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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?

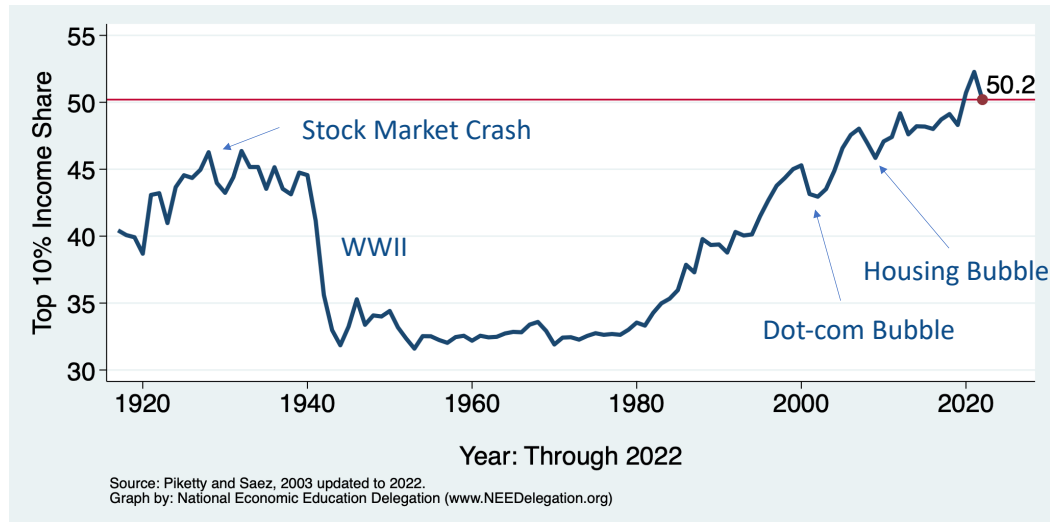
Income is measured over a period of time, say one year.

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



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National Income Inequality: Share of Top 10%



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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.

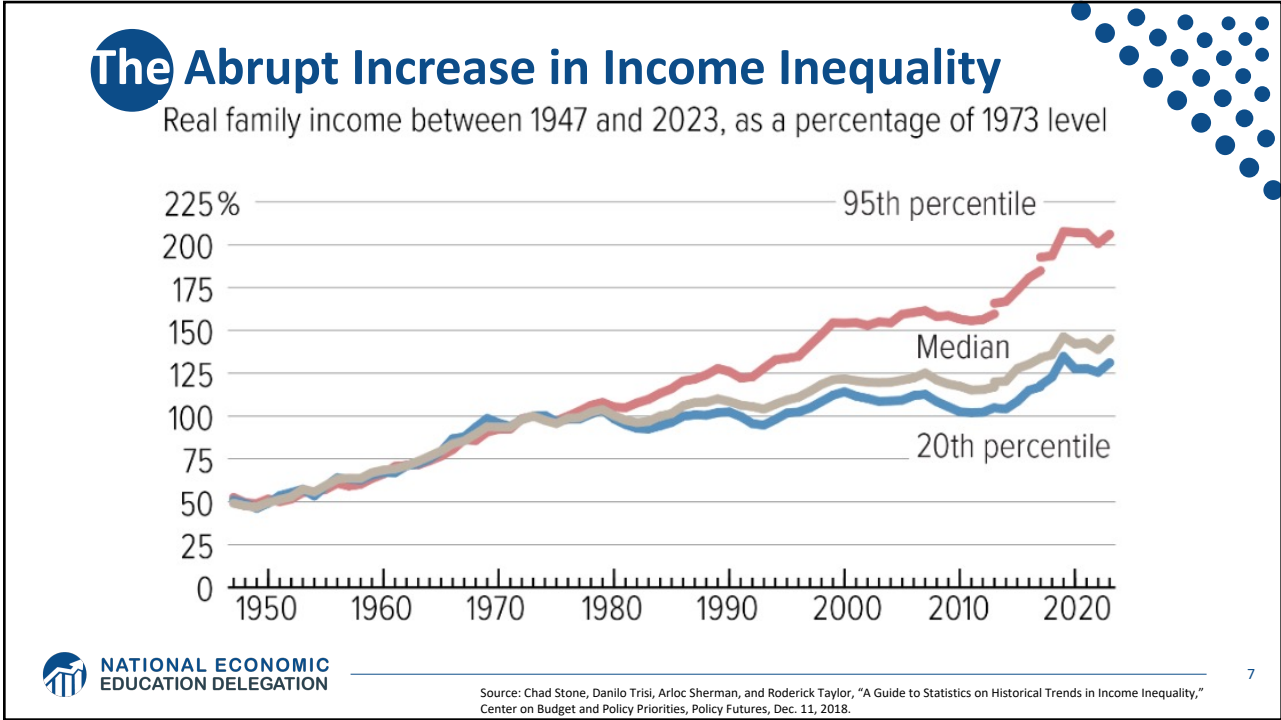


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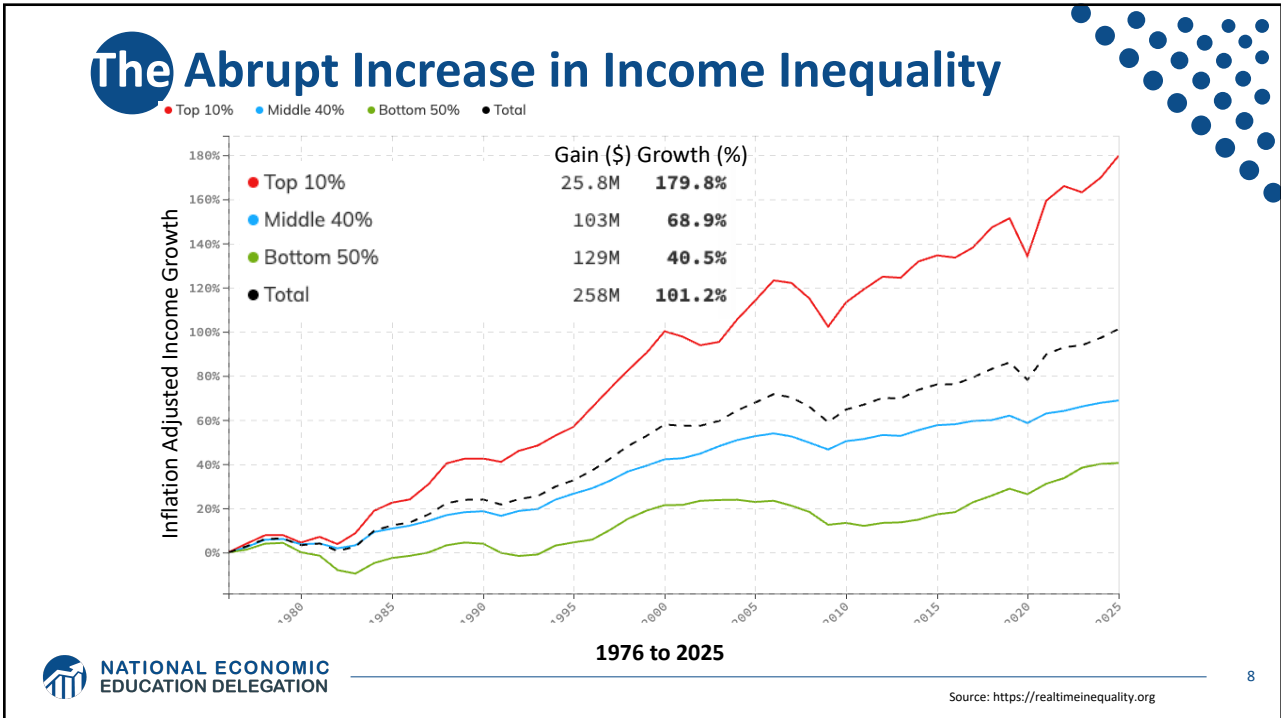
Source: Chad Stone, Danilo Trisi, Arloc Sherman, and Roderick Taylor, "A Guide to Statistics on Historical Trends in Income Inequality," Center on Budget and Policy Priorities, Policy Futures, May 15, 2018.

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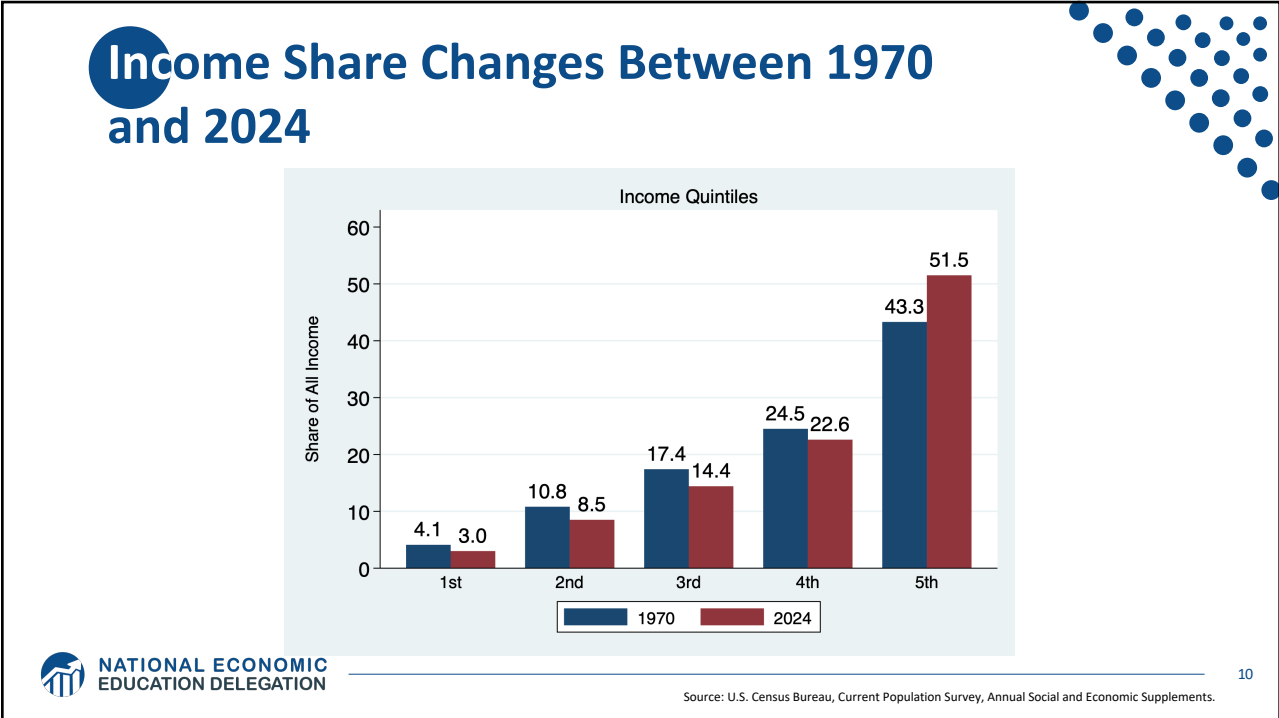
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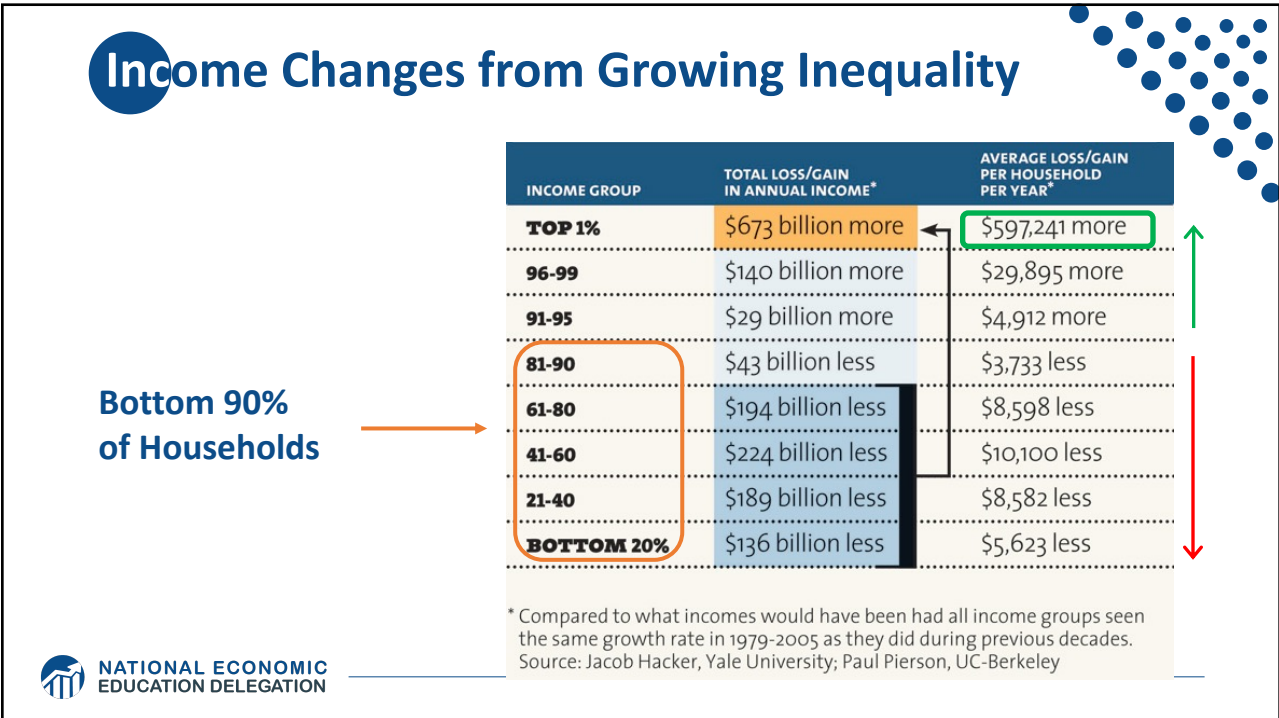
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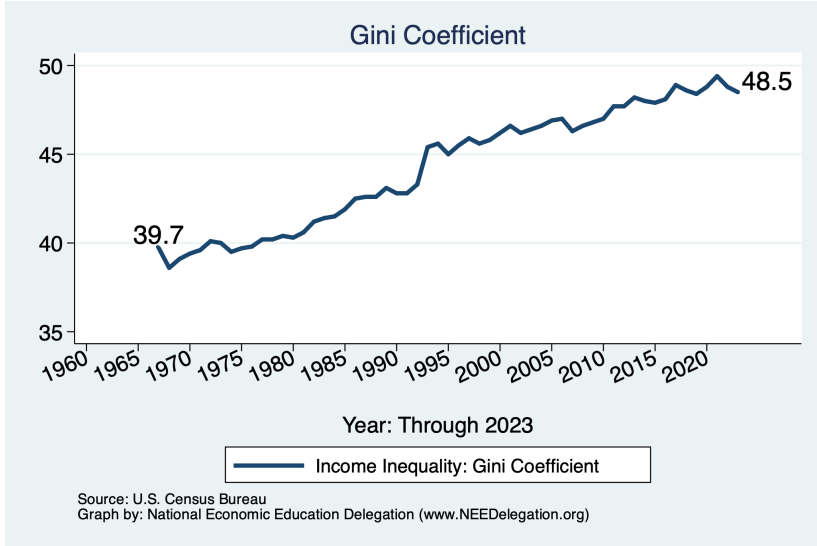


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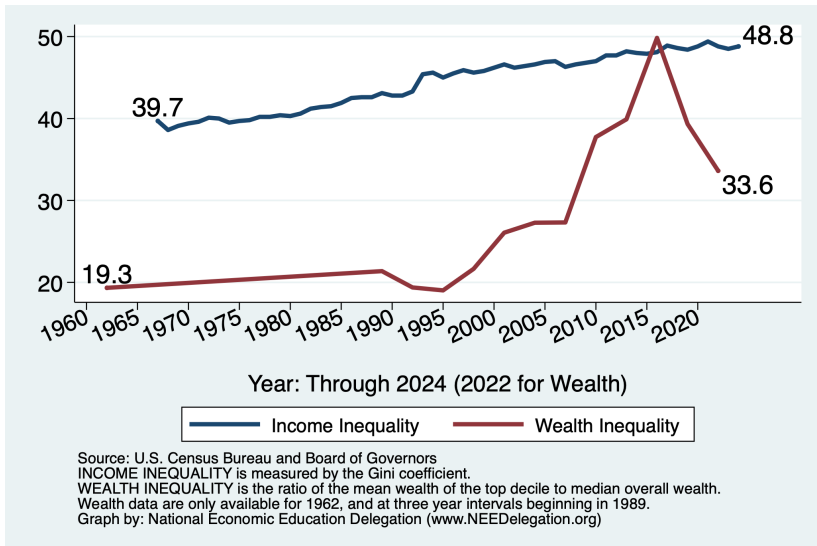
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Income Inequality: Gini Coefficient Over Time



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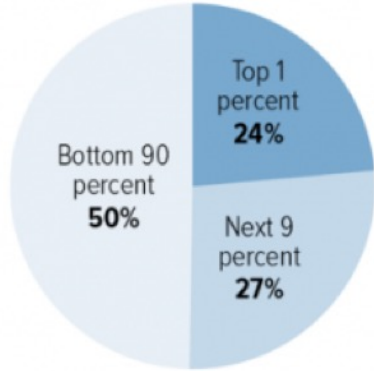
Income and Wealth Inequality Measures



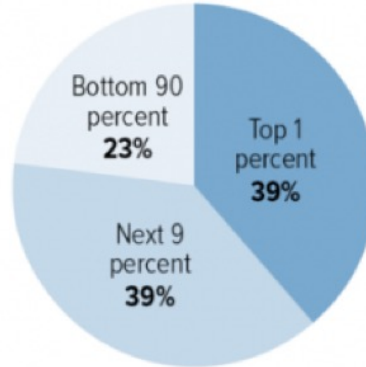
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Wealth Inequality Exceeds Income Inequality

Distribution of before-tax income, 2016

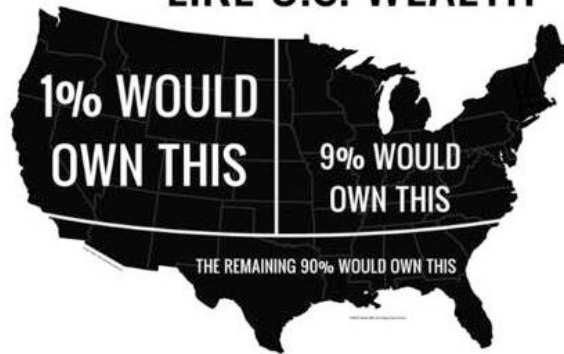


Distribution of wealth, 2016



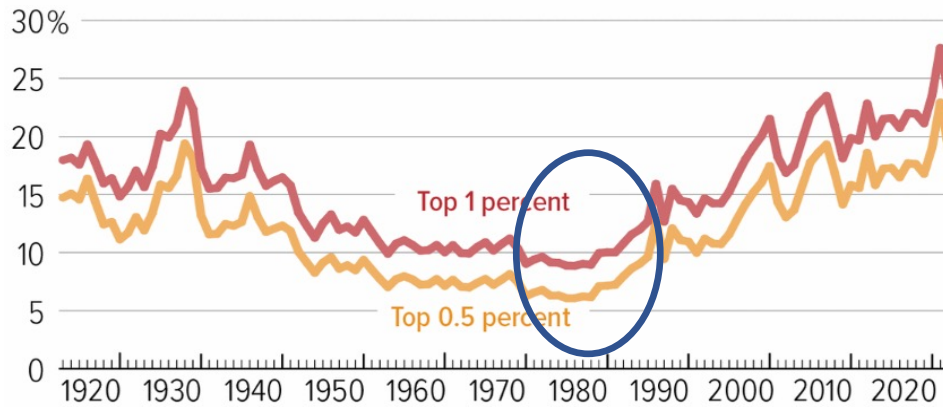
Wealth inequality in America

IF U.S. LAND WERE DIVIDED LIKE U.S. WEALTH



Wealth Concentration Has Been Rising

Share of total before-tax income flowing to the highest income households (including capital gains), 1913-2022



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Where Does Income Inequality Come From?

• Labor Characteristics

- Demographics
 - o Age distribution
- Personal Choices
 - o Educational attainment
 - o 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

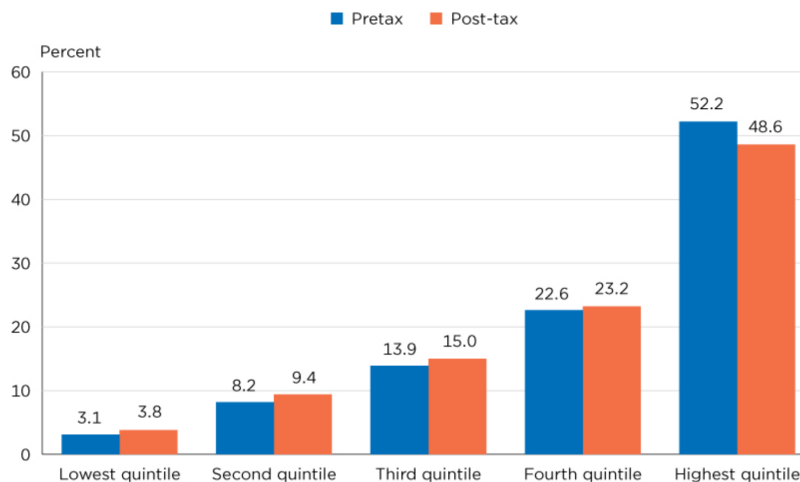
- Characteristics of labor
 - o Access to education
- Effects on labor demand
 - o Market regulation
 - Competition policy
 - o Labor regulations
 - Minimum wage, overtime, health insurance, union regulations, etc.

• RE-distribution

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

Tax and Transfer Programs and Inequality

Share of Total Pretax and Post-Tax Household Income by Income Quintile: 2024



Source: U.S. Congressional Budget Office, "The Distribution of Household Income, 2014", Average Income Before and After Means-Tested Transfers and Federal Taxes, by Income Group, 2014.

Market Forces and Inequality

- **Changing demand patterns**

- Technology and “skill-biased technological change”
- Increased Trade and Globalization
- Industry composition
 - o PCs instead of typewriters
 - o Services instead of goods
 - o Professional services instead of personal services

- **Competition in labor markets**

- Unionization
- Market concentration

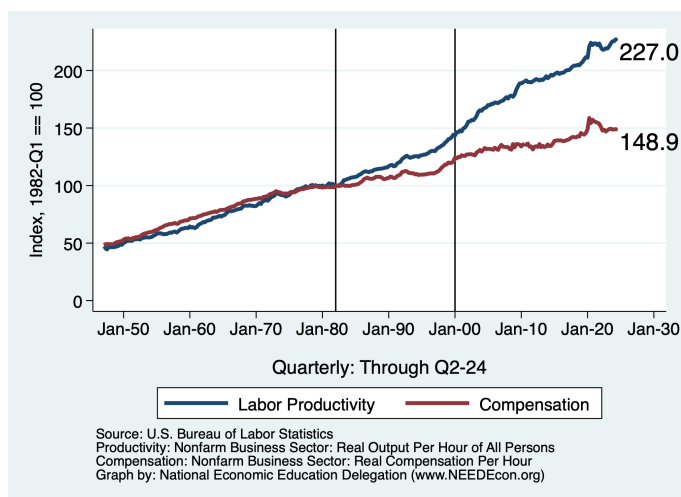


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Labor Income is Unhinged from Productivity



Why? Some theories:

- Declining unionization
- Competition policy
- Technological change
- Globalization



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Declining Unionization

• 1983:	20.1%
• 2025:	10.0%

• Public:	32.9%
• Private:	5.9%

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Source: <https://inequality.org/facts/income-inequality/>, Bureau of Labor Statistics and Emmanuel Saez, University of California, Berkeley

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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.



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.



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: Is It A Problem?

- **Why might it be a problem?**

- Economic issues (*Efficiency*)
 - o Inequality can misallocate resources and slow economic growth.
 - o Maybe not a problem? Inequality can concentrate resources with investors.
- Noneconomic issues (*Equity*)
 - o Values, ethics, and morals will drive individual evaluations of inequality.
 - o Depends on personal beliefs about origins and consequences of inequality.

- **Suppose you think it's a problem. How might it be addressed?**

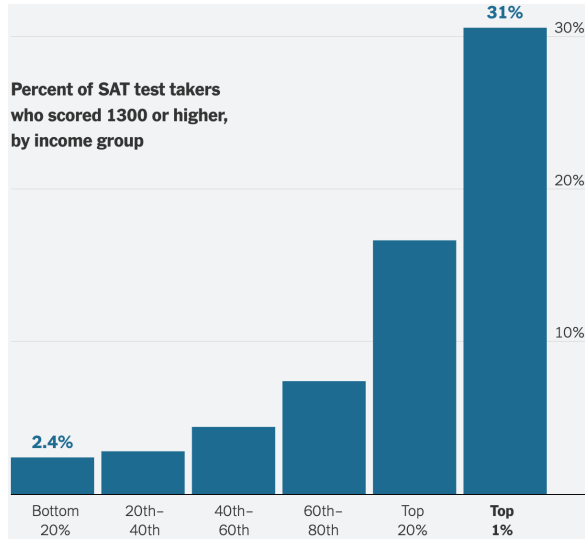


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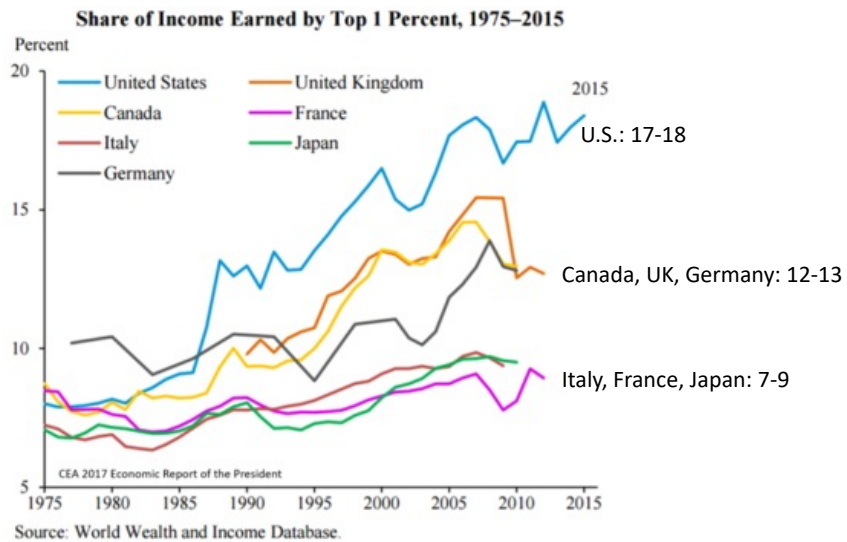
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To Emphasize the Access Issue



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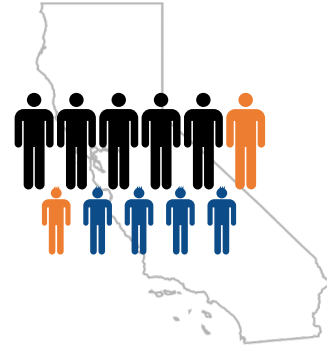
An International Perspective: Comparables



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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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