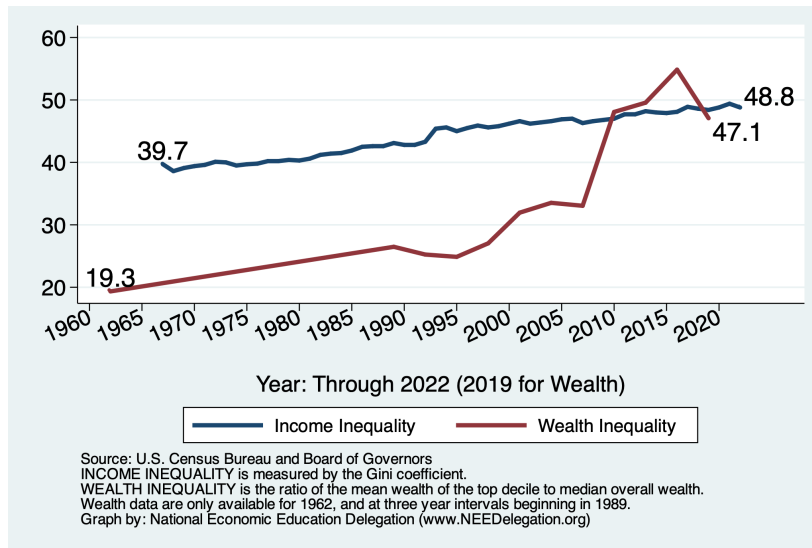
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Your Local Inequality Trend



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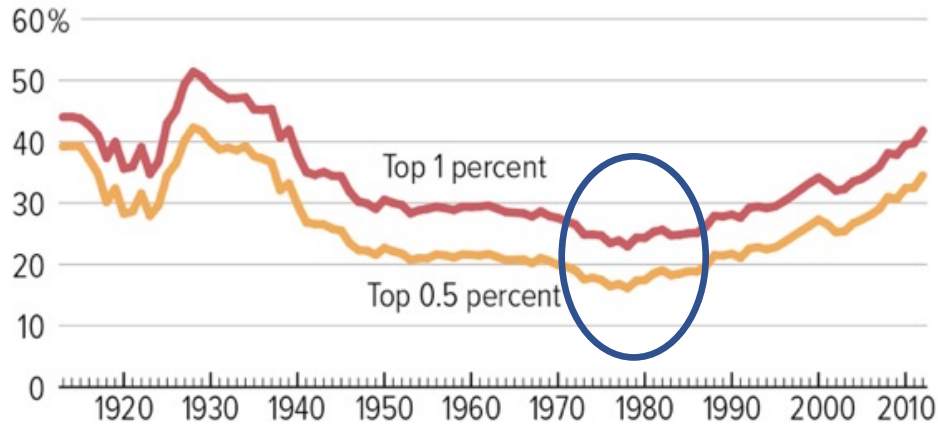
Income and Wealth Inequality Measures



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Wealth Concentration Has Been Rising

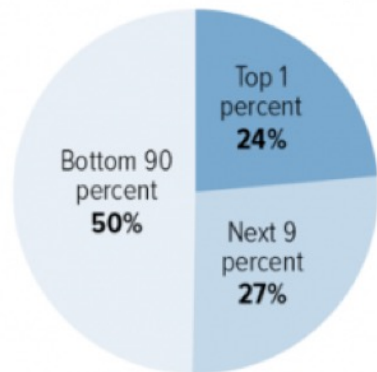
Share of total wealth held by the wealthiest families, 1913-2012



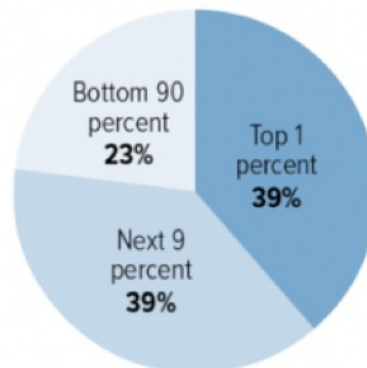
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Wealth Inequality Exceeds Income Inequality

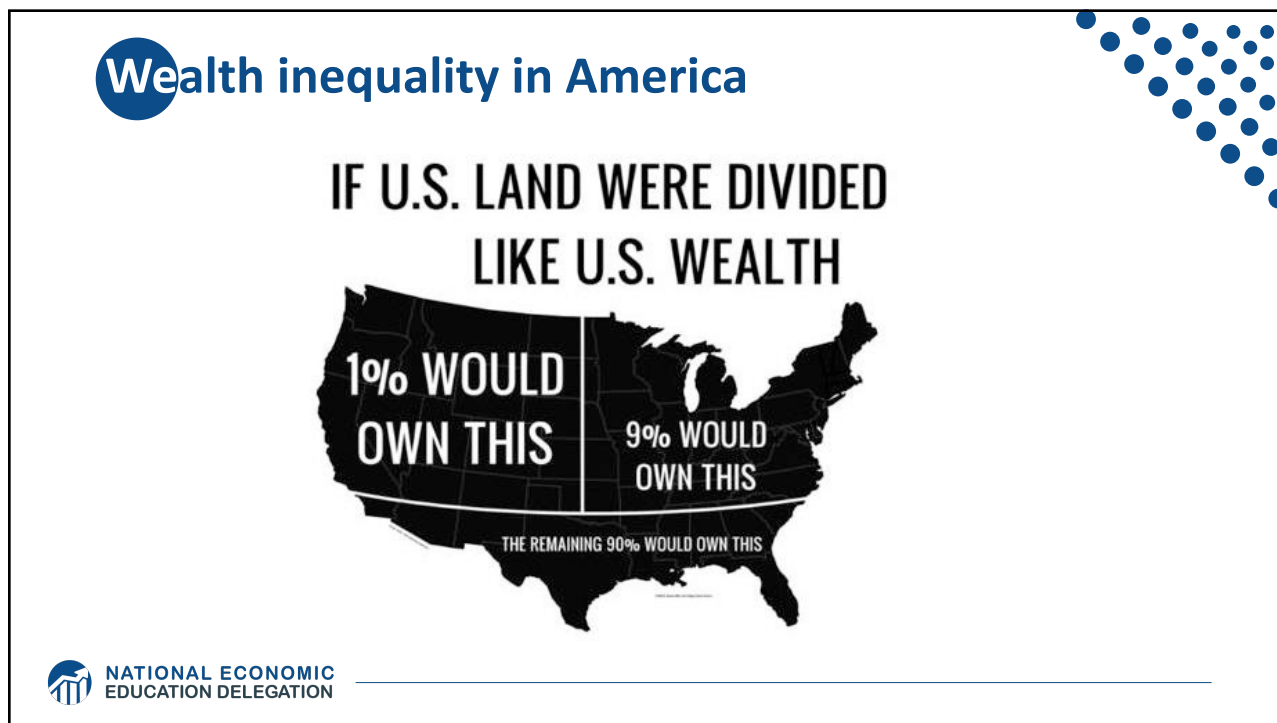
Distribution of before-tax income, 2016



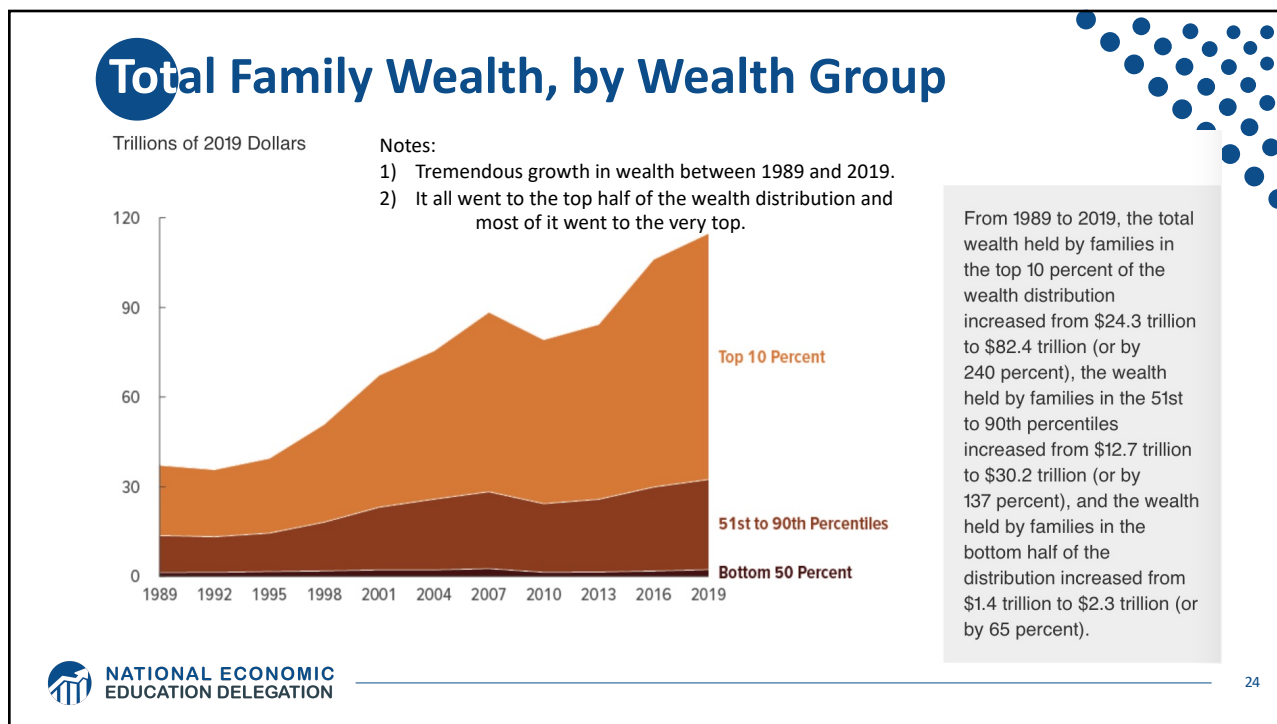
Distribution of wealth, 2016



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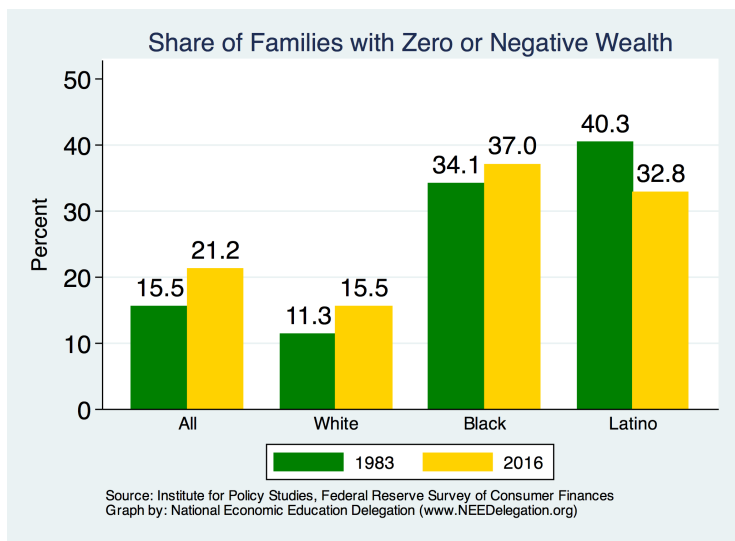


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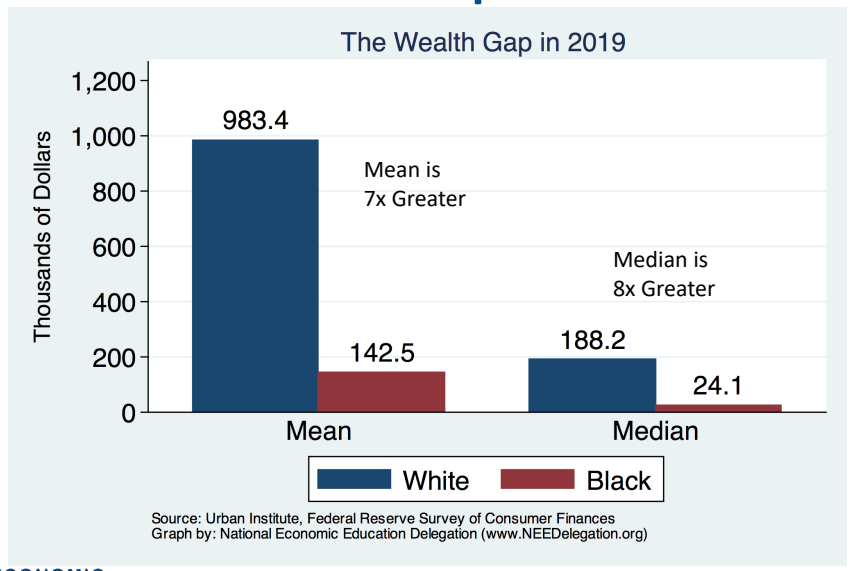
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Evidence of Disparities: Zero Wealth



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The Black-White Wealth Gap



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Where Does Income Inequality Come From?

- **Labor Characteristics**

- Demographics
 - Age distribution
- Personal Choices
 - Educational attainment
 - Effort & Priorities
- Immigration and Emigration

- **Market Forces**

- Technology
- Changing demand patterns
- Competition for labor

- **Government Policy**

- Market influence
- Redistribution



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Government Policy and Inequality

- **Market Influence: PRE-distribution**

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

- **RE-distribution**

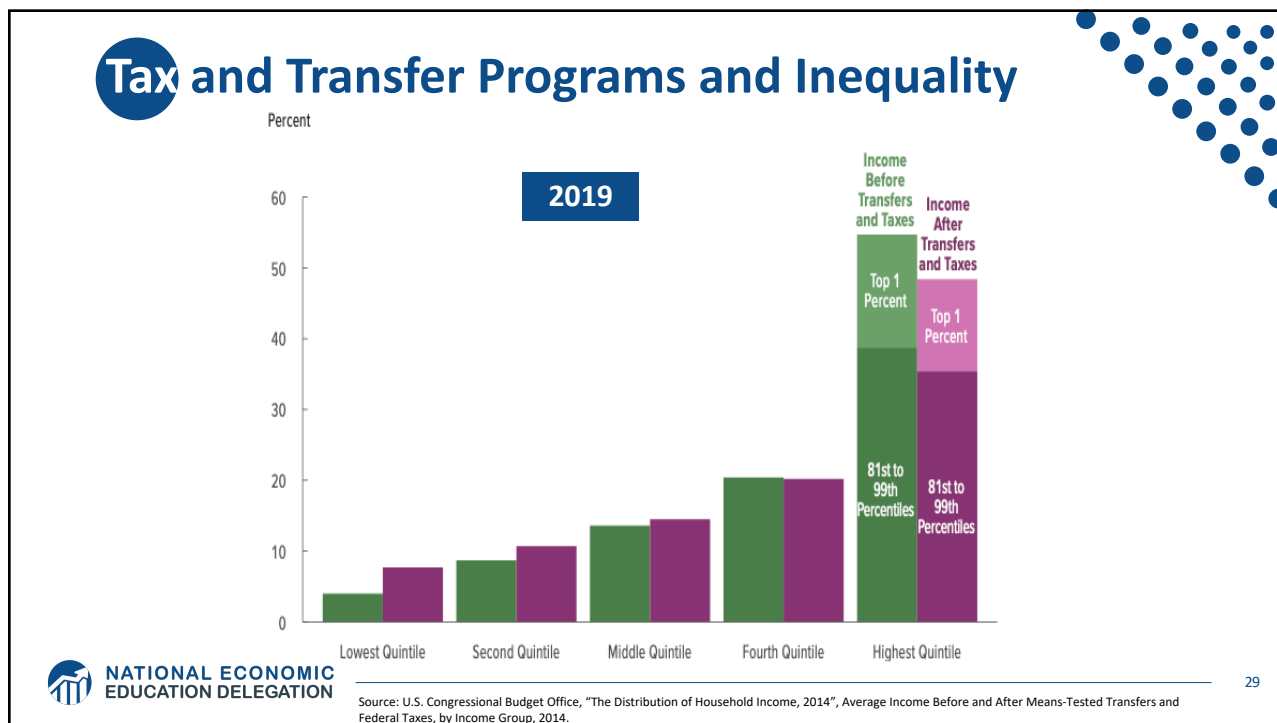
- Tax Rates
- Income support
 - Direct aid
 - Food stamps



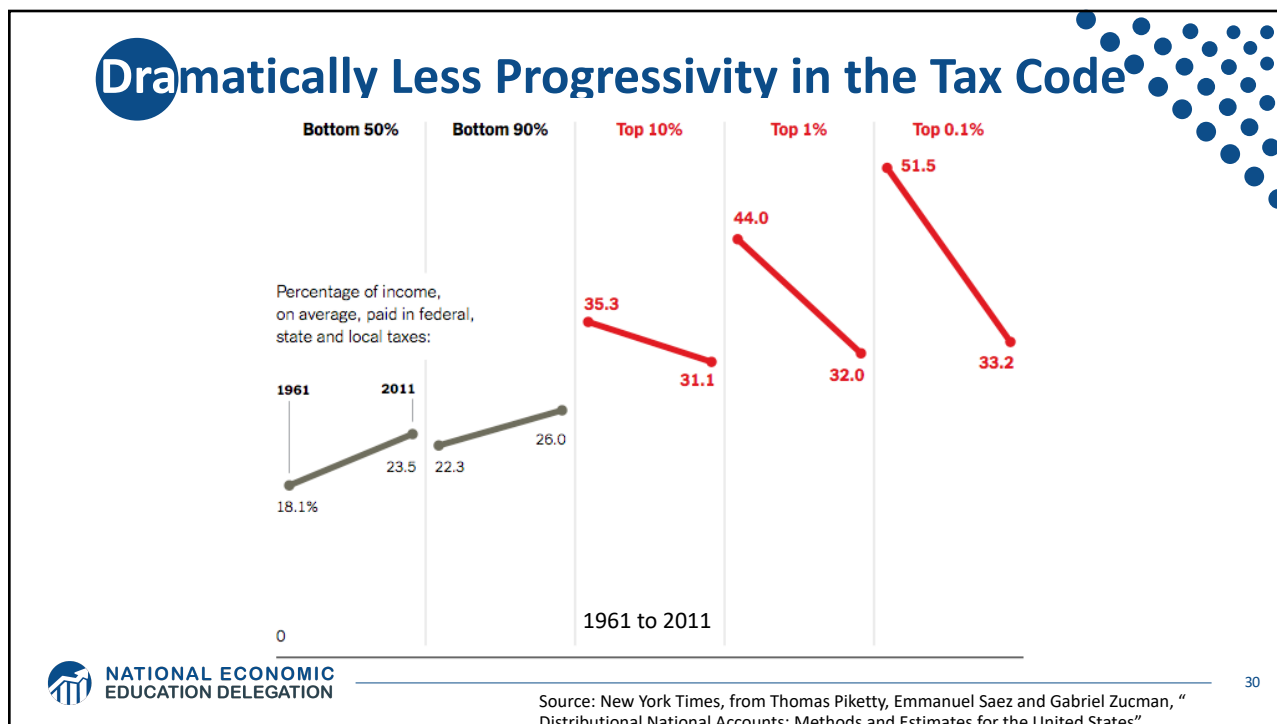
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Market Forces and Inequality

- **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

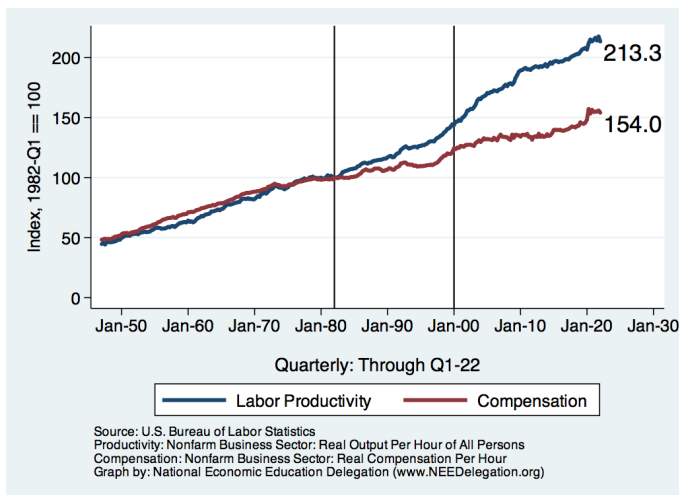


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Labor Income is Unhinged from Productivity



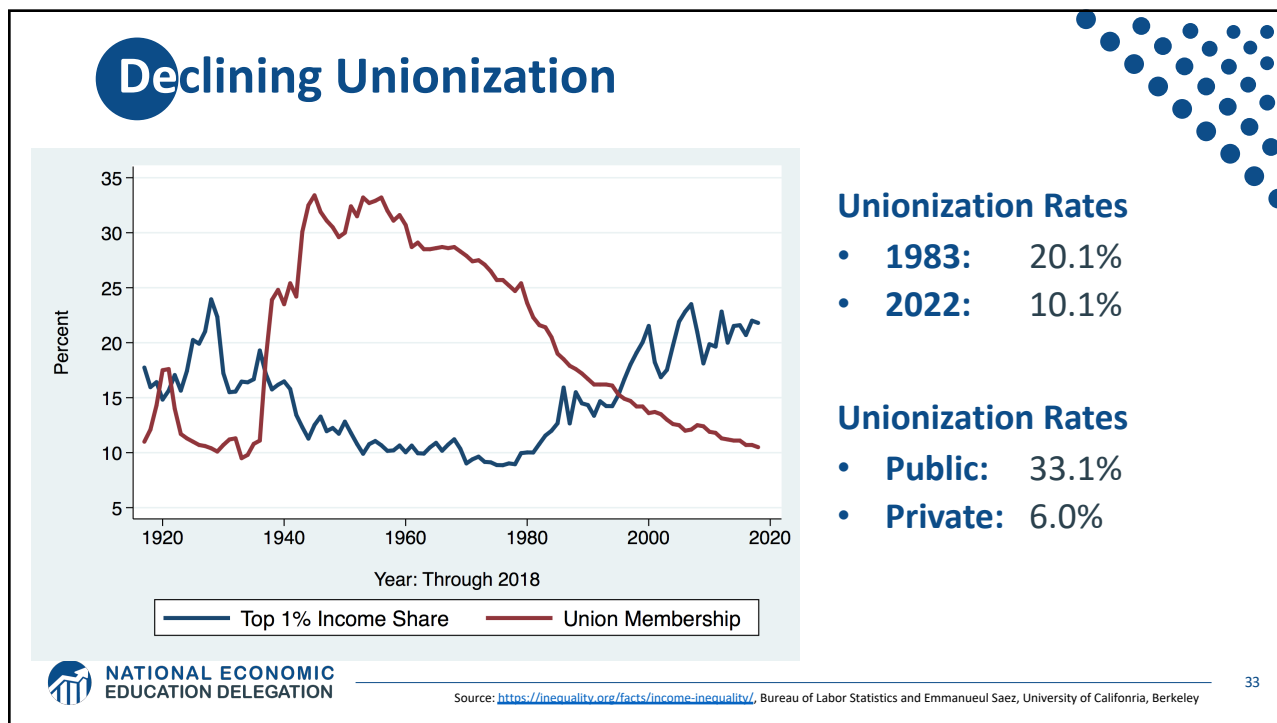
Why? Some theories:

- Declining unionization
- Competition policy
- Technological change
- Globalization

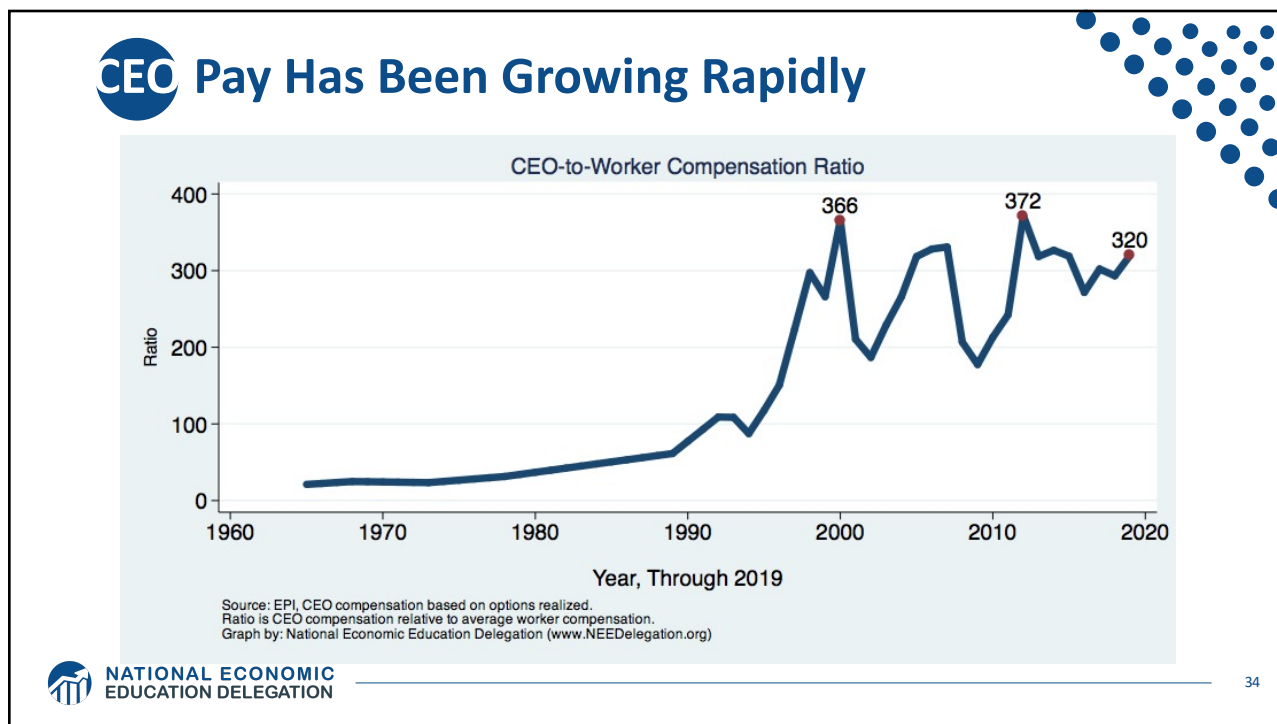


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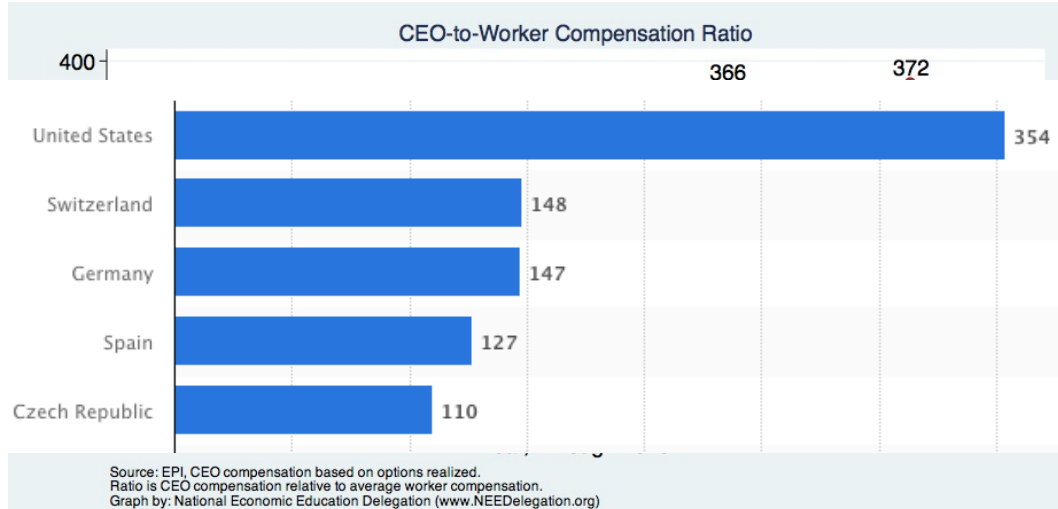


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CEO Pay Has Been Growing Rapidly



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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.
 - Owners over workers



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Technology Effects on Low Income Workers



Technology can improve worker productivity and create jobs



But technology can also displace jobs



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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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What is driving increasing inequality?

- **Primary drivers:**

- Technological change
- Increased globalization and trade
- Institutions and policy choices

- **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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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
- Affect public goods spending and distribution
 - o Education
 - o Environmental protections



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Addressing Inequality: Long Term

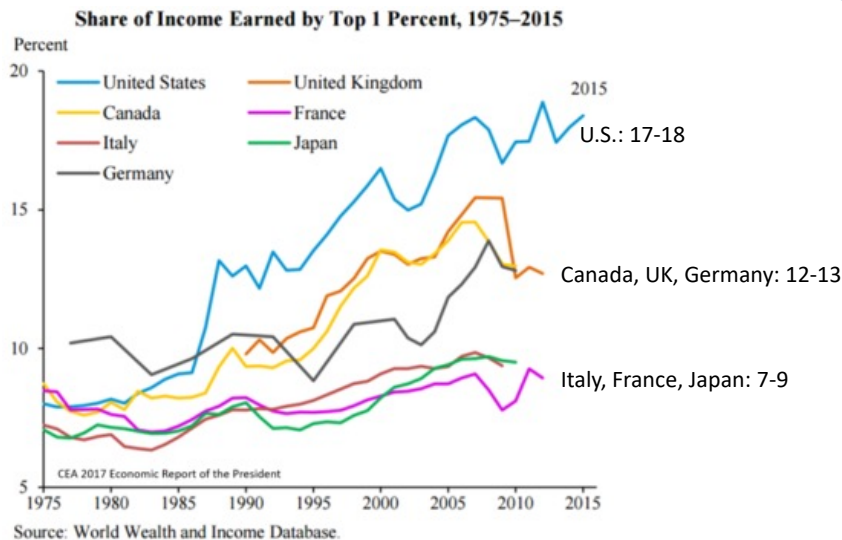
- **It's all about access to resources:**
 - Improve public education and reduce quality disparities across schools.
 - Improve counseling - paths to higher ed and funding for low-income students.
 - Invest in early childhood education, not later (e.g. universal pre-k).
 - Promote opportunities for wealth-building.
 - Increase housing supply, especially in high-price, high-opportunity cities.

- **Focus on most affected groups:**
 - Mentoring programs for minority youth.
 - Programs to address racial bias and discrimination in work and criminal justice.
 - Efforts to desegregate and facilitate greater interaction across racial groups.



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An International Perspective: Comparables



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What to do About Inequality?

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



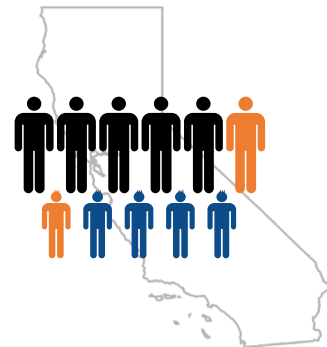
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Summary

- **Income inequality is clearly increasing.**
 - Owners of productive resources seeing greater income growth than workers reliant on labor income only.
- **The causes appear to be largely driven by:**
 - Technology, competition, and trade
 - Institutions and public policies
- **Open questions are:**
 - To act or not to act?
 - If so, how?
- **The level of inequality is a policy choice necessarily involving complex tradeoffs.**



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Thank you!

Any Questions?

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