

**NATIONAL ECONOMIC
EDUCATION DELEGATION**

Income Inequality in the U.S. and Globally

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The background image shows a seesaw on a brick wall. On the left side, a group of people is standing, and on the right side, a single person is standing, illustrating the concept of income inequality.

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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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Credits and Disclaimer

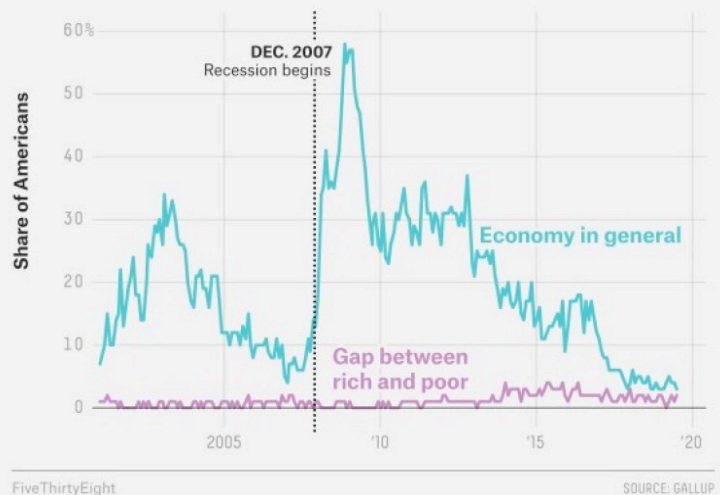
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- **Disclaimer**
 - NEED presentations are designed to be nonpartisan
 - It is, however, inevitable that the presenter will be asked for and will provide their own views
 - Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED)



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Few Americans prioritize economic inequality

Share of Americans who said the "economy in general" or the "gap between rich and poor" was the most important issue facing the country



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Outline

- Definition
- Measurement
- How does it happen?
- Does it matter?
- Is it a problem?
- What to do about it



What you'll hear today

- Definition
- Measurement
 - Income Inequality
 - Wealth Inequality
 - Consumption Inequality



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**
- **Consumption Inequality**

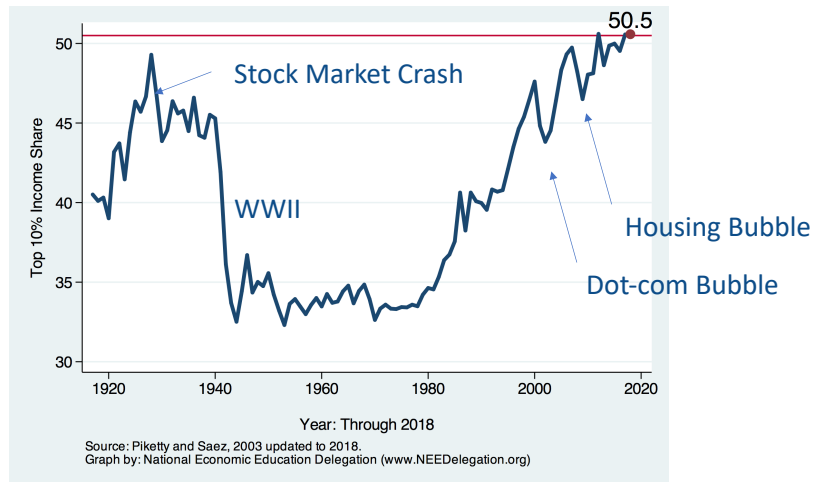


What you'll hear today

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National Income Inequality: Share of Top 10%



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Recent Facts on Income Inequality

- **Beginning in the 1970s, the income gap widened.**
 - Income 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



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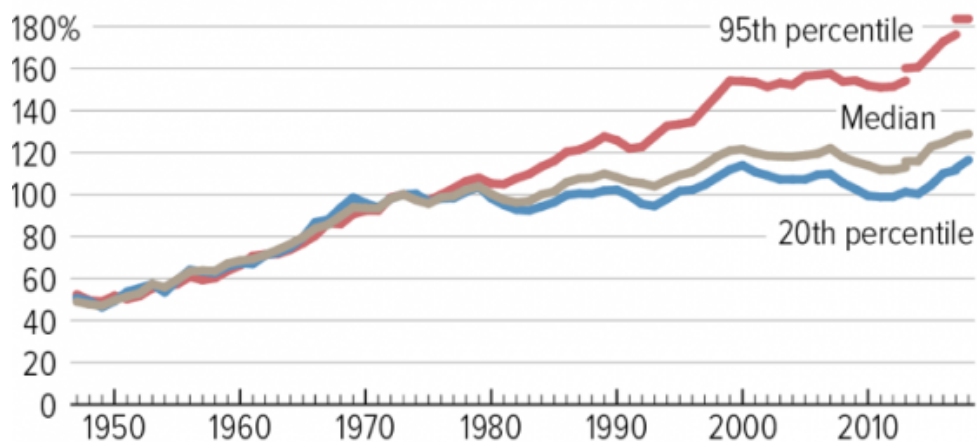
Source: Chad Stone, Danilo Trisi, Arloc Sherman, and Roderick Taylor, "A Guide to Statistics on Historical Trends in Income Inequality," Center on Budget and Policy Priorities, Policy Futures, May 15, 2018.

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The Abrupt Increase in Inequality

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

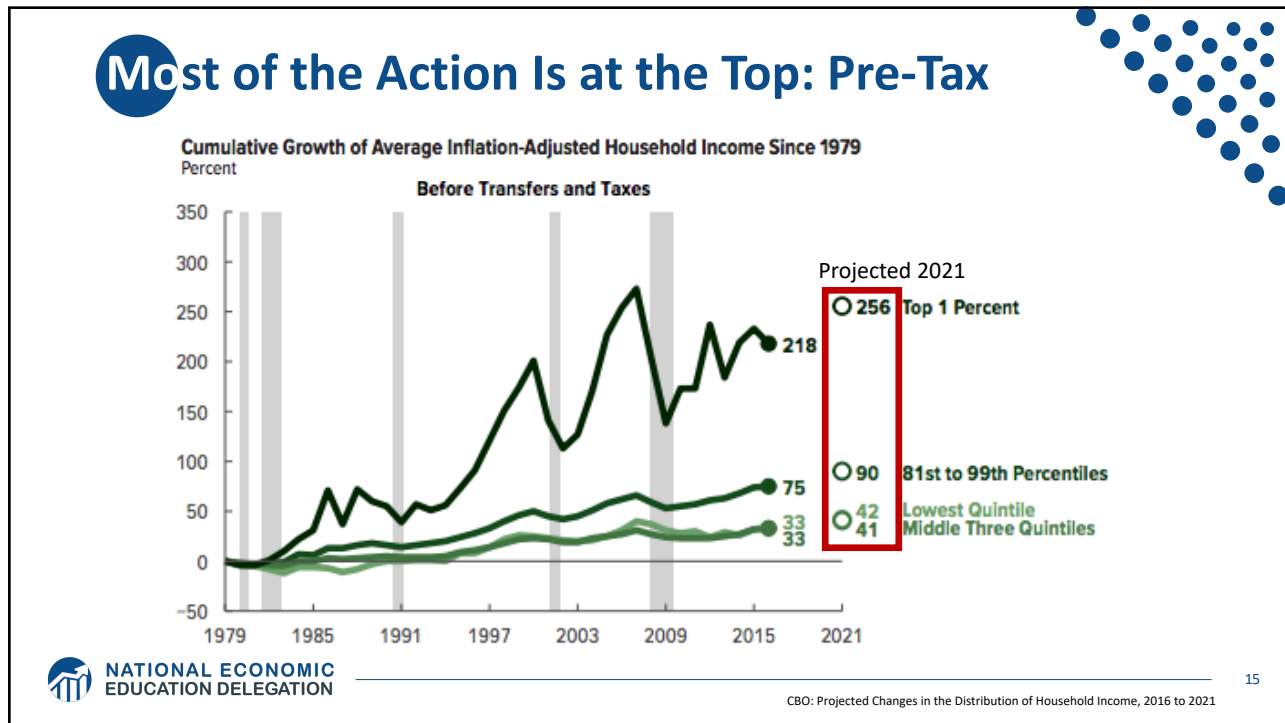


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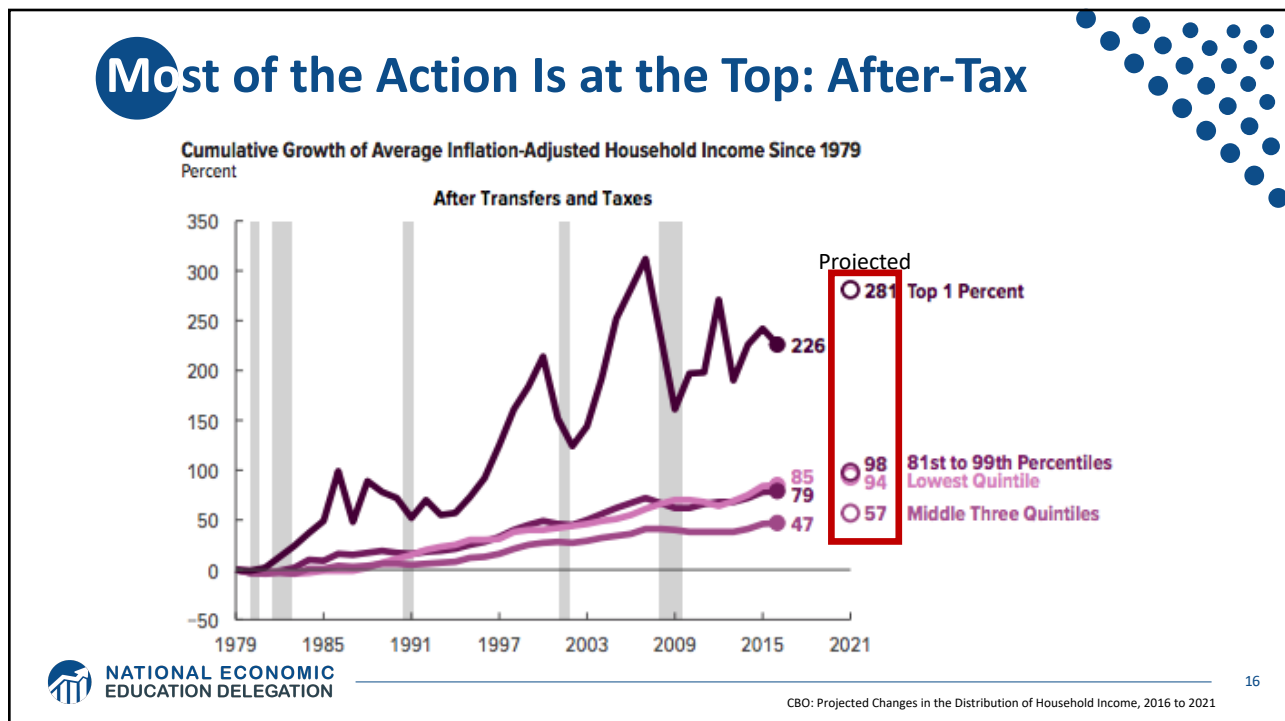
Source: Chad Stone, Danilo Trisi, Arloc Sherman, and Roderick Taylor, "A Guide to Statistics on Historical Trends in Income Inequality," Center on Budget and Policy Priorities, Policy Futures, Dec. 11, 2018.

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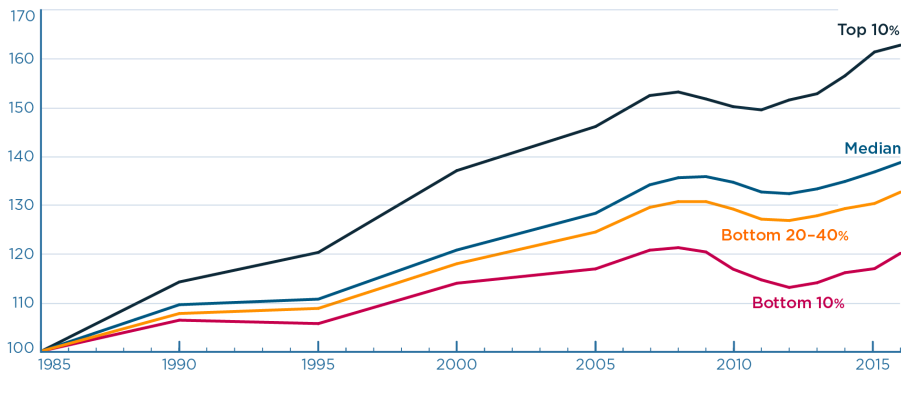
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Inequality is rising in advanced economies

Figure 2: Real disposable income in advanced economies by income position, 1985–2016 (index: 1985=100)



Note: Unweighted average for 17 countries for which long-term data are available: Canada, Denmark, Finland, France, Germany, Greece, Israel, Italy, Japan, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Sweden, United Kingdom, and United States. Available dataset includes Mexico, which is not an advanced economy.

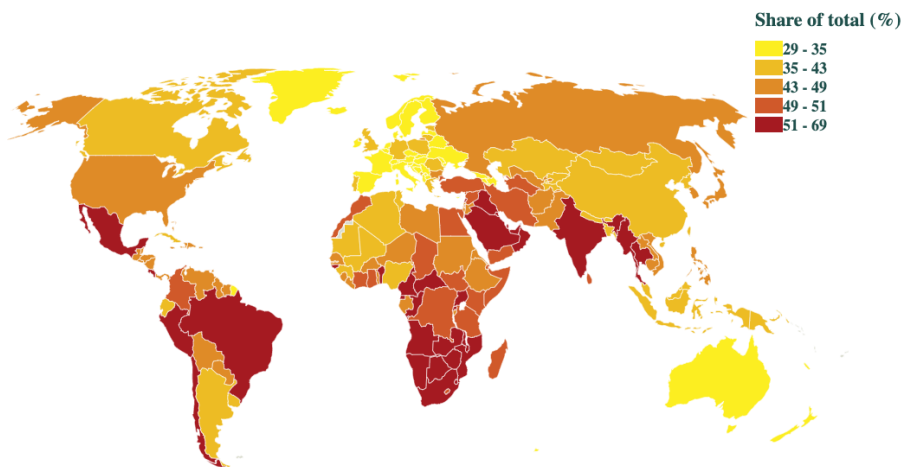


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Source: Peterson Institute of International Economics, "How to fix economic inequality", based on OECD "Under Pressure: The Squeezed Middle Class"

An International Perspective (Year: 2019)

Top 10% national income share

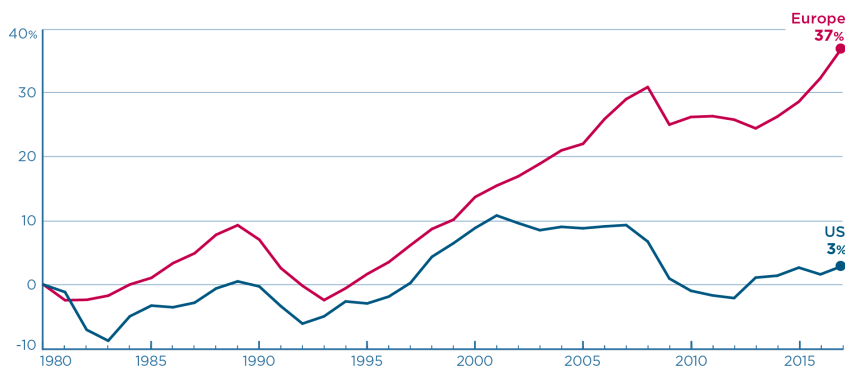


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Source: Data taken from www.wid.world.

The bottom half of workers: the U.S. vs. Europe

Figure 3: Average pretax income growth of bottom 50 percent of population relative to 1980



Note: Data for Europe refer to 38 European nations.

Sources: Chancel (2019) based on Blanchet, Chancel, and Gethin (2019); Piketty, Saez, and Zucman (2018).



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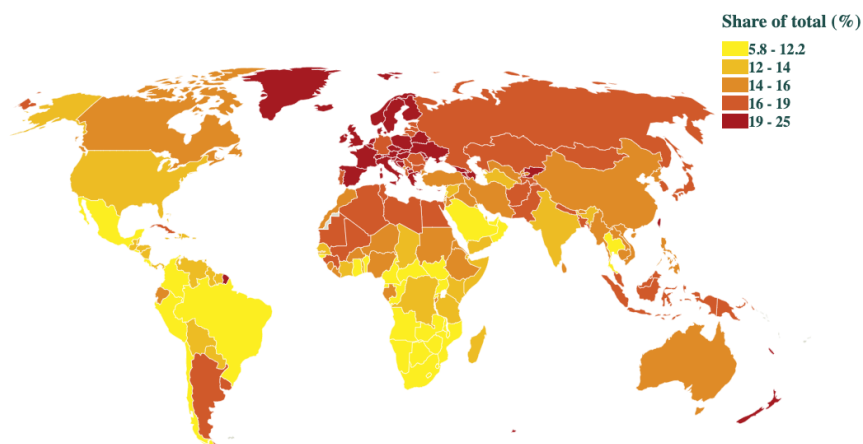
Source: Peterson Institute of International Economics, "How to fix economic inequality"

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An International Perspective (Year: 2019)

Bottom 50% national income share



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Source: Data taken from www.wid.world.

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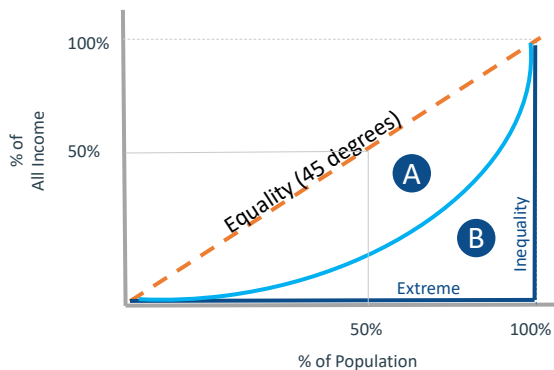
Gini Coefficient

- Another way to describe income inequality is by using a Gini coefficient.
- Gini coefficient – a numerical measure of the overall dispersion of income
 - Ranges from 0 – 1
 - 0= perfect equality – everyone has same income
 - 1=perfect inequality – one person makes all income
 - In practice:
 - 0.5 – 0.7 – highly unequal
 - 0.2 – 0.35 – relatively equal



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The Gini Coefficient

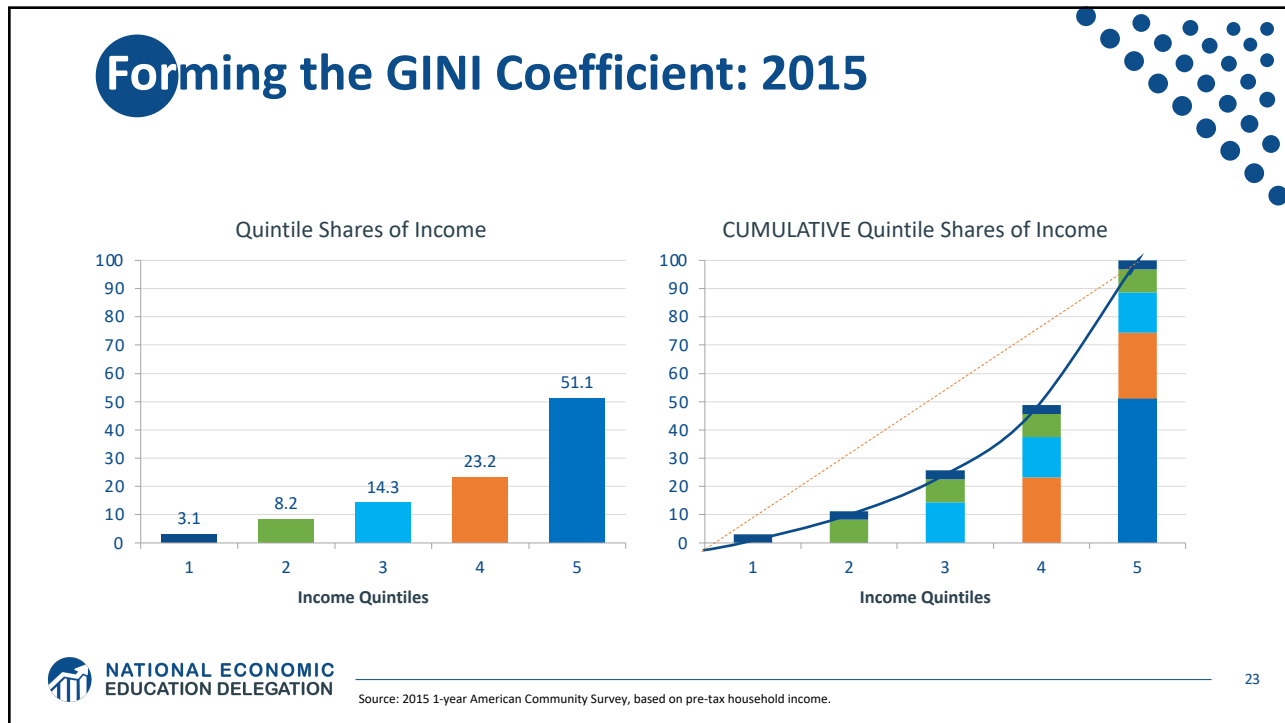


$$\text{Gini} = \frac{A}{A + B} \times 100$$

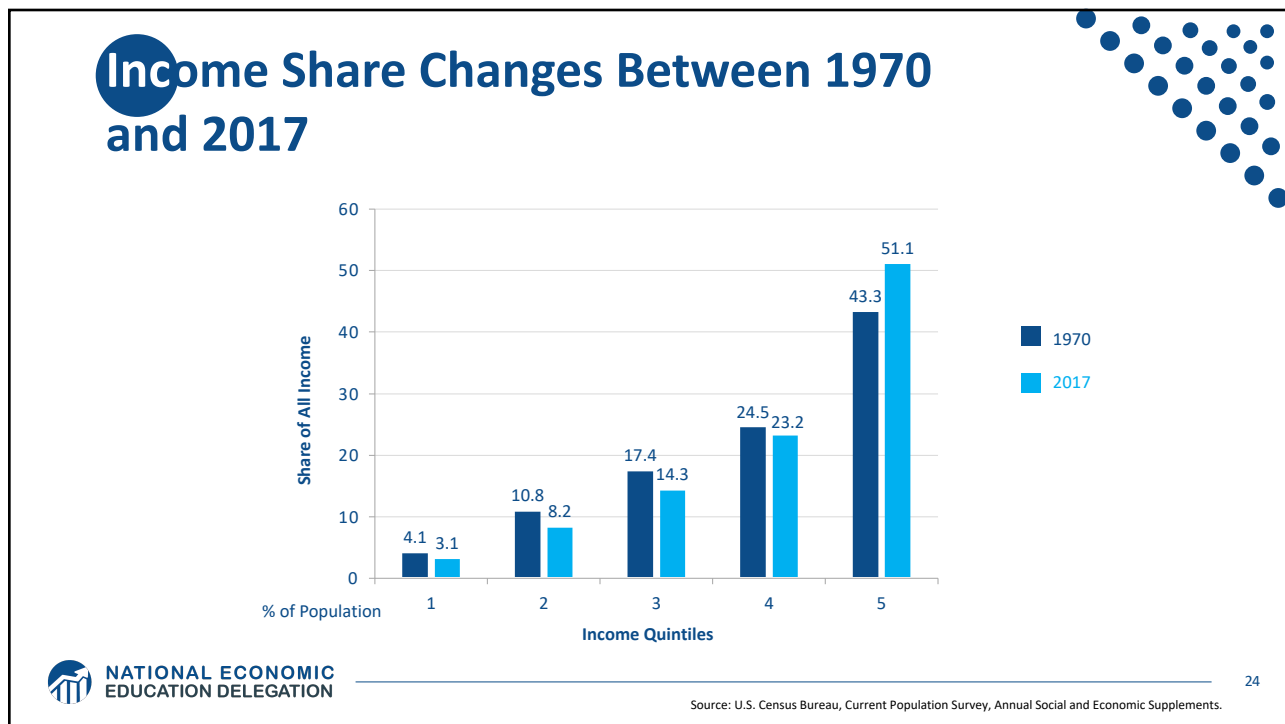
Bigger A: More inequality
Smaller A: Less inequality



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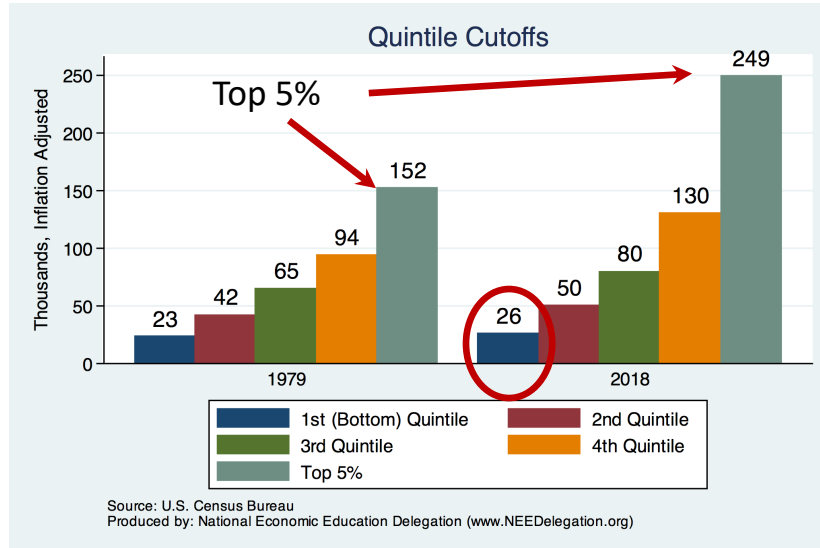


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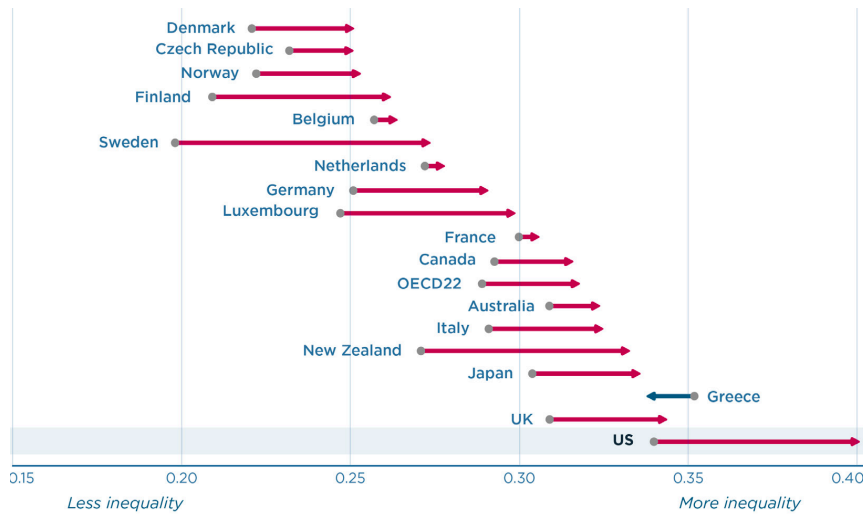
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Quintile Income Cutoffs

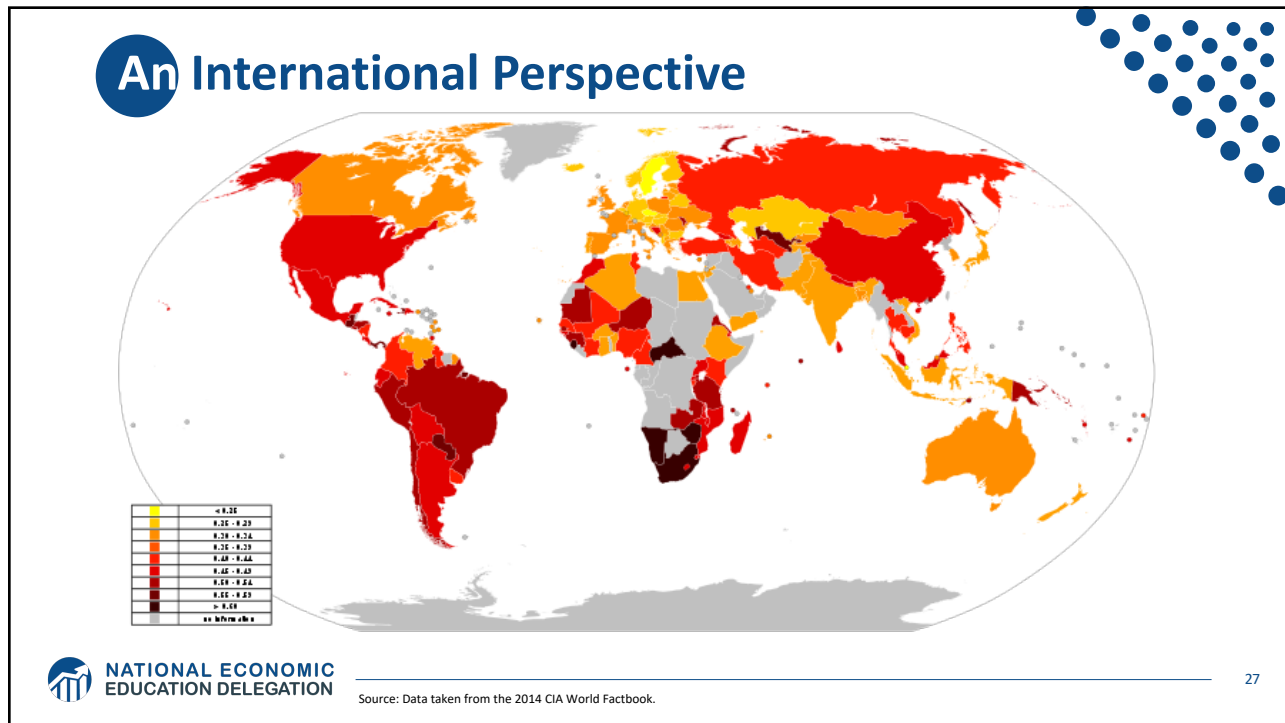


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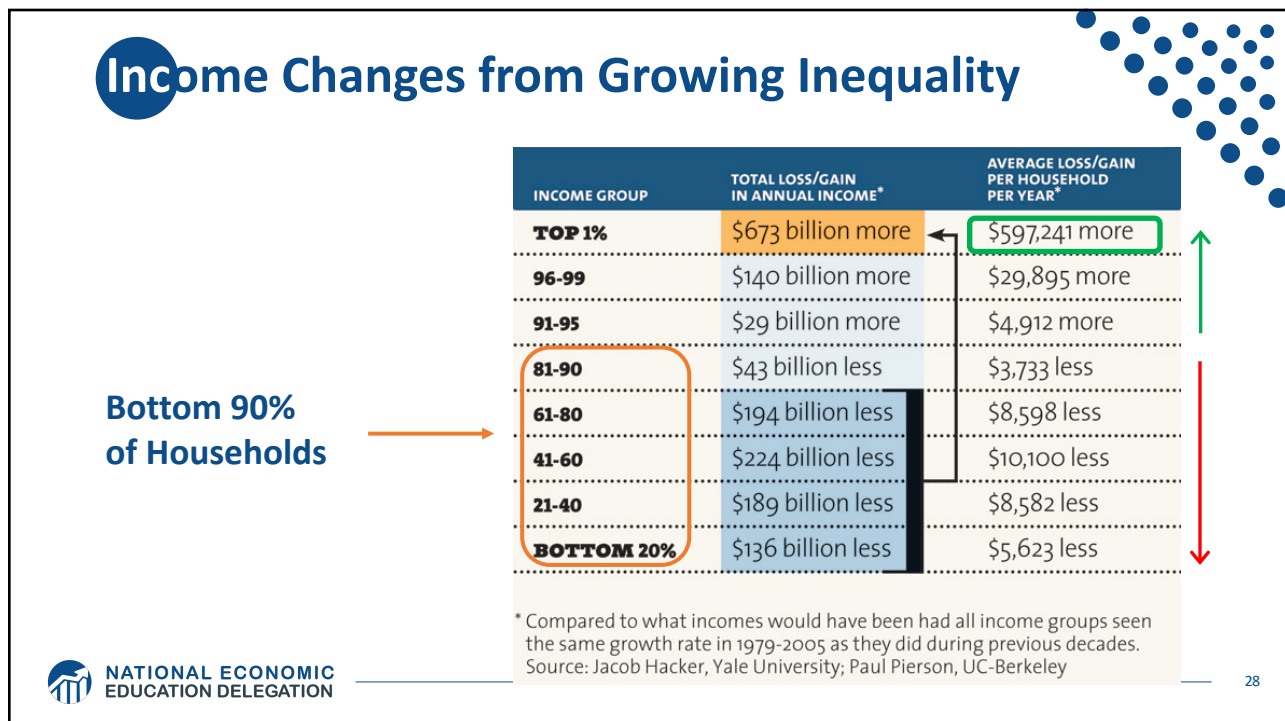
The Gini Coefficient, 1985-2013



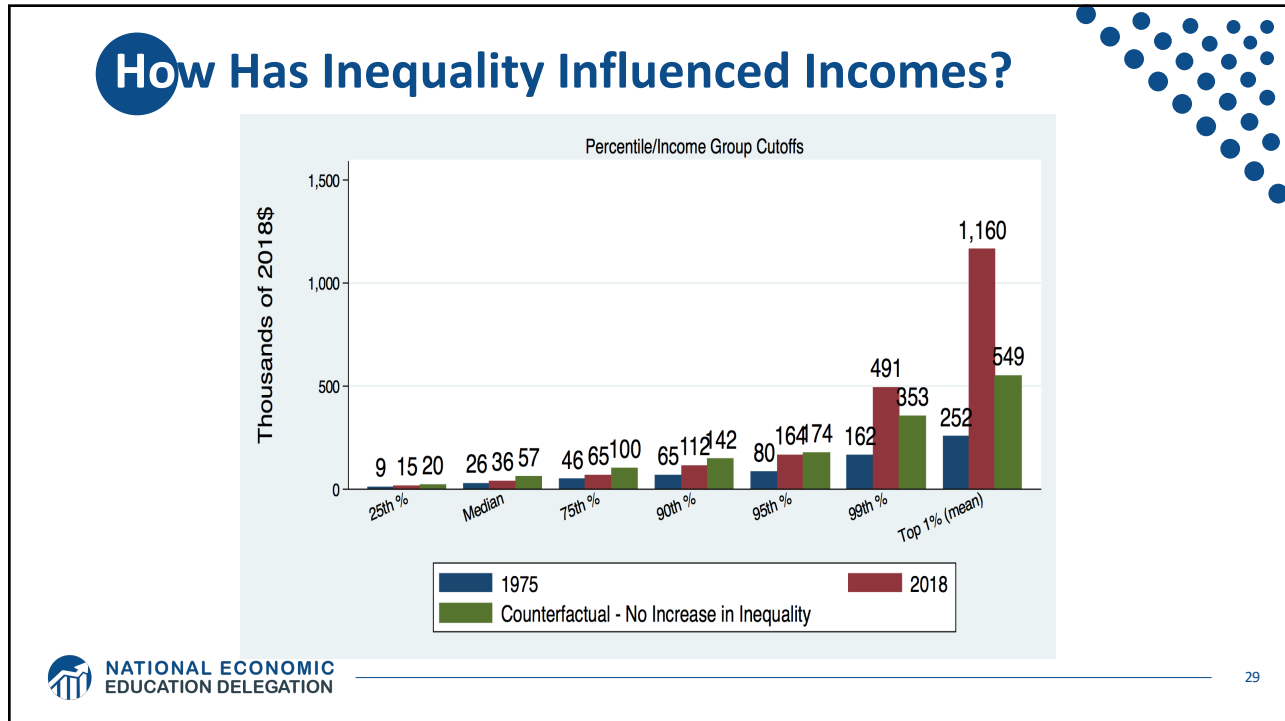
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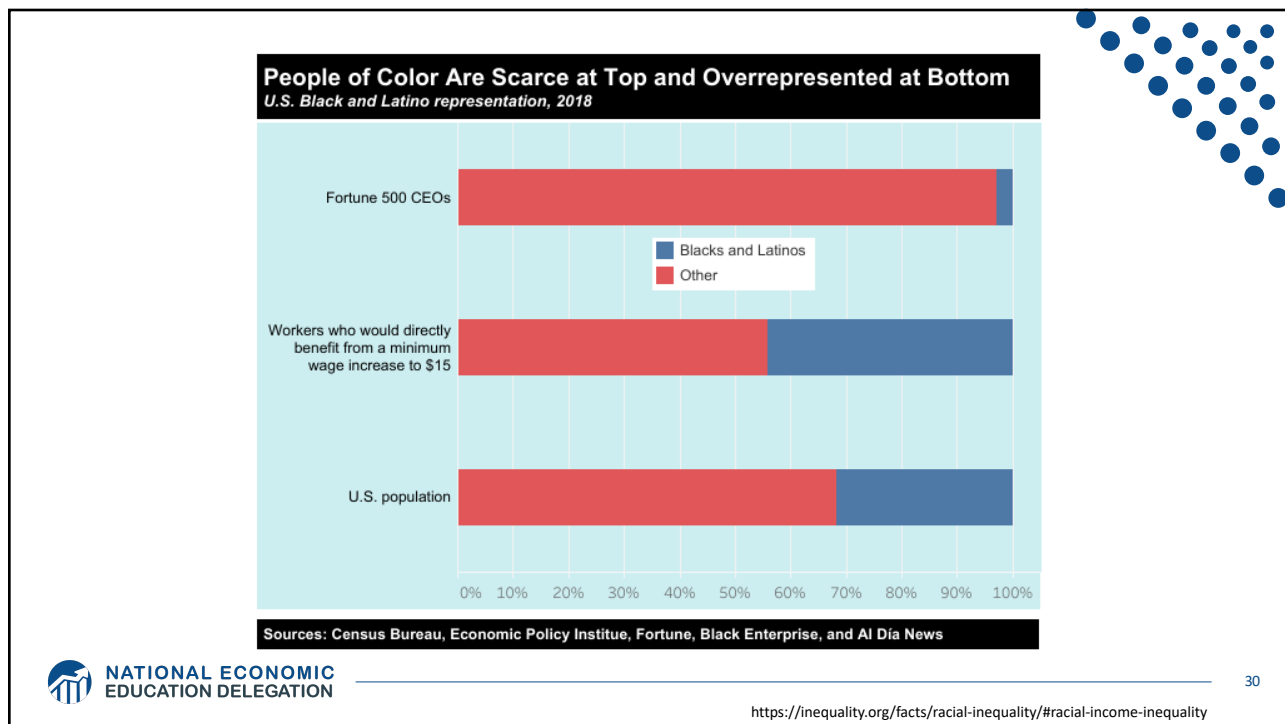
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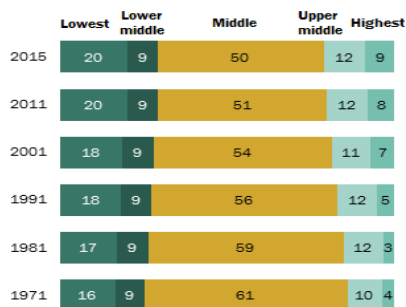


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Disappearing Middle Class

Share of adults living in middle-income households is falling

% of adults in each income tier



Note: Adults are assigned to income tiers based on their size-adjusted household income in the calendar year prior to the survey year. Figures may not add to 100% due to rounding.

Source: Pew Research Center analysis of the Current Population Survey, Annual Social and Economic Supplements

PEW RESEARCH CENTER

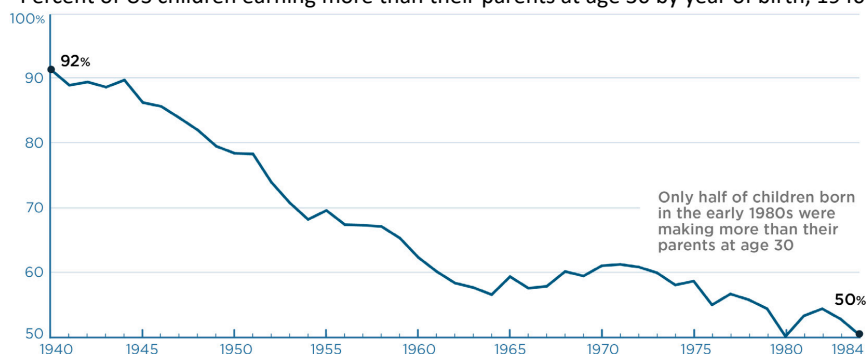
In this report, “middle-income” households are defined as those with an income that is 67% to 200% (two-thirds to double) of the overall median household income, after incomes have been adjusted for household size.



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The American Dream is fading

Percent of US children earning more than their parents at age 30 by year of birth, 1940-1984



Only half of children born in the early 1980s were making more than their parents at age 30

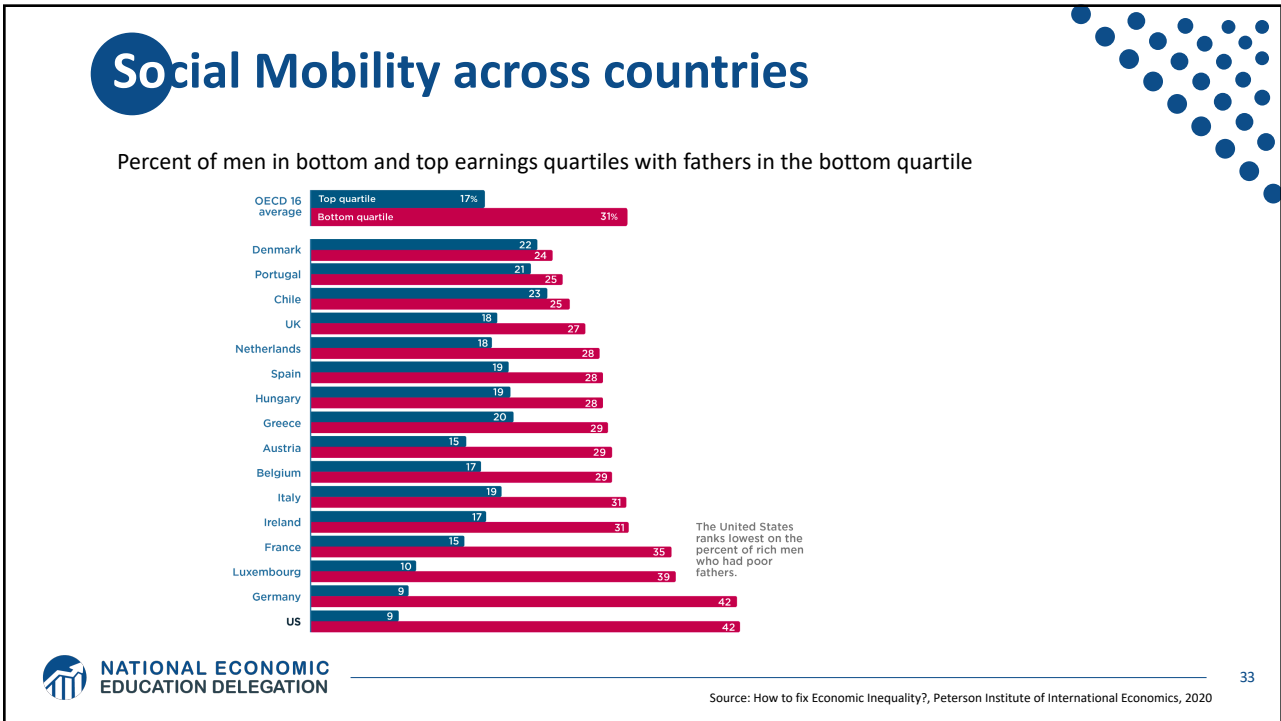
Note: Children's income is the sum of individual and spousal income at age 30, excluding immigrants after 1994. Parental income is the sum of the spouses' incomes for families in which the highest earner is ages 25-35.

Source: Chetty et al. (2017).

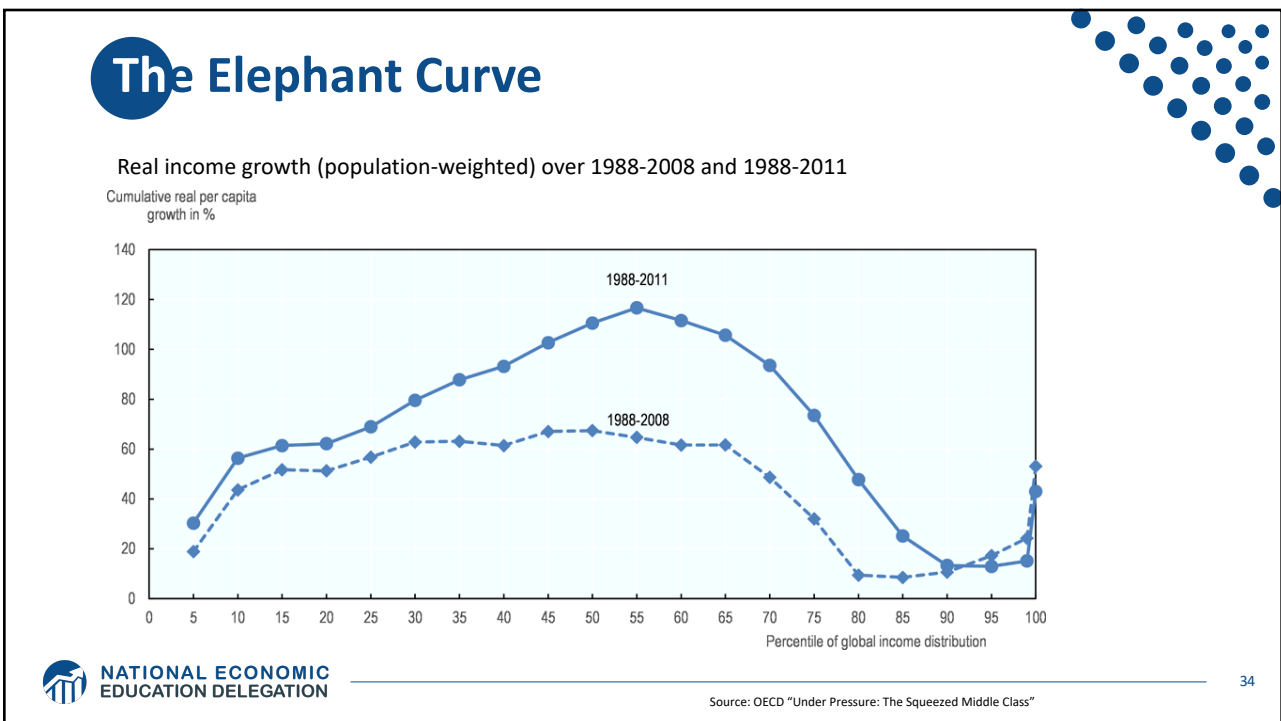


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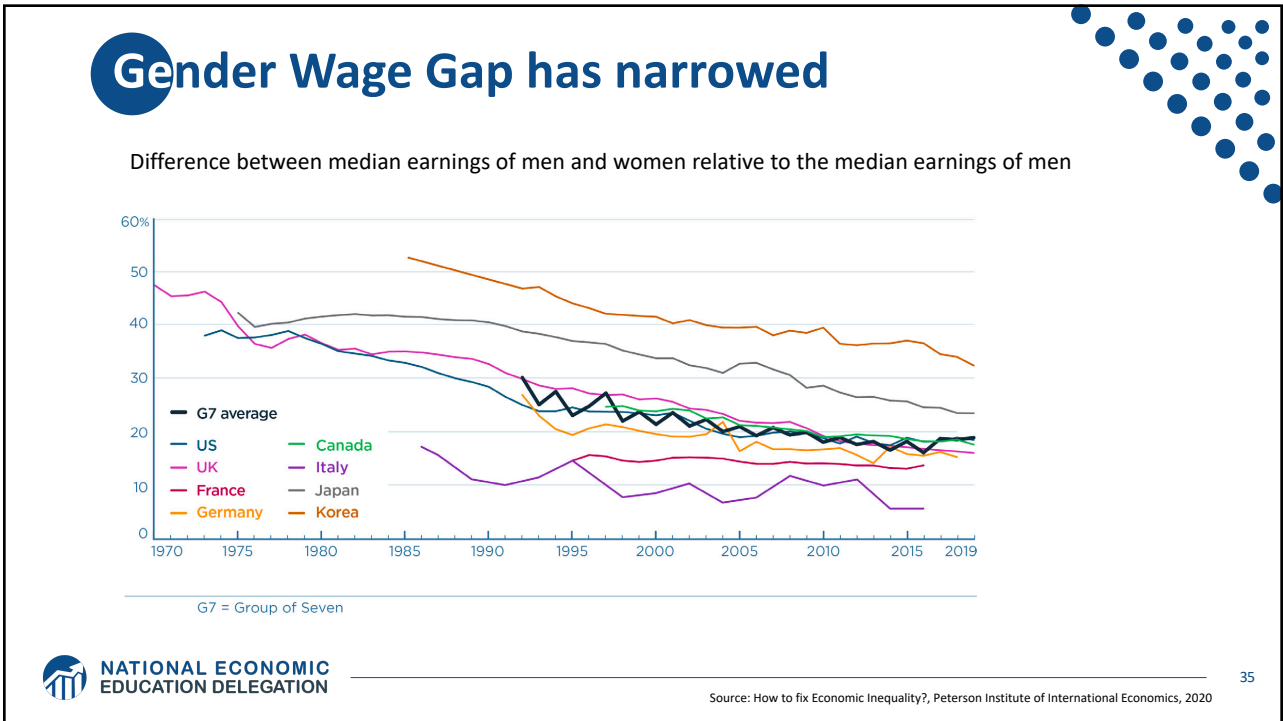
Source: How to fix Economic Inequality?, Peterson Institute of International Economics, 2020



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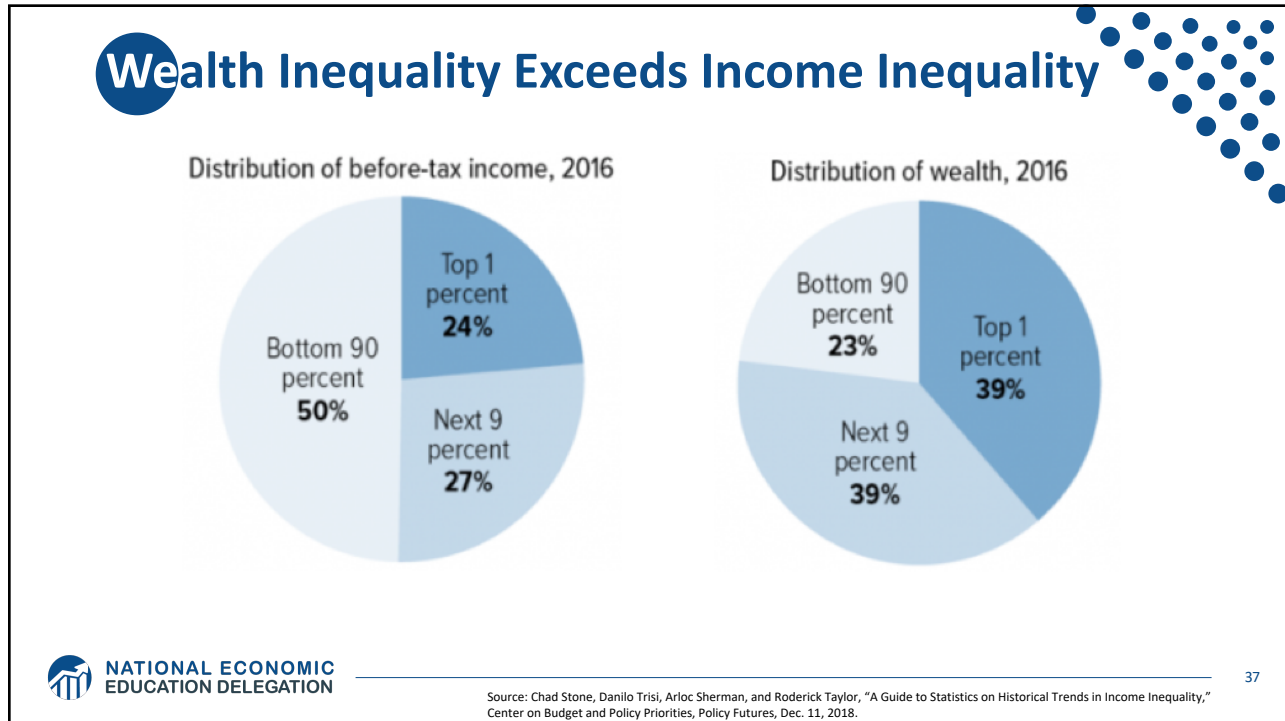
What you'll hear today

- **Definition**
- **Measurement**
 - Income Inequality
 - Wealth Inequality
 - Consumption Inequality

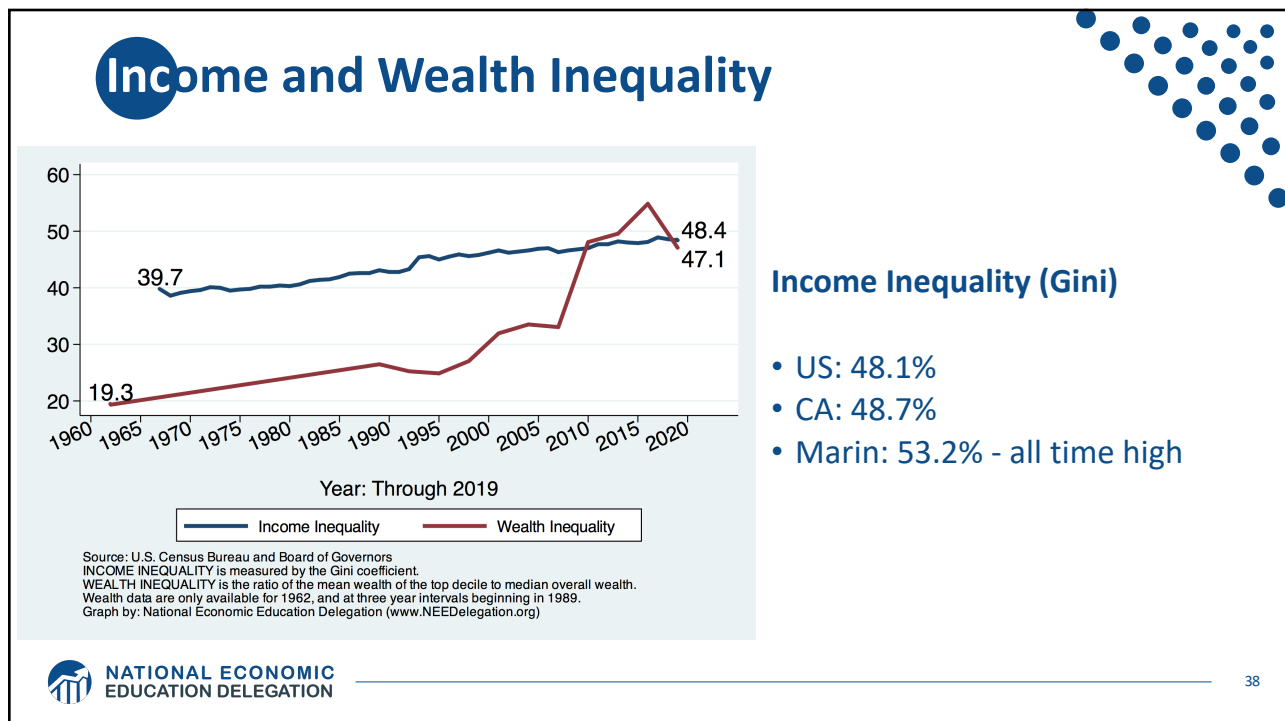
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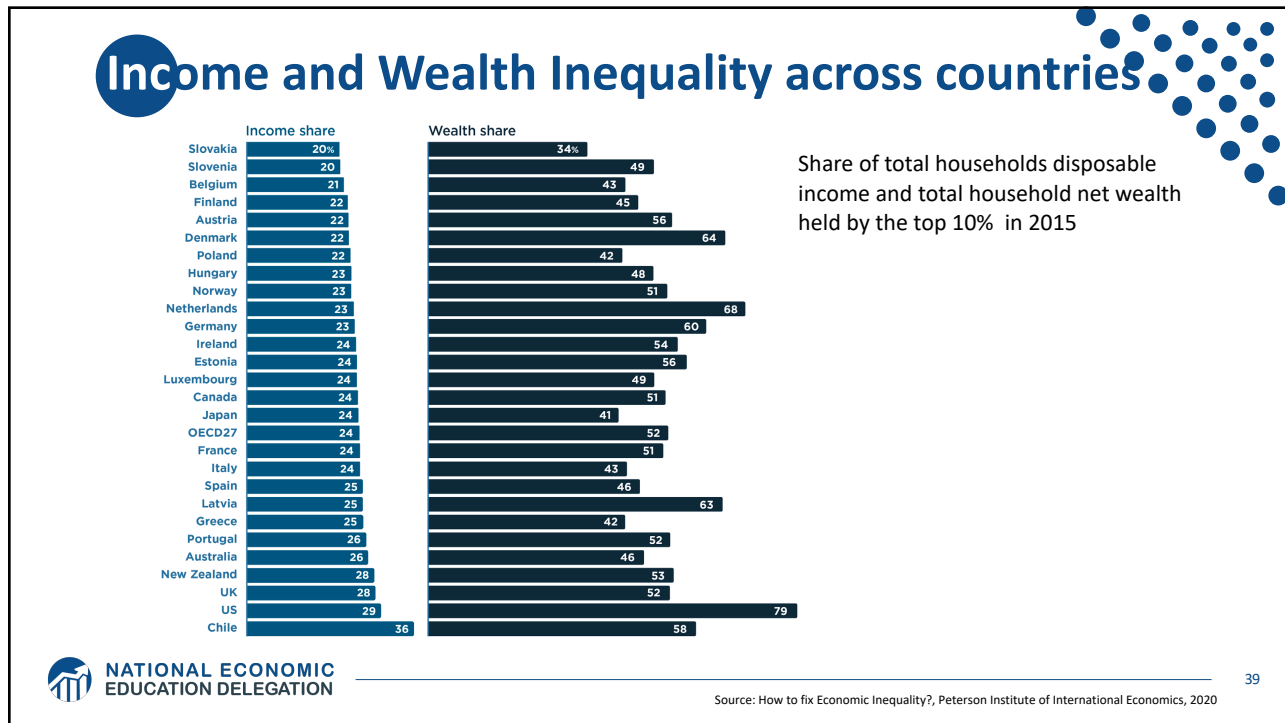
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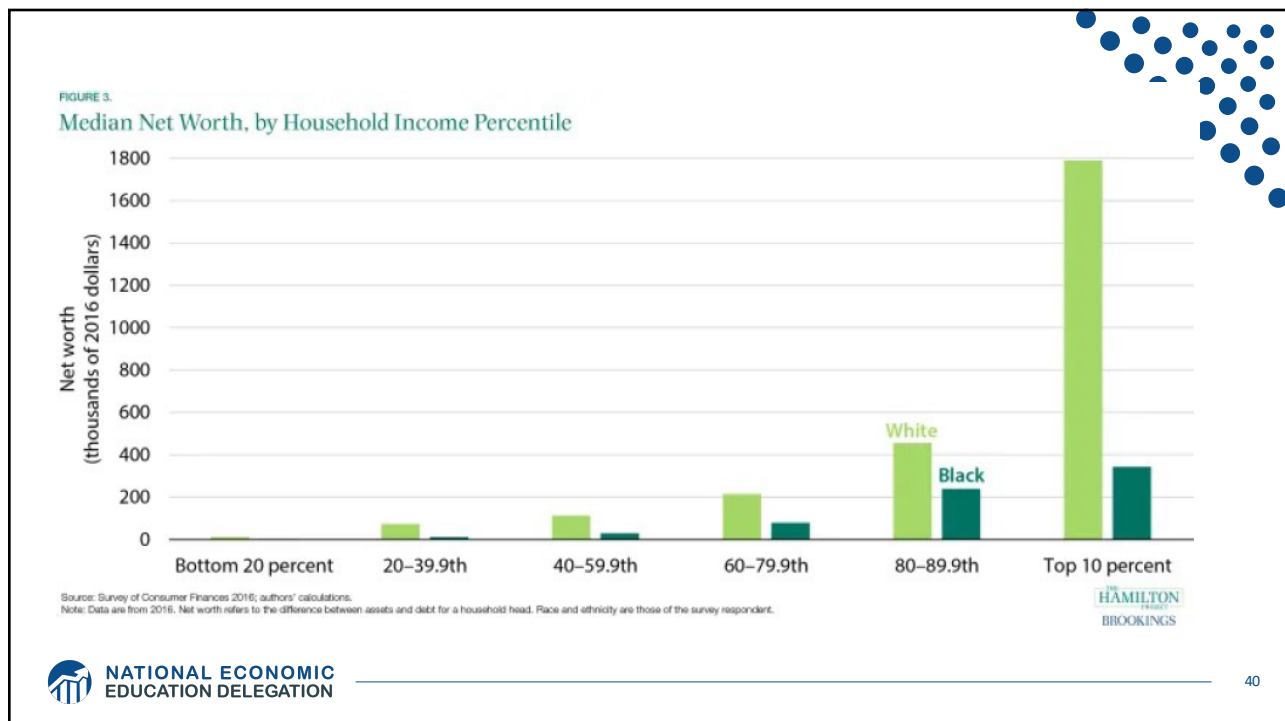
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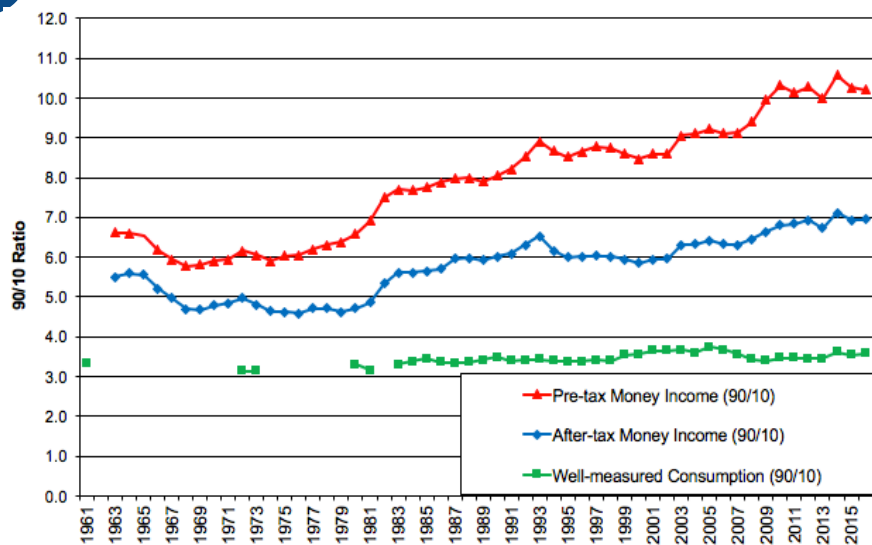
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A Third Measure of Inequality: Consumption



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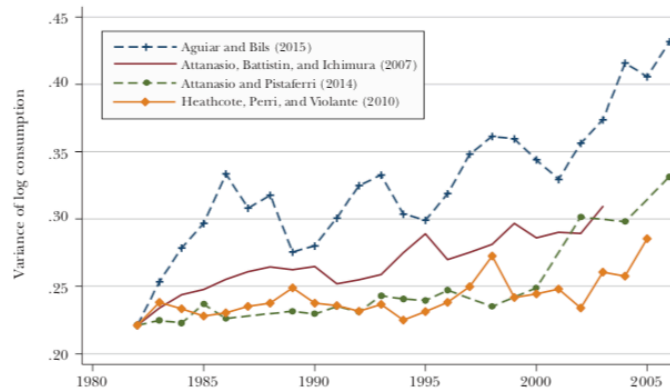
Consumption Inequality

- 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

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Growing Evidence: Consumption Inequality

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



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Case Study: Economic Research

- **Early, controversial result is published**
- **Flurry of effort to understand the result**
- **Growing body of evidence**
- **Consensus reached**
 - Not always
 - Sometimes data continue to conflict
 - Often merely a preponderance of evidence drives understanding
- **Why has this happened with consumption inequality?**
 - Inadequacy of data and methods



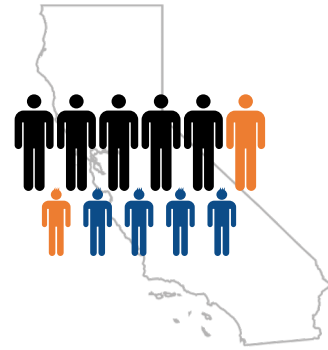
Summary: Consumption Inequality

- **Early research indicated that although income inequality may be increasing, consumption inequality may not be.**
 - How is this possible? Borrowing, or otherwise smoothing consumption.
- **Mounting evidence that it is increasing along with income and wealth inequality.**
- **Consensus reached? No.**



Summary

- Income inequality is clearly increasing in the U.S. and in other advanced countries.
- Wealth inequality is higher than income inequality in advanced countries



Next Lecture ...

- Where does inequality comes from?



Thank you!

Any Questions?

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