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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

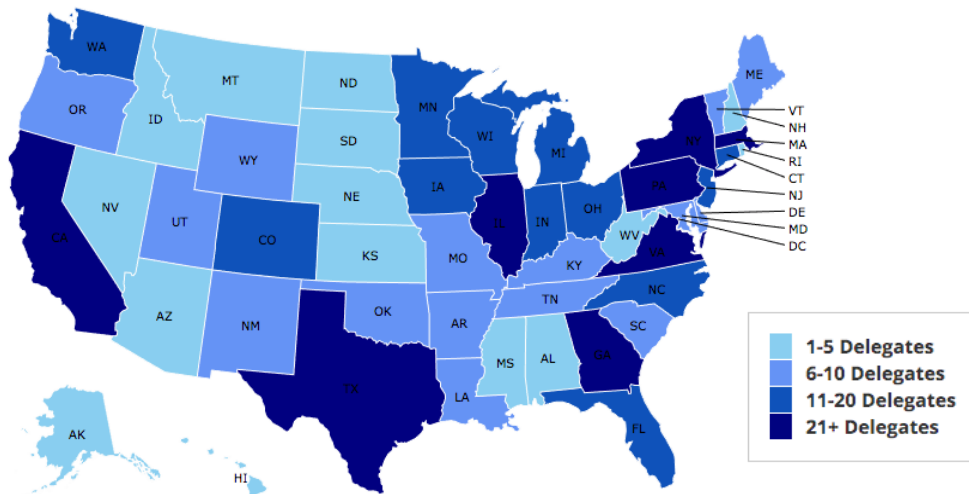


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Where Are We?



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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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Submitting Questions

- **Please submit questions of clarification in the chat.**
 - I will try to handle them as they come up.
- **We will do a verbal Q&A once the material has been presented.**
- **Slides will be available from the NEED website shortly**
(https://NEEDEcon.org/delivered_presentations.php)



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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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Economic Inequality: Income

- **Definition:**

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



Different Ways of Thinking About Inequality

- **Income Inequality**

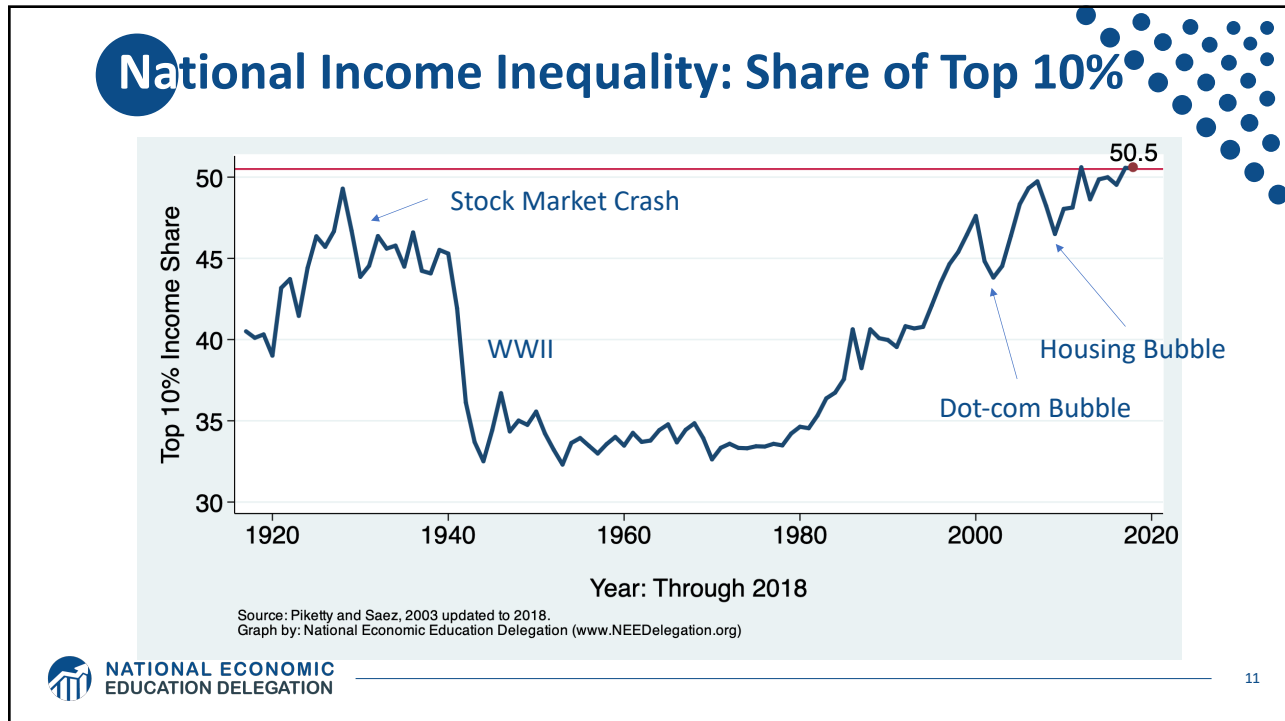
- Before taxes and transfers
- After taxes and transfers

- **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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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.

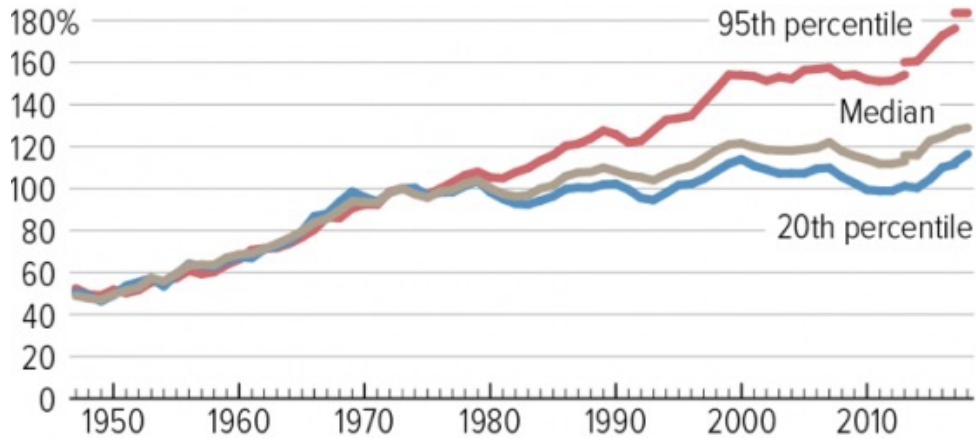
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Source: Chad Stone, Danilo Trisi, Arloc Sherman, and Roderick Taylor, "A Guide to Statistics on Historical Trends in Income Inequality," Center on Budget and Policy Priorities, Policy Futures, May 15, 2018.

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The Abrupt Increase in Inequality

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

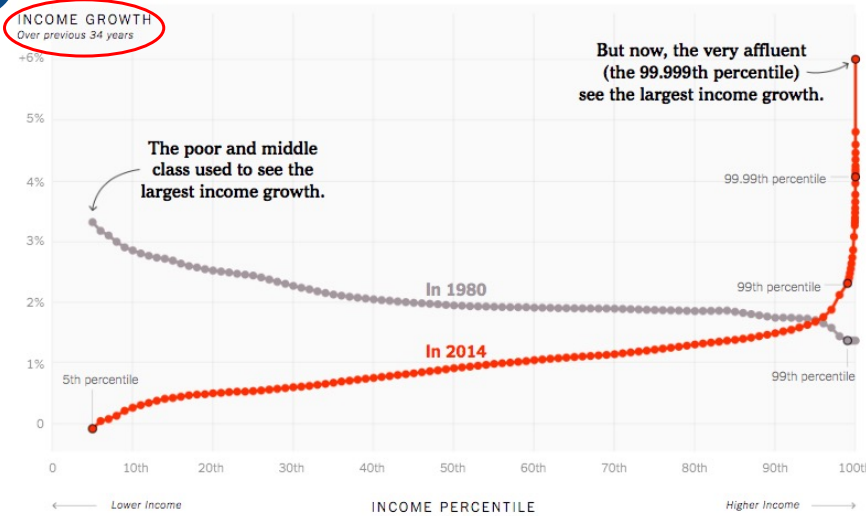


Source: Chad Stone, Danilo Trisi, Arloc Sherman, and Roderick Taylor, "A Guide to Statistics on Historical Trends in Income Inequality," Center on Budget and Policy Priorities, Policy Futures, Dec. 11, 2018.

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Wage Growth Patterns Have Changed!



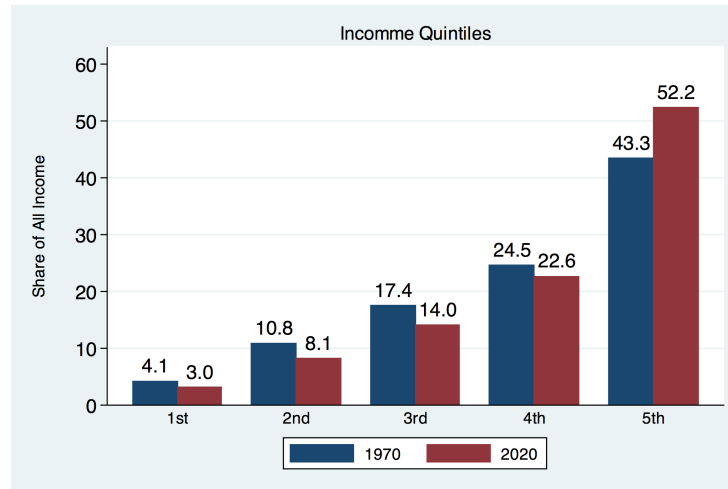
Note: Inflation-adjusted annual average growth using income after taxes, transfers and non-cash benefits.

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

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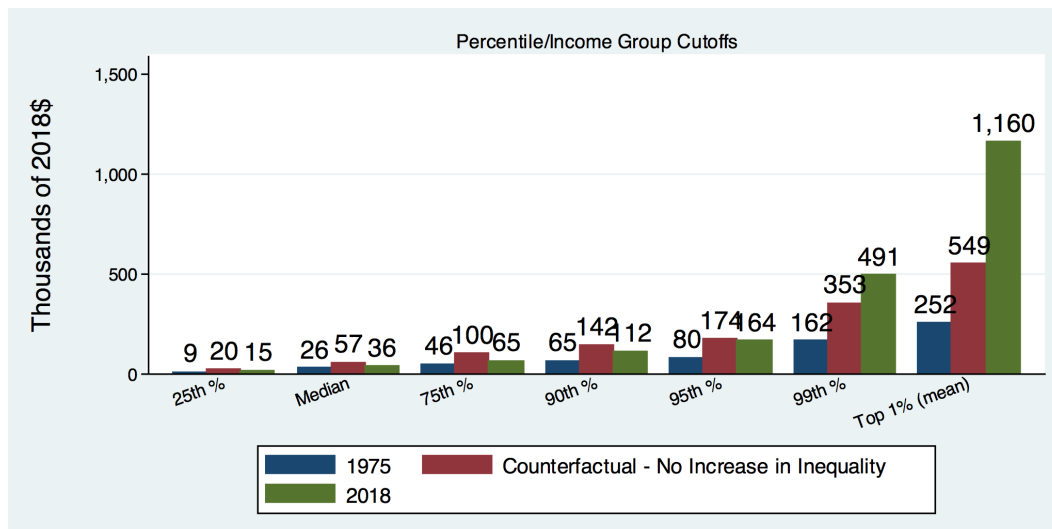
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Income Share Changes Between 1970 and 2020



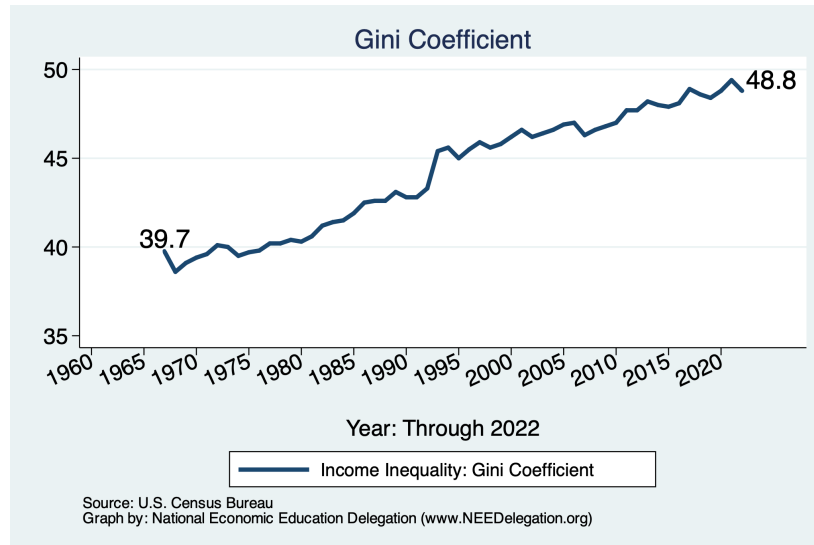
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How Has Inequality Influenced Incomes?

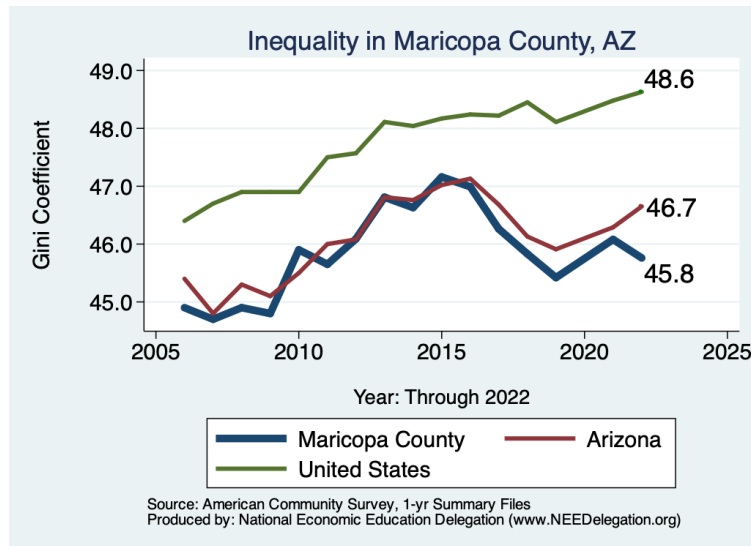


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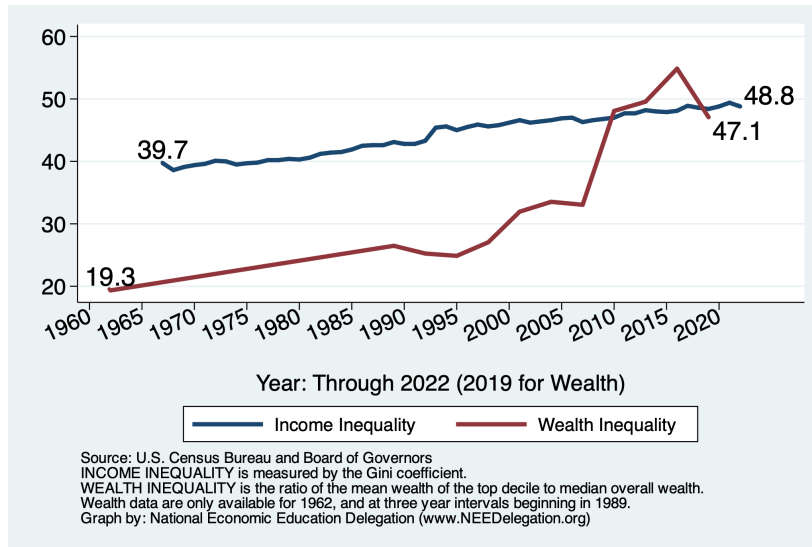
Income Inequality: Gini Coefficient Over Time



Your Local Inequality Trend

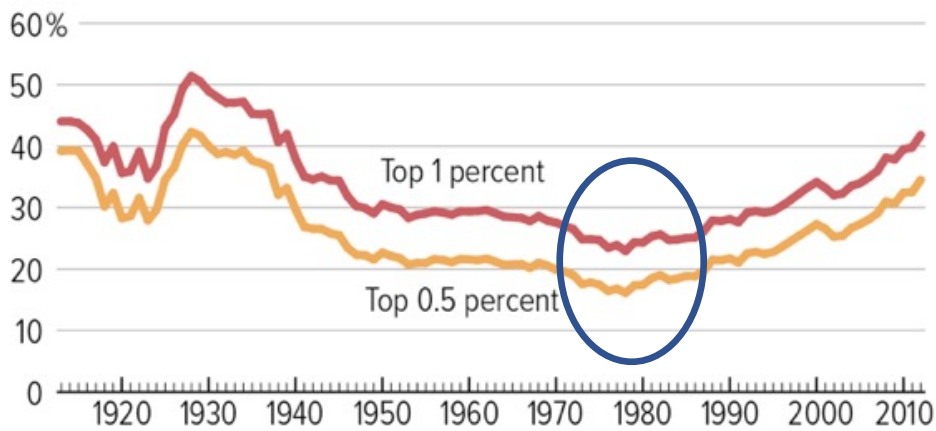


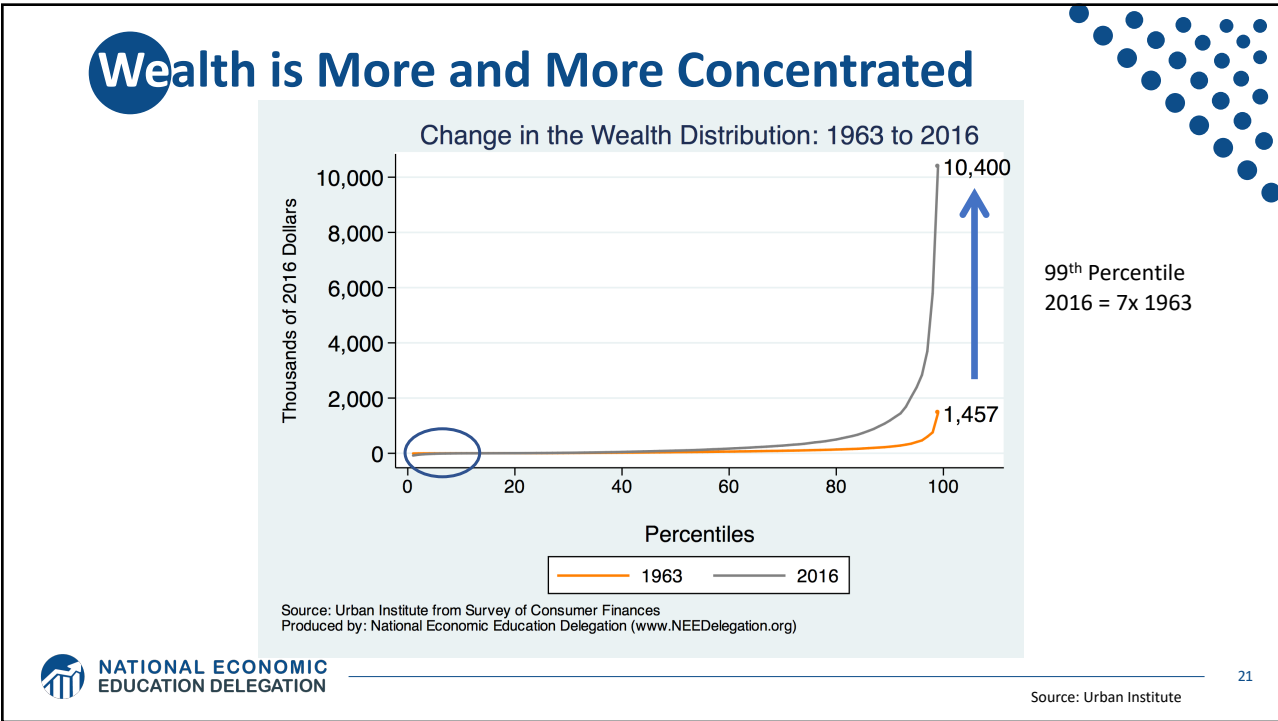
Income and Wealth Inequality Measures



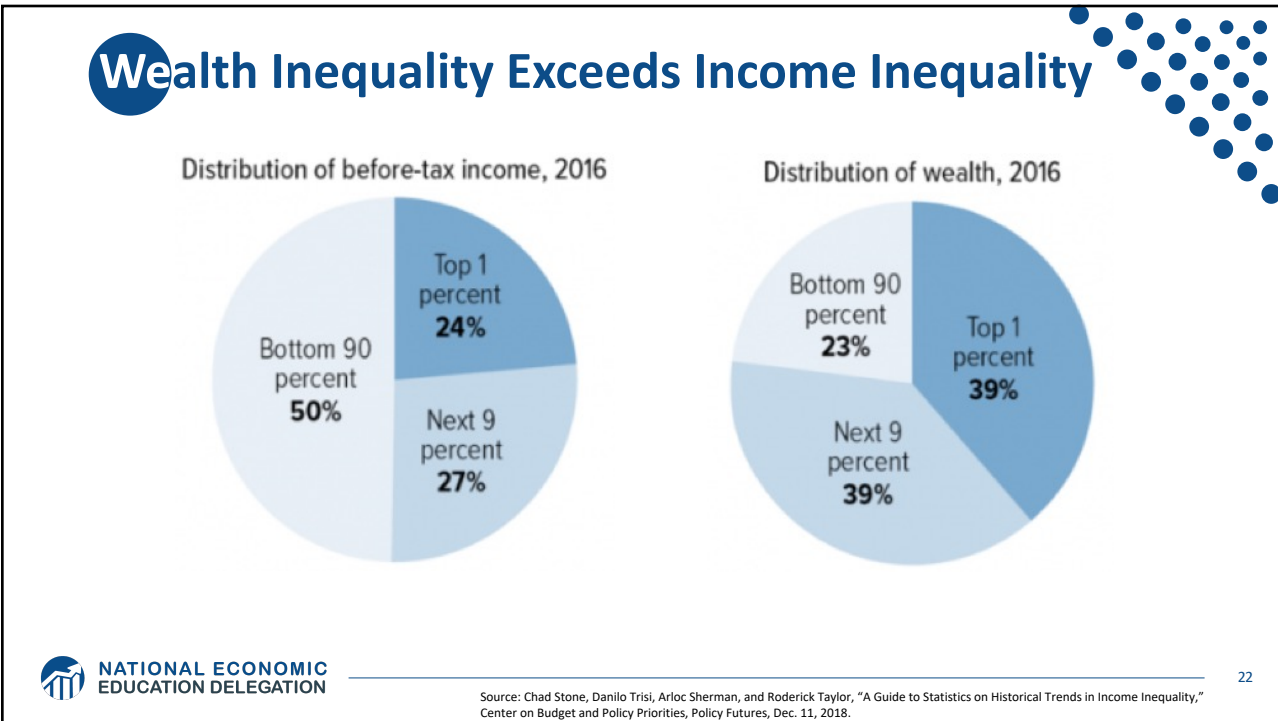
Wealth Concentration Has Been Rising

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



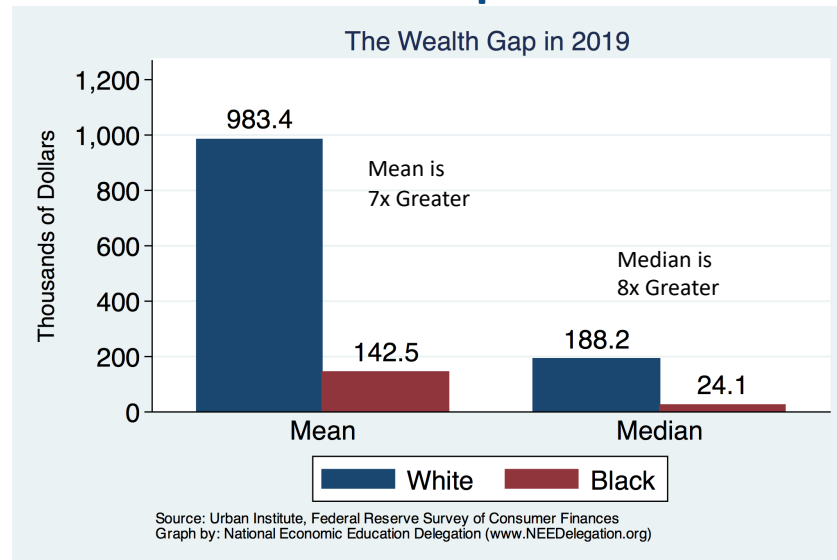


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The Black-White Wealth Gap



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Events/Policies with Direct Wealth Implications

- **Slave trade**
 - The first deprivation.
- **Slavery**
- **40 acres (and a mule)**
 - The second deprivation.
 - Discriminatory distribution of land.
- **Freedmen's Bank**
 - Lax oversight and dissolution.
- **Jim Crow Laws & Economic Policy**
 - Convict leasing, debt peonage, chain-gang, sharecropping, and lynching.
- **Homestead Act**
 - Discriminatory distribution of land.
- **Land theft and destruction**
 - E.g., Black Wall Street – Tulsa, 1921.
- **GI Bill**
 - Discriminatory access – Levittown
- **Federal Housing Authority**
 - Redlining
- **And many more.**

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Results for Black Families

- **Much lower accumulation of wealth than among White families.**
- **Implications:**
 - Less financial contribution from parents to children.
 - More difficult access to higher education.
 - Less access to capital for business formation.
 - More likely to live in disadvantaged neighborhoods.
 - Fewer role models.
 - Less access to quality education.
 - *Disparities in the capacity – availability of resources - to build wealth.*



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Where Does Income Inequality Come From?

- **Labor Characteristics**
 - Demographics
 - Age distribution
 - Personal Choices
 - Educational attainment
 - Effort
 - Priorities
 - Household composition
 - 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**

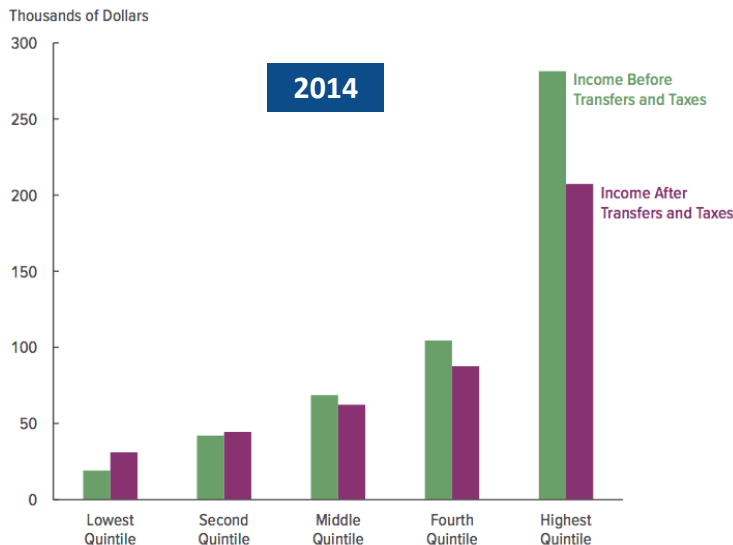
- Characteristics of labor
 - o Access to education
- Effects on labor demand
 - o Market regulation
 - Competition policy
 - o Labor regulations
 - Minimum wage, overtime, health insurance, union regulations, etc.

- **RE-distribution**

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

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Tax and Transfer Programs and Inequality

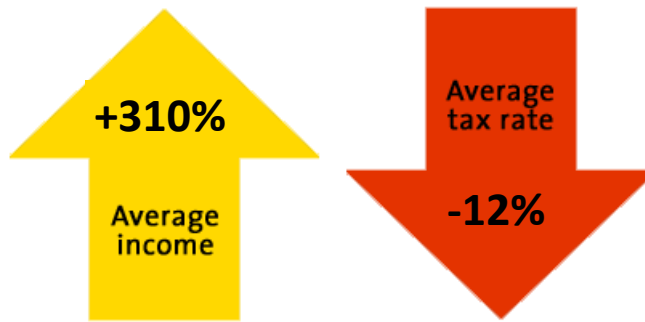


Source: U.S. Congressional Budget Office, "The Distribution of Household Income, 2014", Average Income Before and After Means-Tested Transfers and Federal Taxes, by Income Group, 2014.

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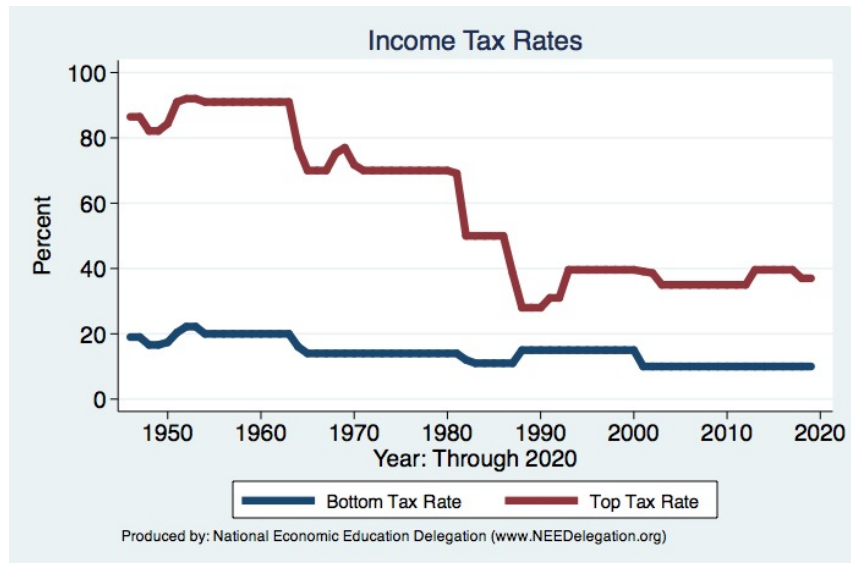
What About Tax Rates?

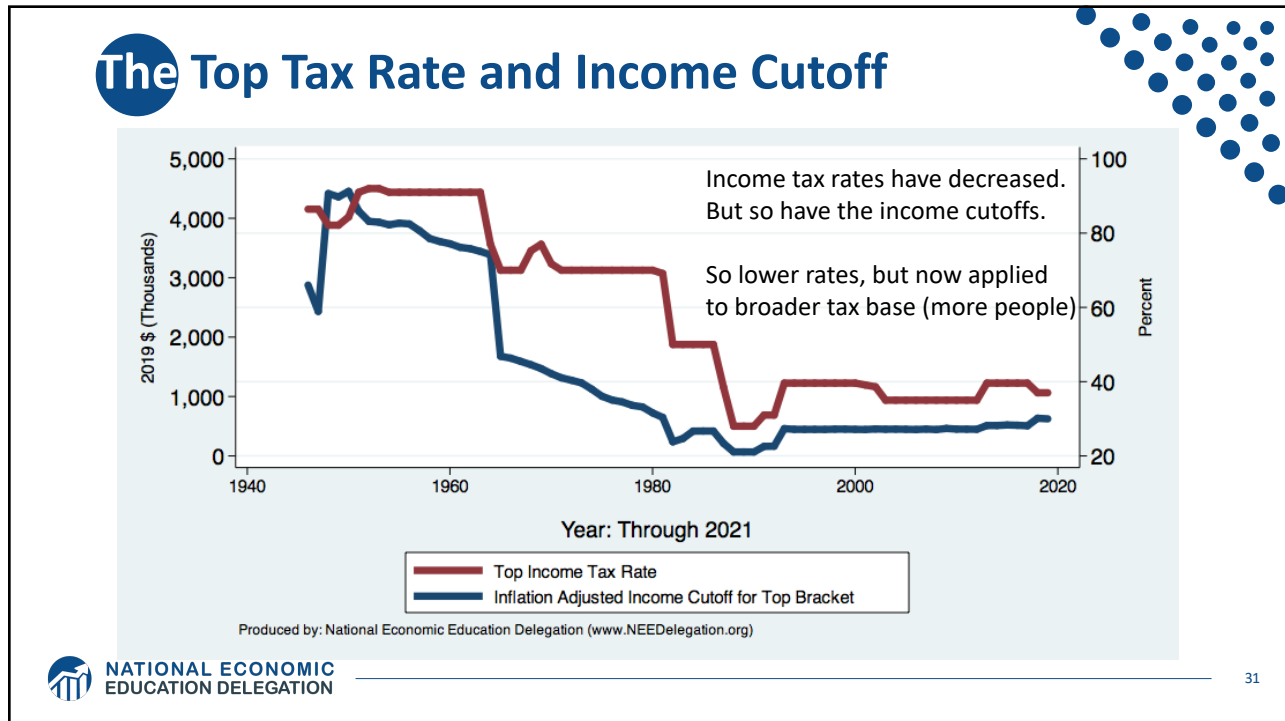
400 TAXPAYERS WITH HIGHEST INCOMES
1992-2014



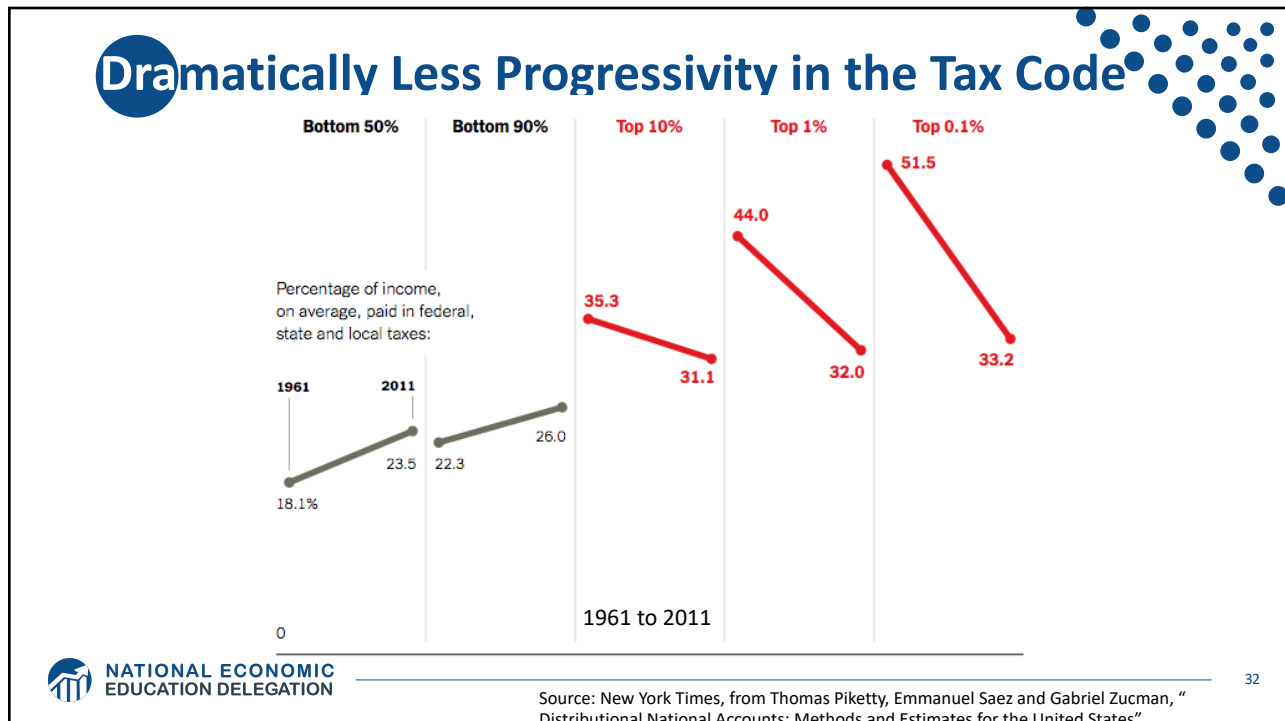
Source: IRS, Statistics of Income Division, December 2016.

Tax Rates Over Time





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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

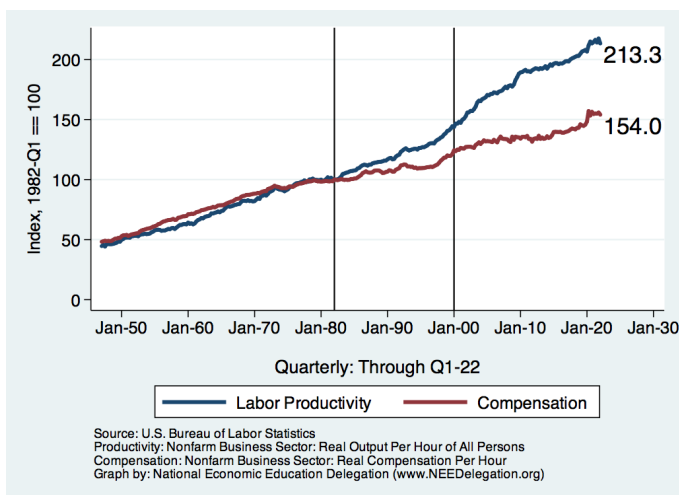


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Labor Income is Unhinged from Productivity



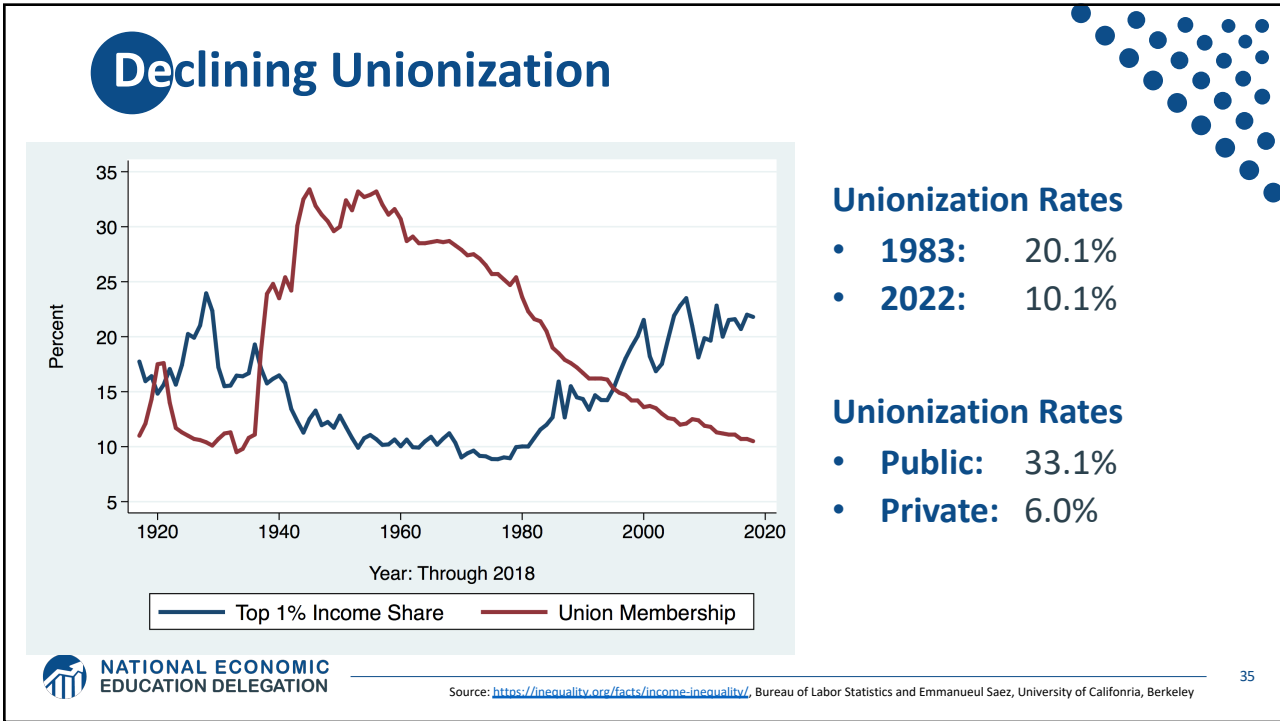
Why? Some theories:

- Declining unionization
- Competition policy
- Technological change
- Globalization

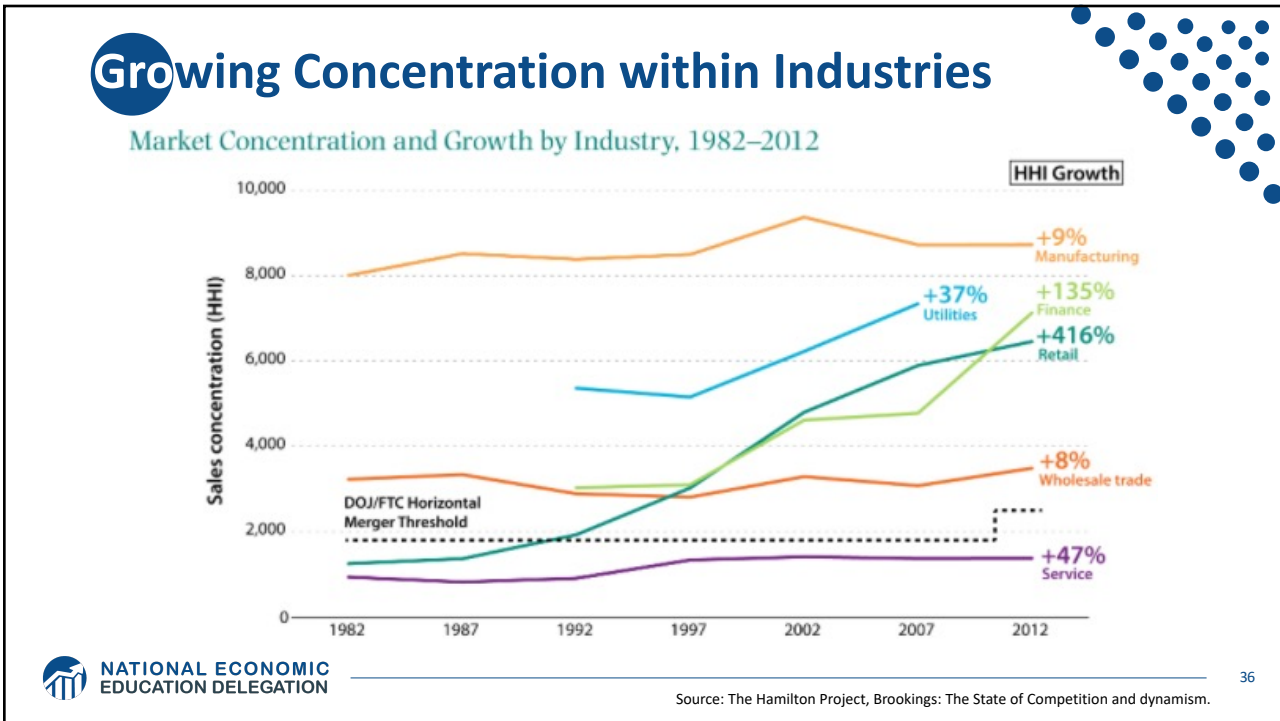


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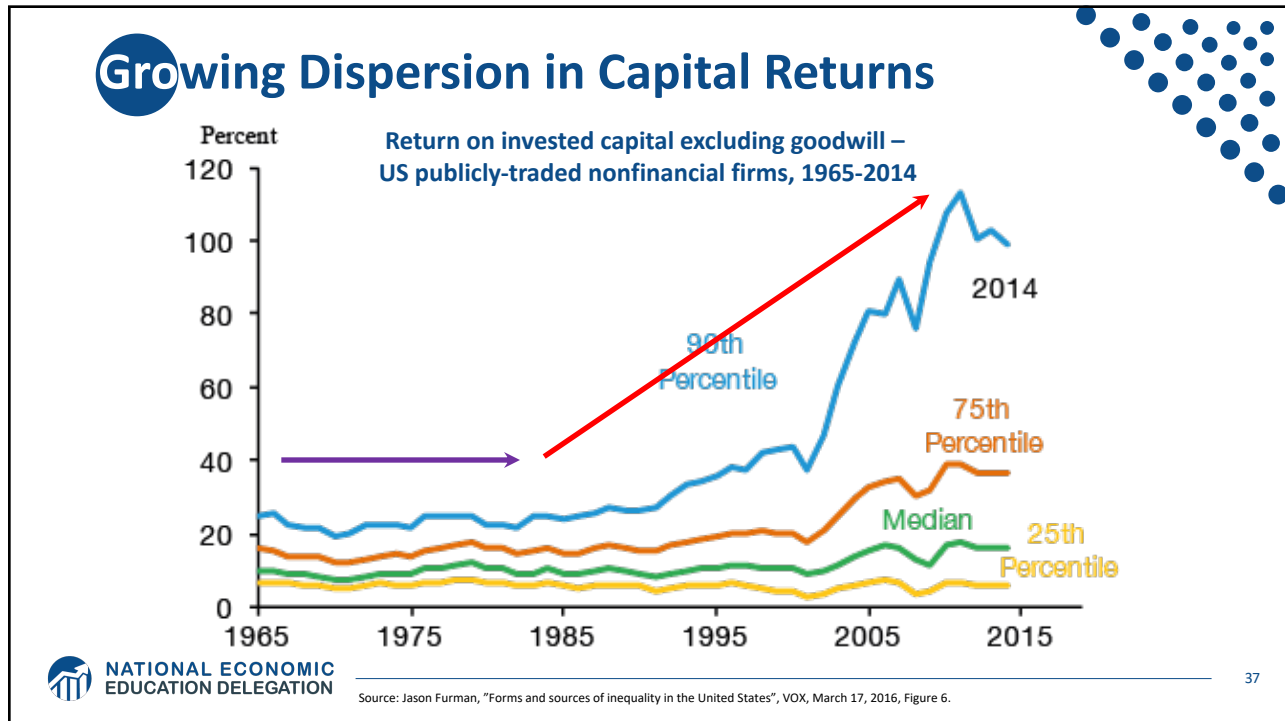
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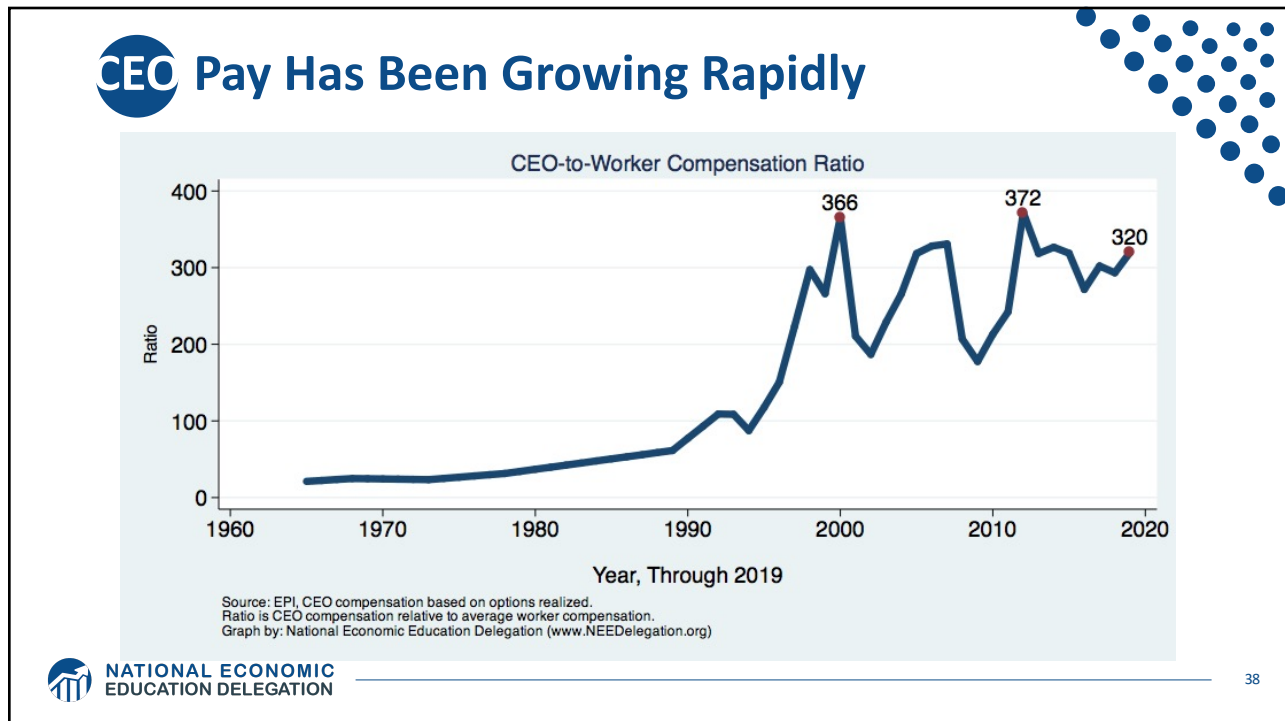
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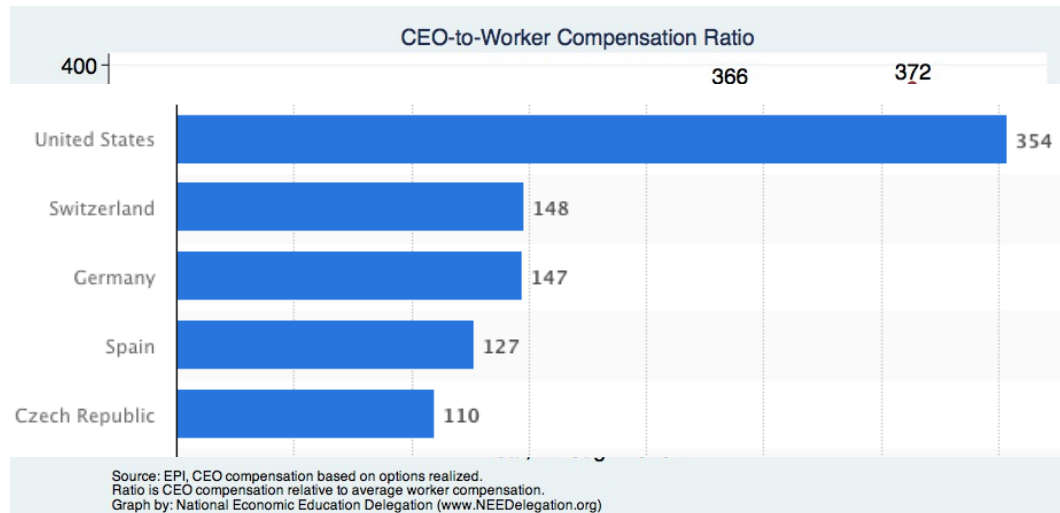


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CEO Pay Has Been Growing Rapidly



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Immigration and Inequality

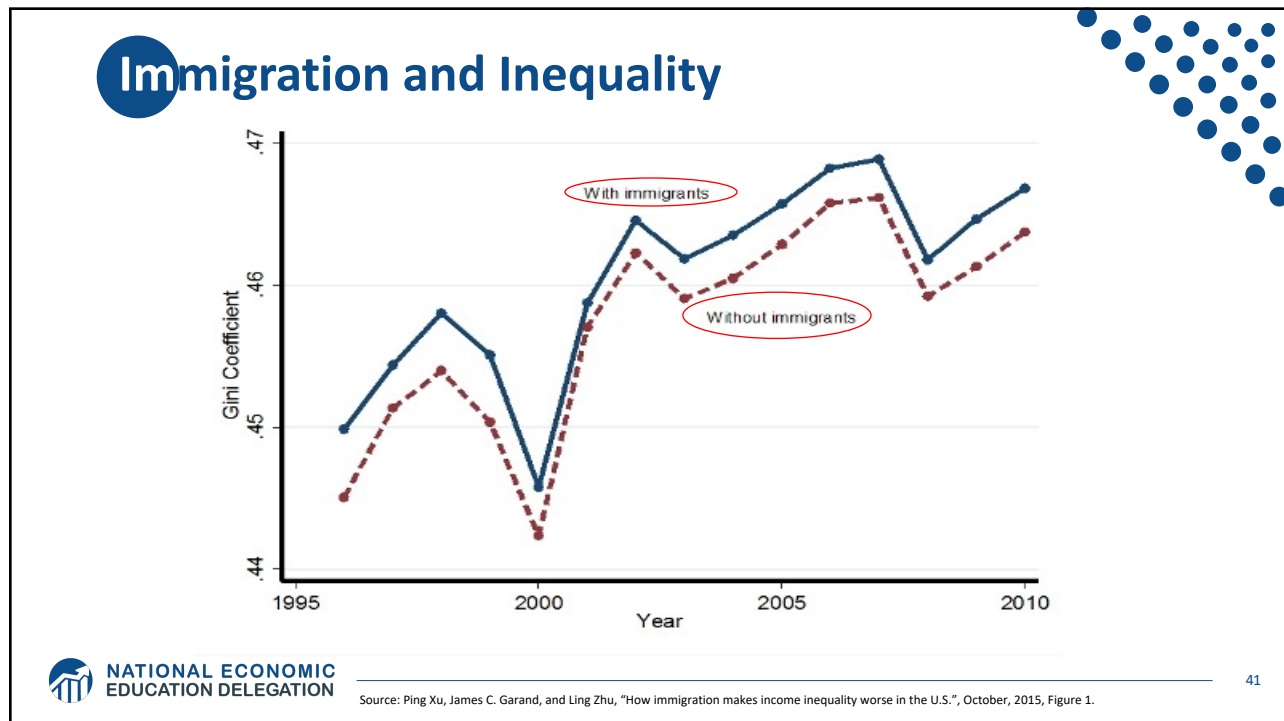
- **Beginning in about 1970, the immigrant share of the U.S. Population increased dramatically.**
 - 5% in 1970 and 14% in 2016
- **Immigration tends to happen most often among:**
 - Low-skilled low-wage workers
 - High-skilled high-wage workers
- **Immigration has likely increased income inequality.**
- **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
- **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.



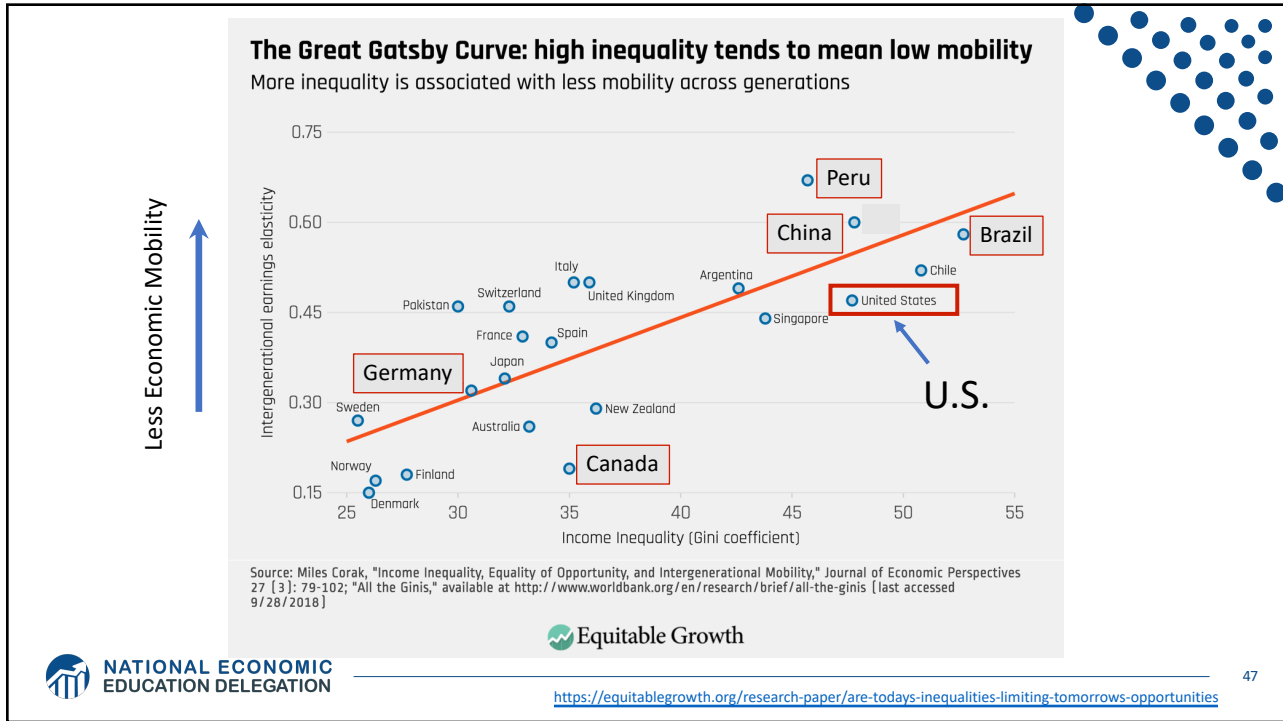
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Why Does Inequality Matter?

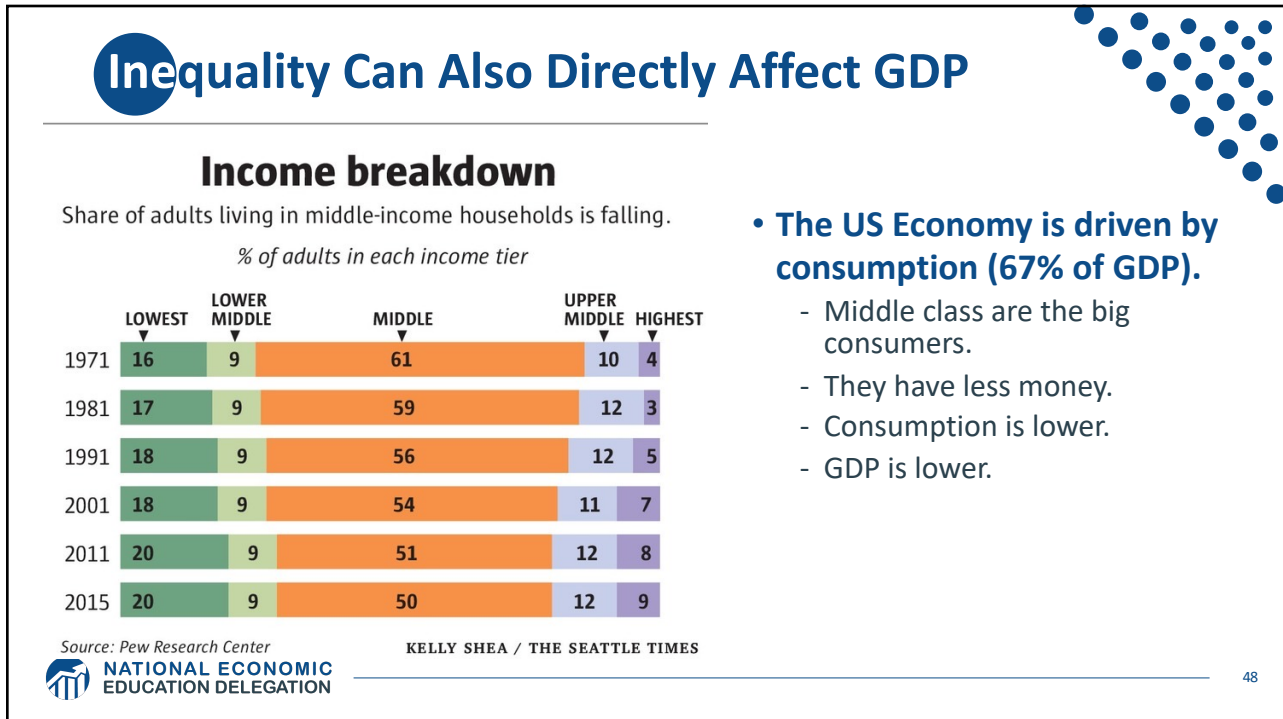
- **Too little inequality can:**
 - Reduce individual motivation
 - Slow economic growth
 - **Too much inequality can:**
 - Reduce individual motivation
 - Slow economic growth
-
- **Too much inequality may also:**
 - Divide society
 - Distort political environment
 - Reduce political participation
 - Affect public goods spending and distribution
 - Education
 - 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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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.**

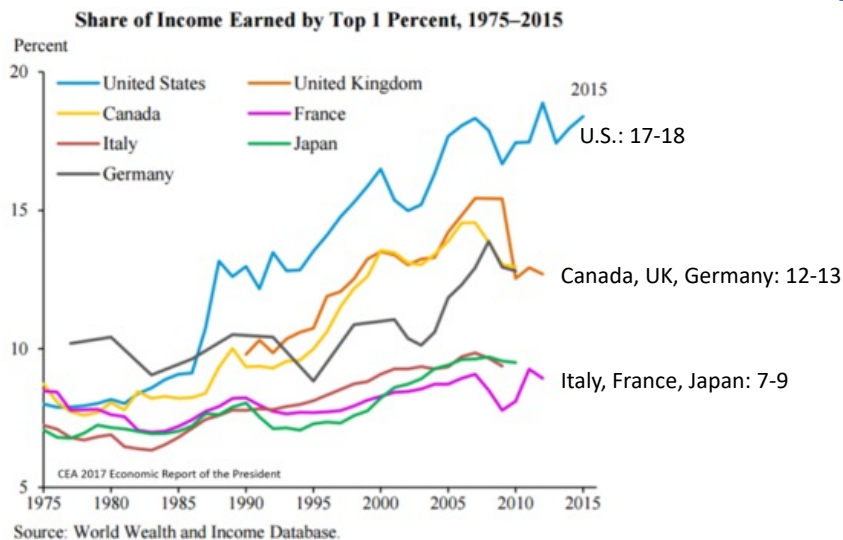


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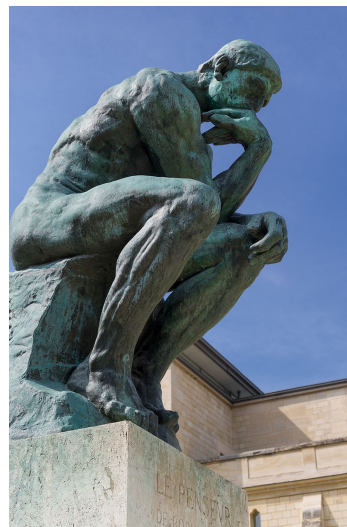
An International Perspective: Comparables



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What to do About Inequality?

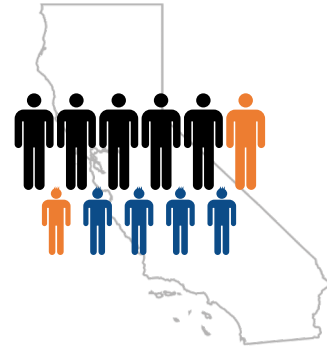
- Nothing?
- Redistribution?
- PRE-distribution?
- Access to resources?



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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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