

**NATIONAL ECONOMIC
EDUCATION DELEGATION**


Economic Inequality

Roger White, Ph.D.
*Professor and Douglas W. Ferguson Chair of
International Economics, Whittier College*

Osher Lifelong Learning Institute
Eckerd College
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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)
- 3 Nobel Prize Winners
 - o Akerlof, Smith, Maskin

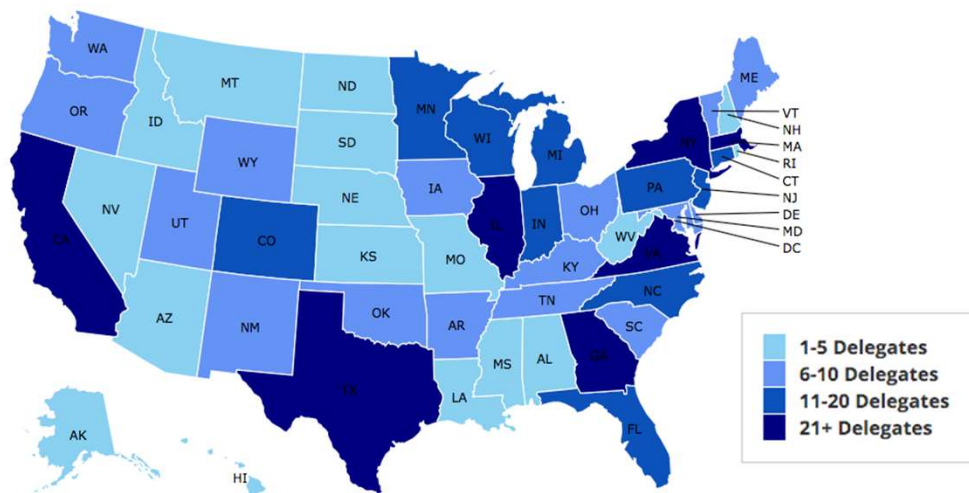
- **Delegates: 652+ members**

- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

- **Global Partners: 49 Ph.D. Economists**

- Aid in slide deck development

Where Are We?



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)

Outline

- **Definition**
- **Forms of inequality**
- **What is the extent of inequality?**
- **What are the sources of inequality?**
- **Why does it matter?**
- **Tension in policy solutions**
- **Brief summary**
- **Q&A**

Economic Inequality

- **Definition:**

- The extent to which the distribution of income, wealth, or consumption deviates from complete equality
- The dispersion of income, wealth, or consumption throughout the economy



Different Ways of Thinking About Inequality

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

How does wealth differ from income?

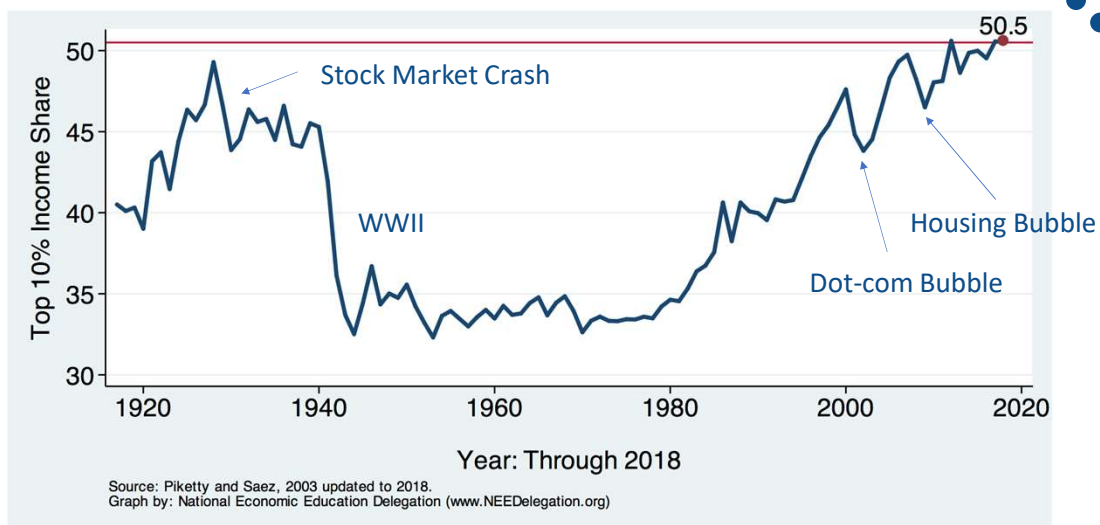
Income is measured over a period of time, say one year.

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

Recent Facts on Income Inequality

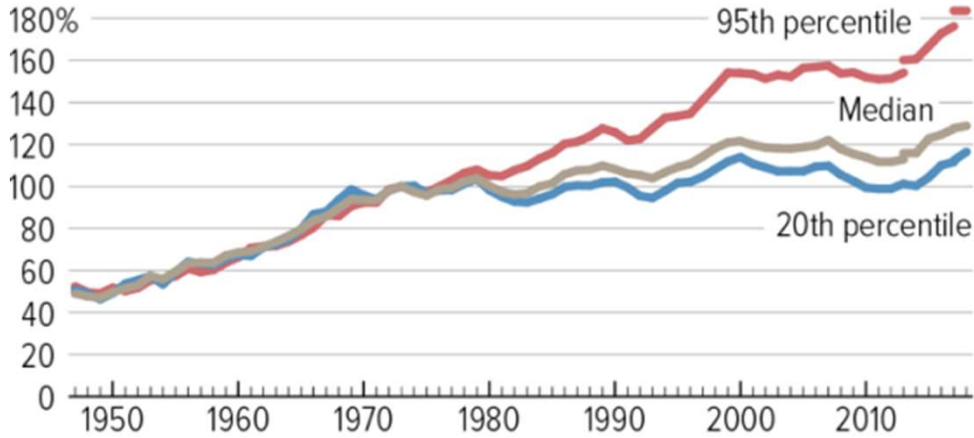
- **Beginning in the 1970s, the income gap widened.**
 - Income growth in the middle and lower parts of the distribution slowed
 - Incomes at the top continued to grow strongly
 - Income shares at the very top of the distribution rose to levels last seen more than 80 years ago

National Income Inequality: Share of Top 10%



An Abrupt Increase in Inequality

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

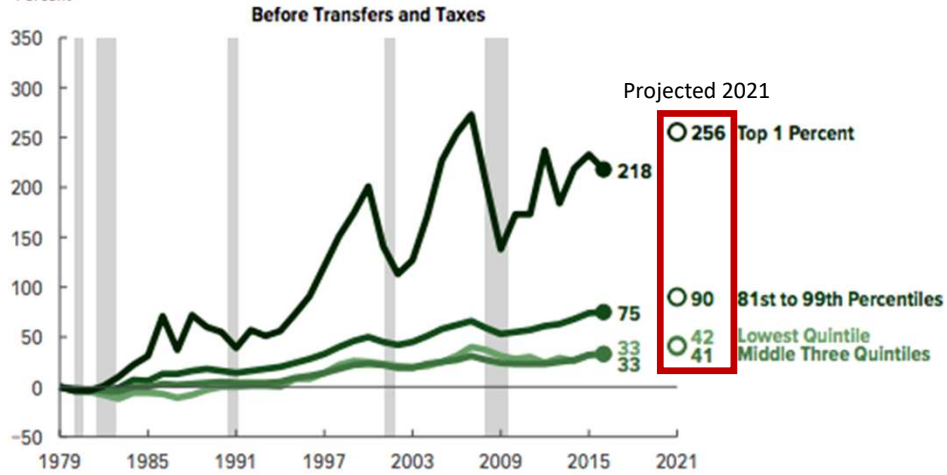


Source: Chad Stone, Danilo Trisi, Arloc Sherman, and Roderick Taylor, "A Guide to Statistics on Historical Trends in Income Inequality," Center on Budget and Policy Priorities, Policy Futures, Dec. 11, 2018.

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Most of the Action Is at the Top: Pre-Tax

Cumulative Growth of Average Inflation-Adjusted Household Income Since 1979
Percent

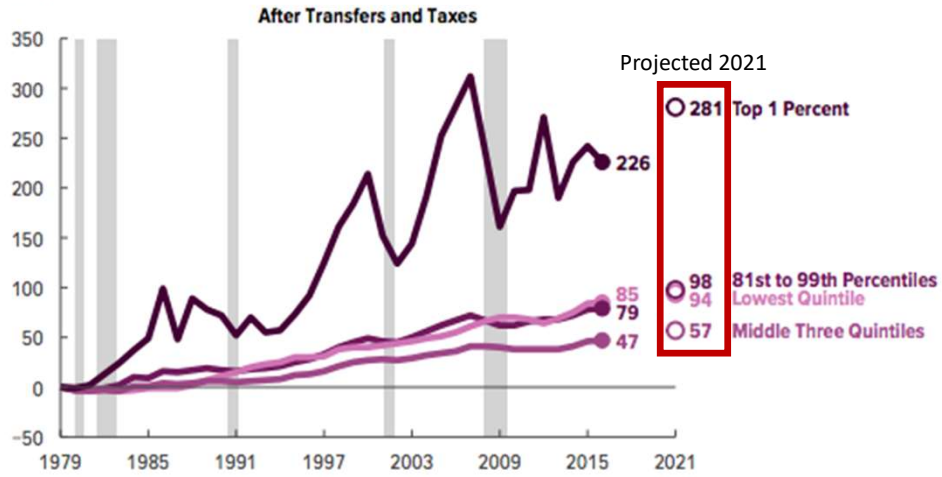


CBO: Projected Changes in the Distribution of Household Income, 2016 to 2021

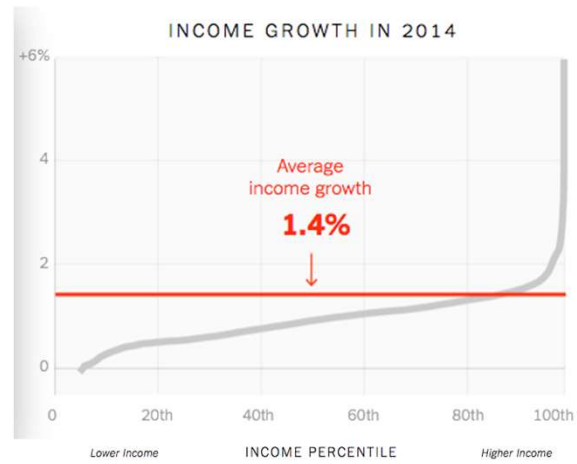
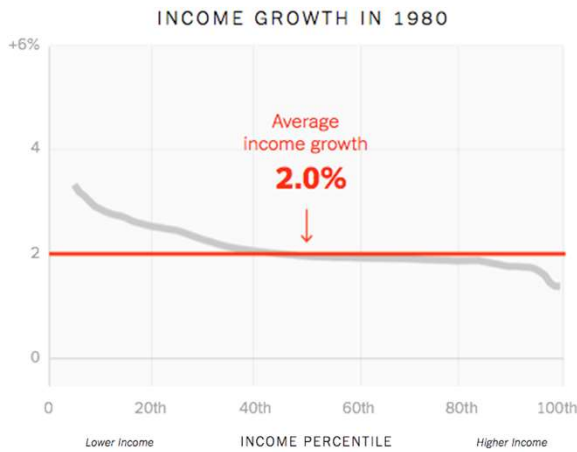
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Most of the Action Is at the Top: Post-Tax

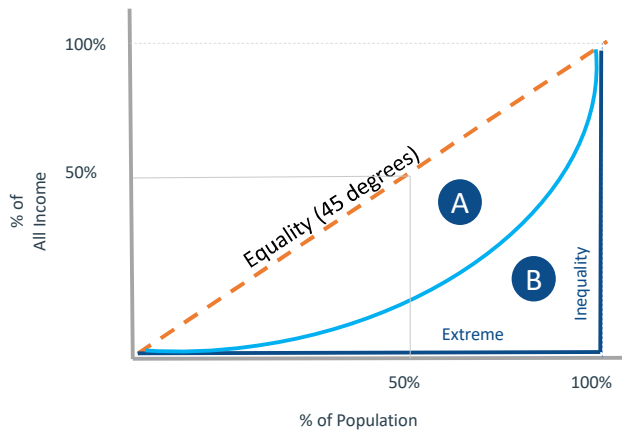
Cumulative Growth of Average Inflation-Adjusted Household Income Since 1979
Percent



Income Growth Pattern – Has Changed



The Gini Coefficient



$$\text{Gini} = \frac{A}{A + B} \times 100$$

Bigger A: More inequality
Smaller A: Less inequality

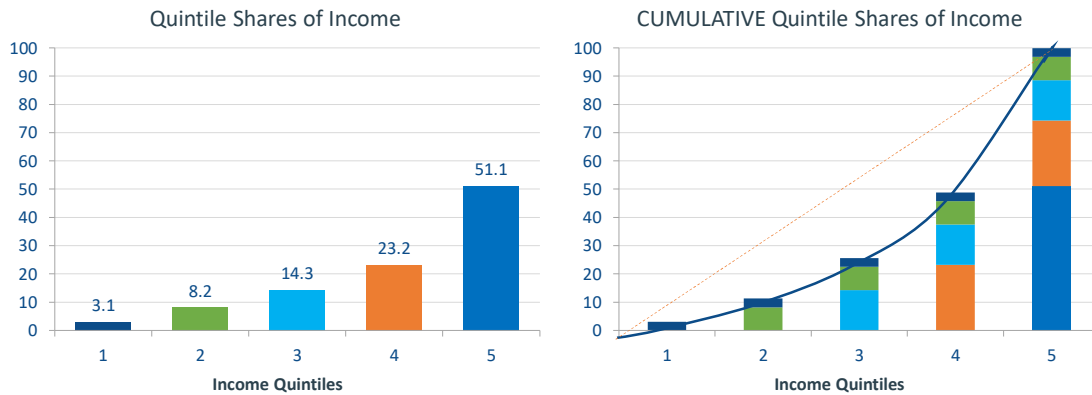
Measuring inequality: The Lorenz Curve

Shows the distribution of income in a region
Ex: U.S. Income Distribution - 2008

	Quintile (2008)	% of total income	Cumulative % of total income
A	Lowest 20%	3.4	3.4
B	Second 20%	8.6	12
C	Middle 20%	14.7	26.7
D	Fourth 20%	23.3	50
E	Highest 20%	50	100

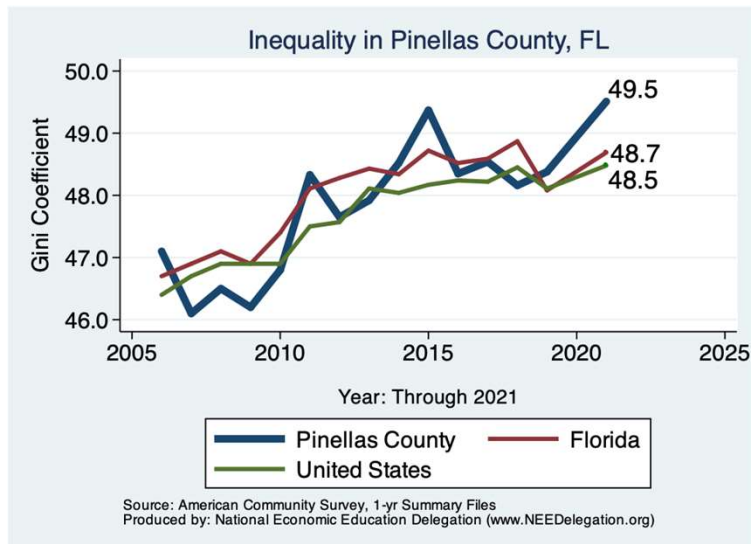
Forming the GINI Coefficient: 2015

U.S. Gini Coefficient in 2015 = **0.482**. From 1970 to 2021, it increased from **0.394** to **0.494**.



Source: 2015 1-year American Community Survey, based on pre-tax household income.

Your Local Inequality Trend

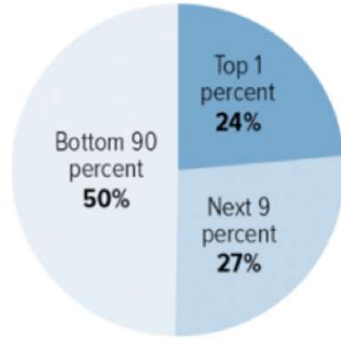


Source: American Community Survey, 1-yr Summary Files
Produced by: National Economic Education Delegation (www.NEEDelegation.org)

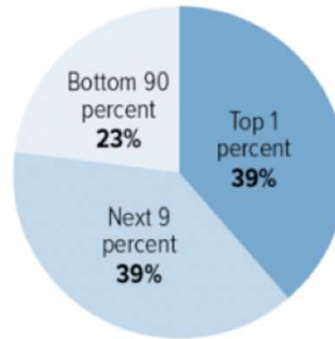
A Second Measure of Inequality: Wealth

Wealth Inequality Exceeds Income Inequality

Distribution of before-tax income, 2016

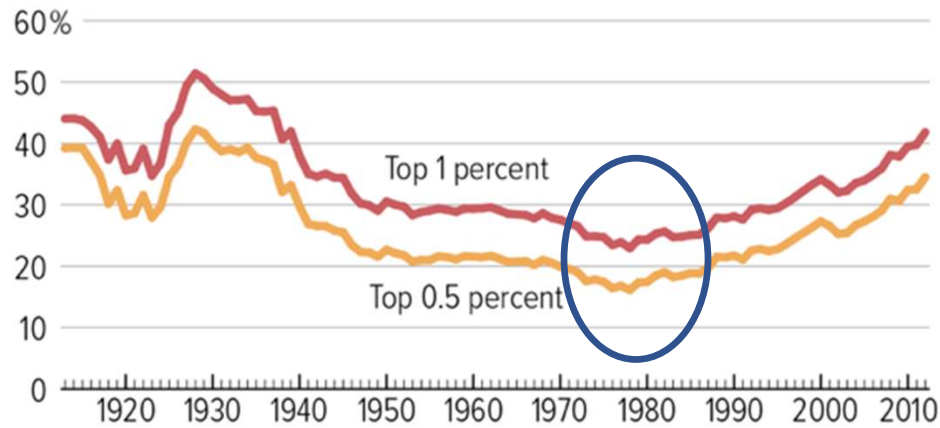


Distribution of wealth, 2016

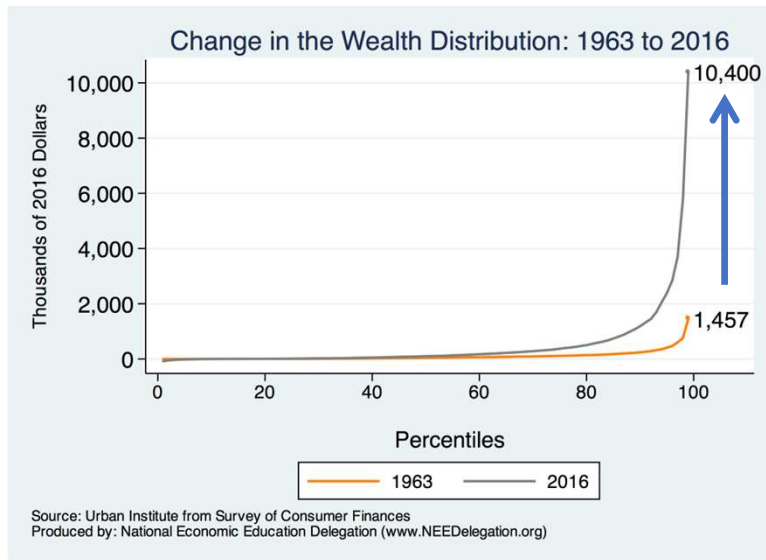


Wealth Concentration Has Been Rising

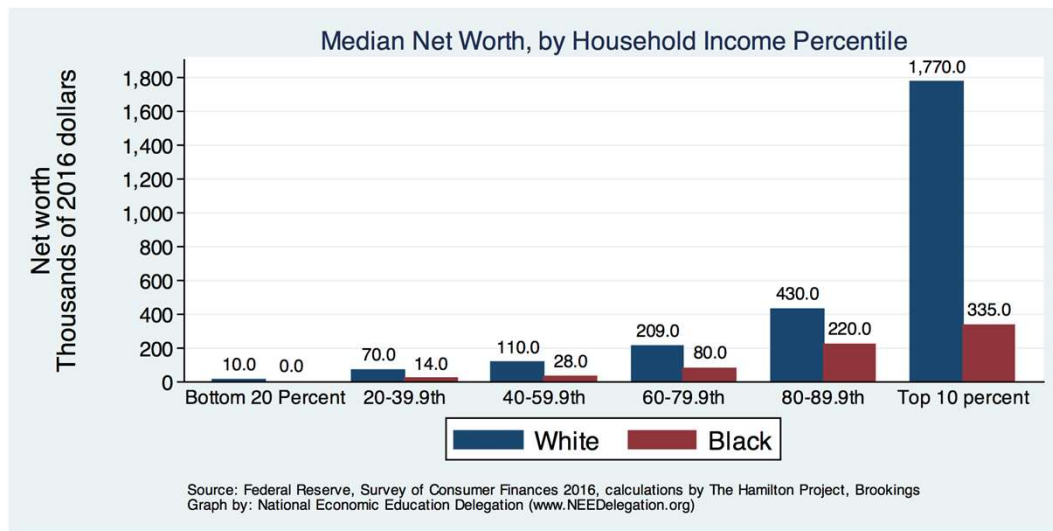
Share of total wealth held by the wealthiest families, 1913-2012



Wealth is More and More Concentrated



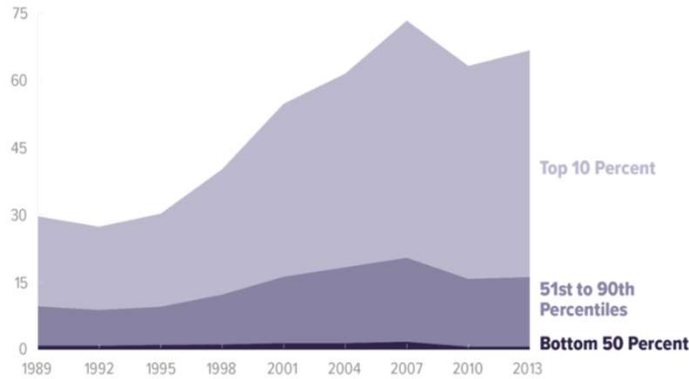
By Household Income



Wealth Gini Coefficient for U.S.

Holdings of Family Wealth

Trillions of 2013 Dollars



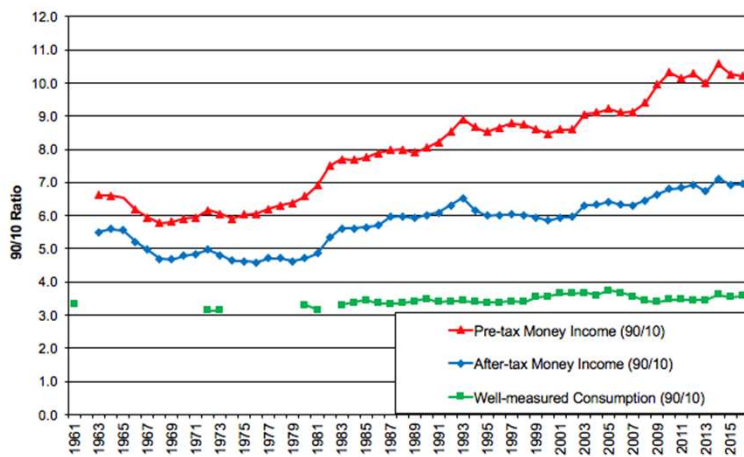
Year	Gini
2008	0.801
...	...
2018	0.852
2019	0.852
2020	0.850



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Source: "Trends in Family Wealth, 1989 to 2013". Congressional Budget Office.

A Third Measure of Inequality: Consumption



After-tax Money Income is calculated as **Pre-tax Money Income** plus the value of tax credits such as the EITC, less state and federal income taxes and payroll taxes.

Well-measured consumption includes spending on food at home, rent (for renters), rental equivalent (for homeowners or those in government or subsidized housing), utilities, service flows from owned vehicles, and spending on gasoline and motor oil.



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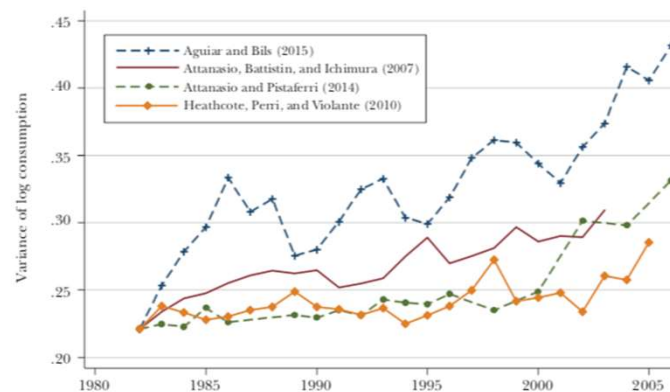
Source: Meyer, Bruce and James Sullivan (2017) "Consumption and Income Inequality in the U.S. Since the 1960s", Becker Friedman Institute Working Paper No. 2017-12.

Consumption Inequality

- Consumption is another important metric for judging inequality
- Arguably a better indicator of “well-being”
- Extremely difficult to measure
- Growing evidence that consumption inequality has also increased

Growing Evidence: Consumption Inequality

The Evolution of Consumption Inequality over Time as Measured by Different Papers



Where Does Inequality Come From?

- **Labor Characteristics**

- Demographics
 - o Age distribution
- Personal Choices
 - o Educational attainment
 - o Effort
 - o Priorities
 - o Household composition
- Immigration

- **Market Forces**

- Technology
- Changing demand patterns
- Competition for labor

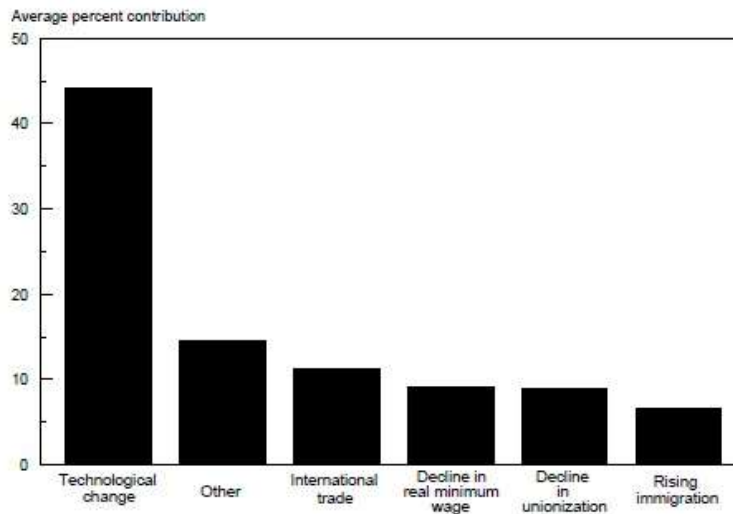
- **Government Policy**

- Market influence
- Redistribution



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Sources of Inequality Through Late 1990s



Source: Federal Reserve Bank of New York.



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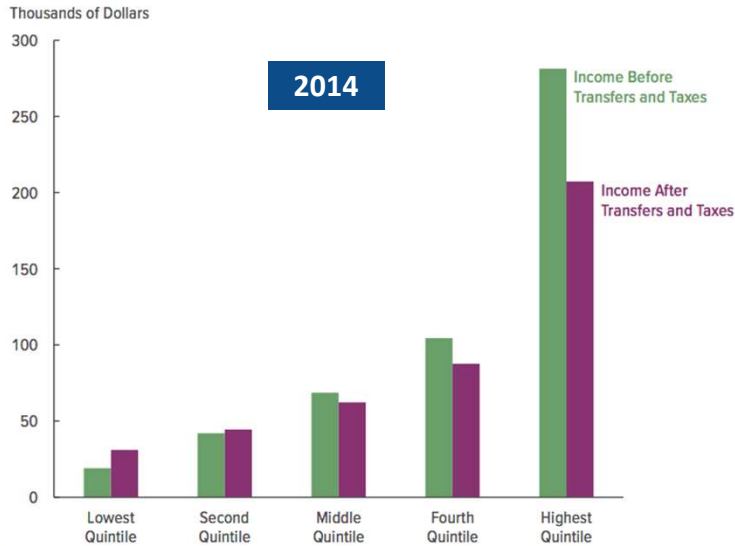
Technological Change and Inequality

- **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
- **There is a “winner take all” aspect of the technology-driven economy.**
 - This likely favors a small group of individuals.
- **Both aspects increase inequality by increasing the rewards to:**
 - Those with significant labor market skills.
 - Owners over workers

Government Policy and Inequality

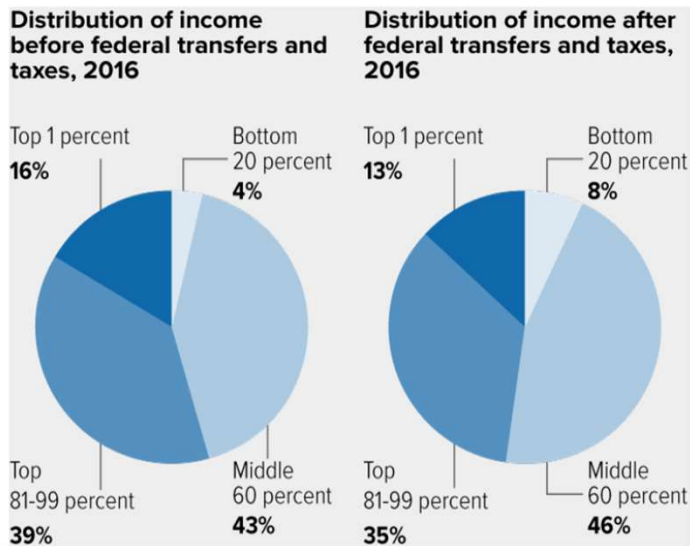
- **Market Influence: PRE-distribution**
 - Characteristics of labor
 - Access to education
 - Effects on labor demand
 - Market regulation
 - Competition policy
 - Labor regulations
 - Minimum wage, overtime, health insurance, etc.
- **RE-distribution**
 - Tax Rates
 - Income support
 - Direct aid
 - Food stamps

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.

Tax and Transfer Programs: Income Shares



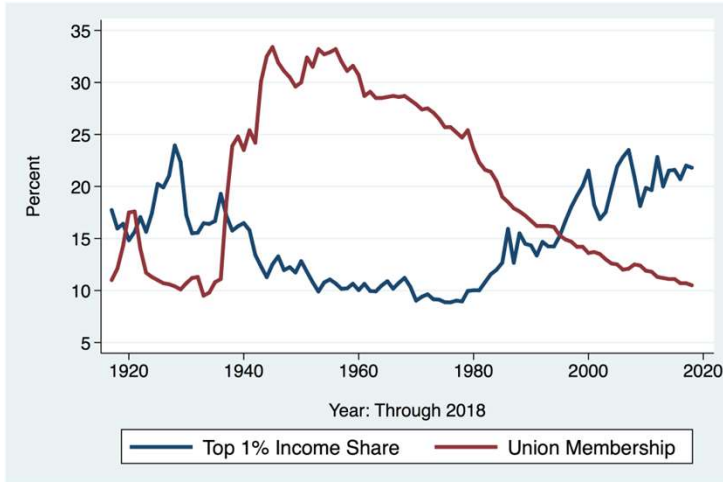
Globalization

- **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

Mechanisms for the Effects of Globalization

- **Merchandise trade**
 - Importing goods that are made with low-skilled workers and exporting goods that are made with high-skilled workers
 - Lowers the wages of unskilled relative to skilled
 - Making the distribution of income **less equal**
- **Outsourcing**
 - Similar channel as with merchandise trade
- **Trade in services**
 - US imports of middle-skill services: business and some professional services

Declining Unionization



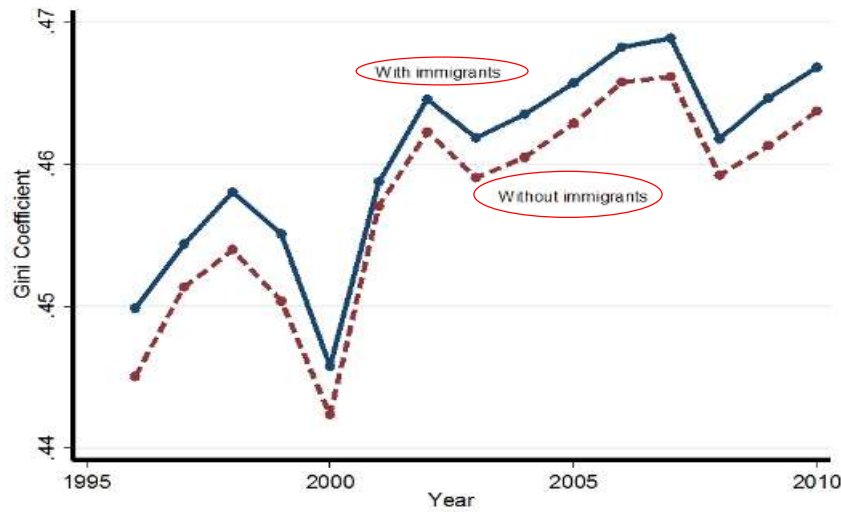
Unionization Rates

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

Unionization Rates

- **Public:** 33.9%
- **Private:** 6.1%

Immigration and Inequality



Immigration and Inequality

- **Beginning in about 1970, the immigrant share of the U.S. Population increased dramatically.**
 - 5% in 1970 and 14% in 2022
- **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



Too Much Inequality Can:

- **Reduce work effort, which reduces GDP.**
- **Reduce purchasing power of the middle class, which reduces GDP.**
- **Reduce the ability of people to get ahead, which reduces mobility.**
 - Puts the American Dream at risk.
- **Increase the share of the population living on low incomes.**
 - Offending our sense of equity? Desire for shared prosperity?

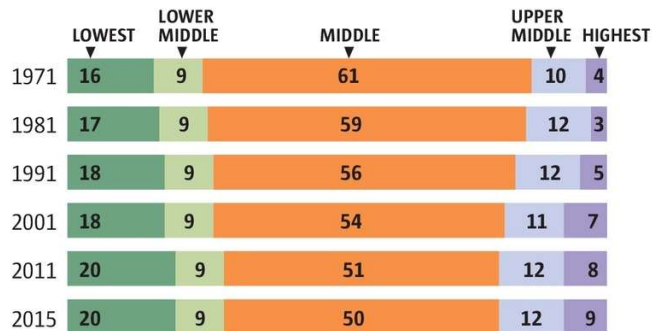


Inequality Can Directly Affect GDP

Income breakdown

Share of adults living in middle-income households is falling.

% of adults in each income tier



Source: Pew Research Center



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- **The US Economy is driven by consumption (67% of GDP).**

- Middle class are the big consumers.
- They have less money.
- Consumption is lower.
- GDP is lower.

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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Roger White

rwhite1@whittier.edu

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