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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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Economic Inequality

- **Definition:**

- The economic distance from the poorest to the richest.
- The dispersion of income/wealth 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**
- **Racial inequality**
- **Gender inequality**

How does wealth differ from income?

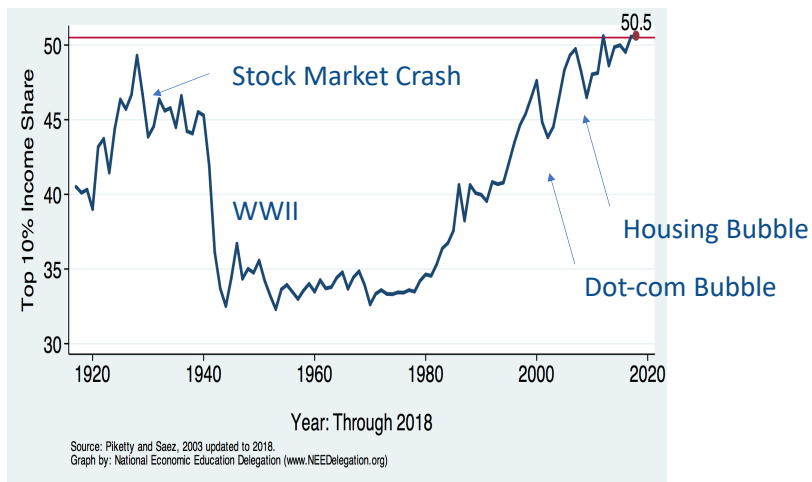
Income is measured over a period of time, say one year.

Wealth is one's accumulated savings, including physical and financial assets.



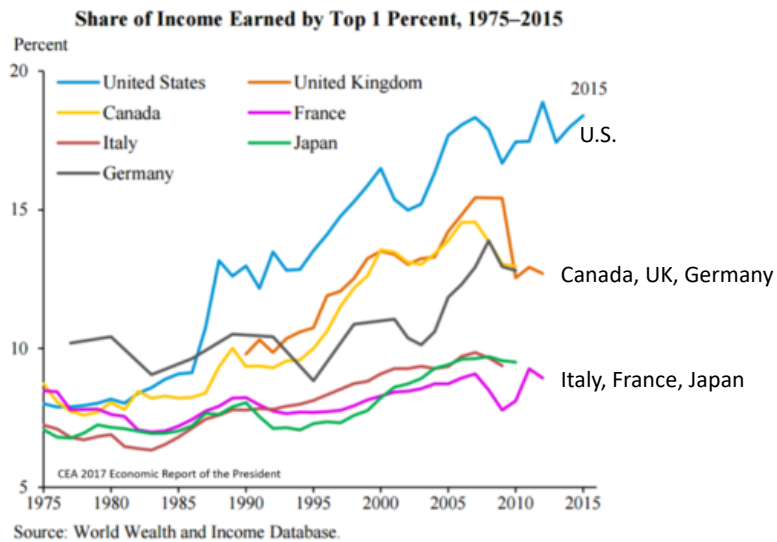
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National Income Inequality: Share of Top 10%



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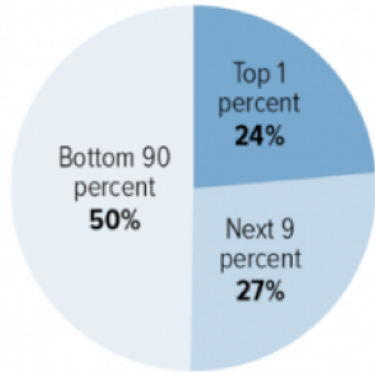
An International Perspective: Comparables



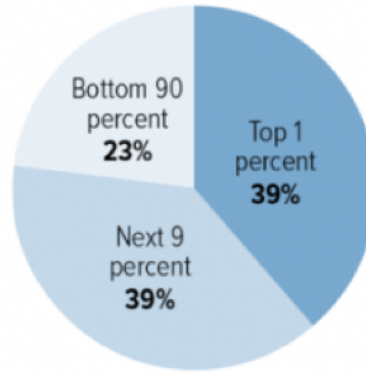
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Wealth Inequality Exceeds Income Inequality

Distribution of before-tax income, 2016



Distribution of wealth, 2016



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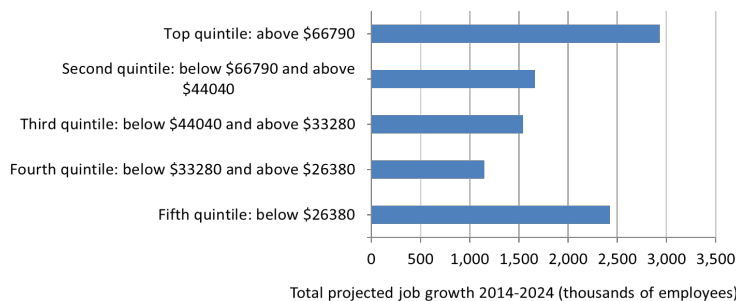
REASONS INEQUALITY INCREASING?

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1. Changing economic structure and bargaining power

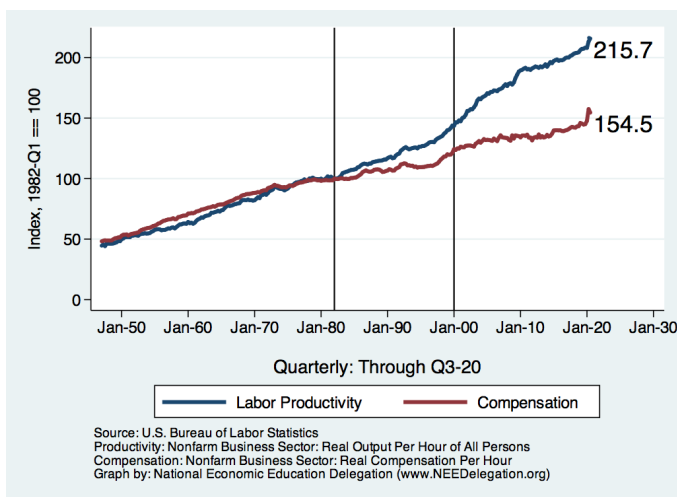
Increasing inequality associated with the changing distribution of jobs.



‘Missing middle’ - Low-paying and high-paying jobs are increasing in number while middle-income jobs are becoming scarcer.



Labor Income is Unhinged from Productivity




Why?

- Declining unionization
- Globalization
- Increased monopolies
- Technology
- Declining value of min wage




2. Government Tax Policy

400 TAXPAYERS WITH HIGHEST INCOMES
1992-2007




+392%
Average
income



Average
tax rate
-37%

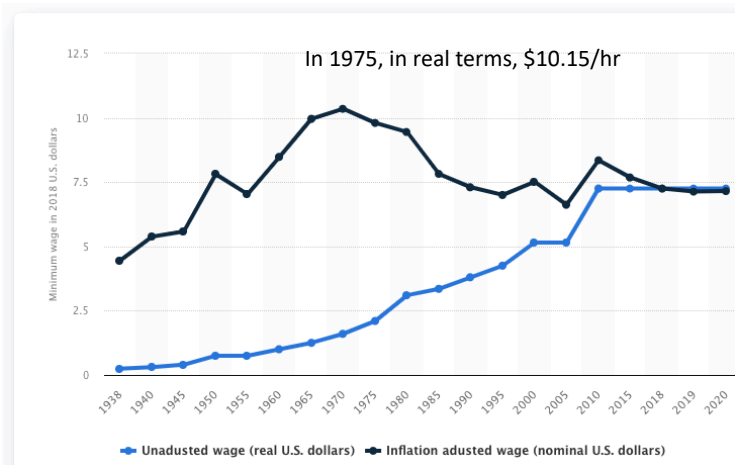
Source: IRS

Tax and inheritance laws (reduced rates on high income groups)



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3. Government policy: Declining value of minimum wage



In 1975, in real terms, \$10.15/hr

Minimum wage in 2018 U.S. dollars

Legend: ◆ Unadjusted wage (real U.S. dollars) ◆ Inflation adjusted wage (nominal U.S. dollars)

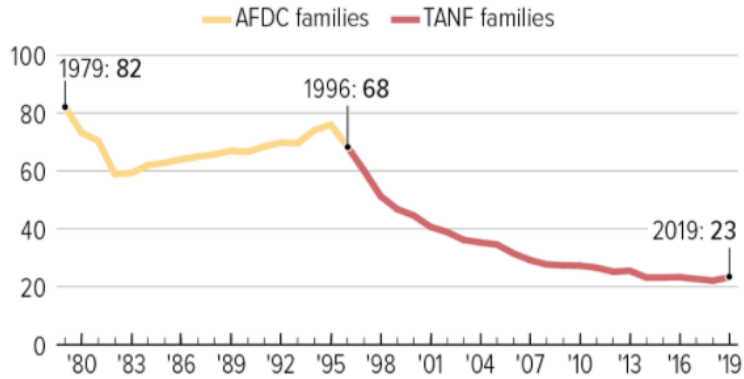


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4. Government Social Safety Net: Declining Support

TANF's Reach Declined Significantly Over Time

Number of families receiving AFDC/TANF benefits for every 100 families with children in poverty



Note: TANF = Temporary Assistance for Needy Families, AFDC = Aid to Families with Dependent Children

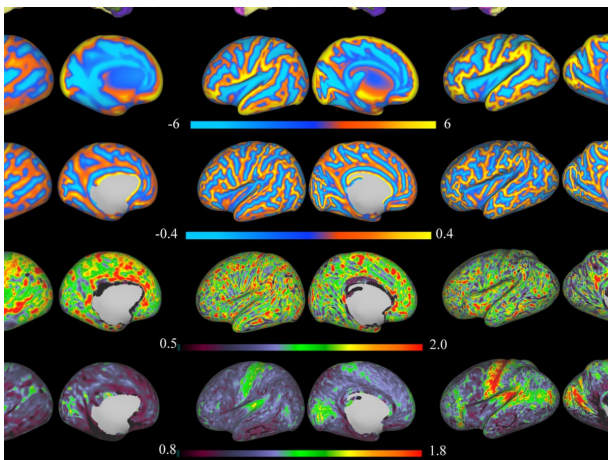
Good news recently on social safety net spending

- American Rescue Plan offered a child allowance which provides cash benefits to most households with children, about \$3000 a year.
- Stanford University Study found that child poverty will fall by 35% as a result.
- Previous research indicates this will lead to increases in student learning.





Intergenerational inequality: Does poverty show up in children's brains?



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Wilkinson & Pickett, *The Spirit Level* (2009)

More Children Drop Out of High School in More Unequal US States

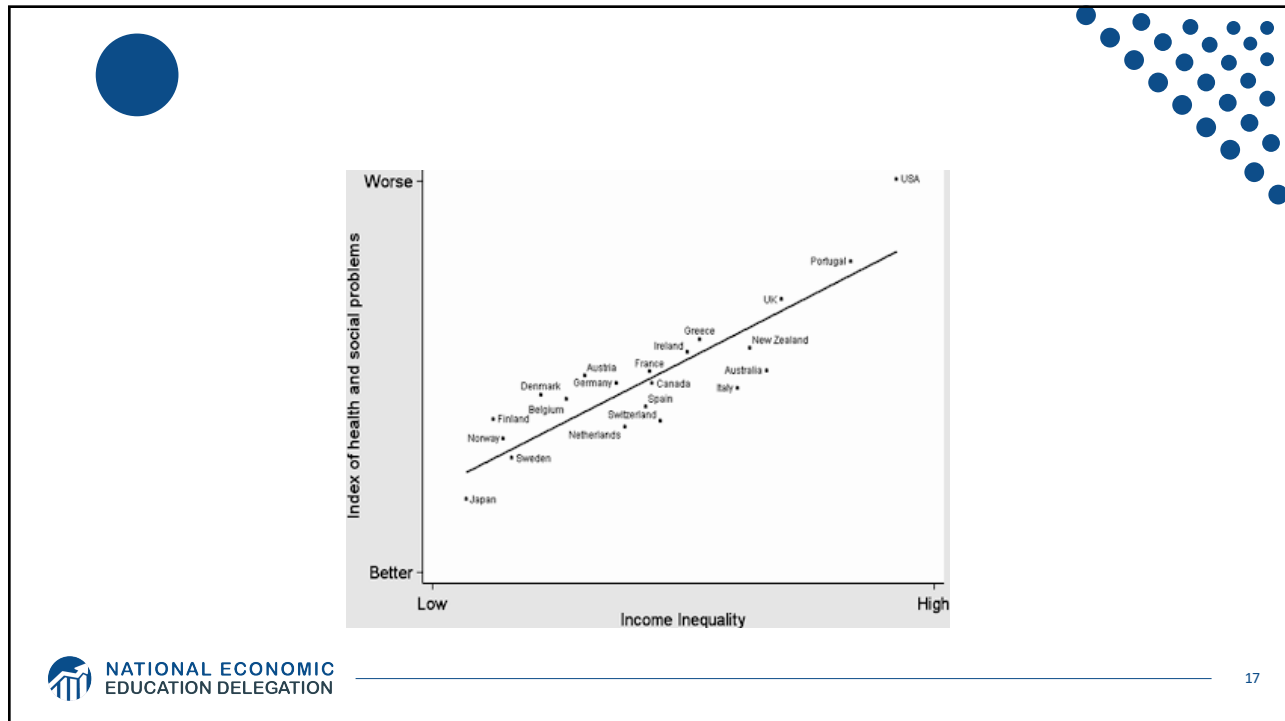


Source: Wilkinson & Pickett, *The Spirit Level* (2009)

www.equalitytrust.org.uk

Equality Trust

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Addressing Inequality: Is It A Problem?

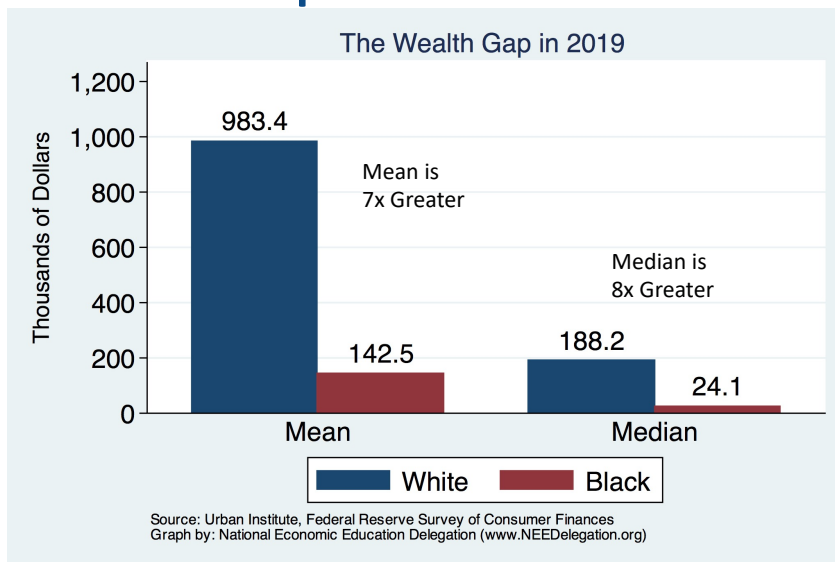
- **Why it might be a problem.**

- Economic issues (*Efficiency*)
 - o There is evidence that at some level, increased inequality slows economic growth.
 - o Or, inequality concentrates resources among investors.
- Noneconomic issues (*Equity*)
 - o Values, ethics and morals will drive individual evaluations of the level of inequality.
 - E.g., inequality is primarily a function of market outcomes, so should be left alone.
 - Or, a solid middle class is important for maintaining a civil society, which runs contrary to a high degree of inequality.

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

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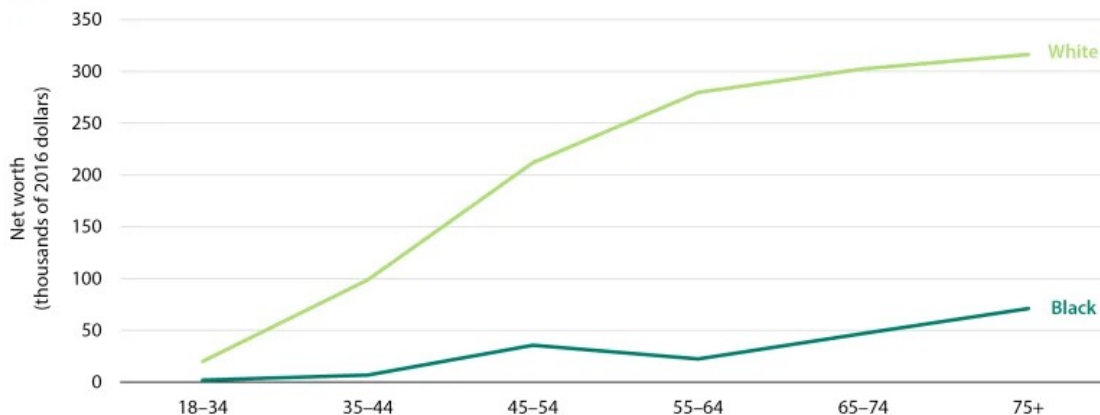
Evidence of the Gap



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Net Worth by Age and Race

FIGURE 2. Median Net Worth, by age of Household Head




Source: Survey of Consumer Finances 2016; authors' calculations.
Note: Data are from 2016. Net worth refers to the difference between assets and debt for a household head. Race and ethnicity are those of the survey respondent.

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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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Is racial inequality a problem in Vermont?

- There are 30,000 people of color in Vermont.

	Renters
White	28%
Black	79%
Asian	48%
Hispanic	28%

- The Black unemployment rate is double that of whites.
- The Hispanic unemployment rate is 70% higher than the white rate.
- Blacks and Hispanics have a larger share of their working age populations in the labor market.



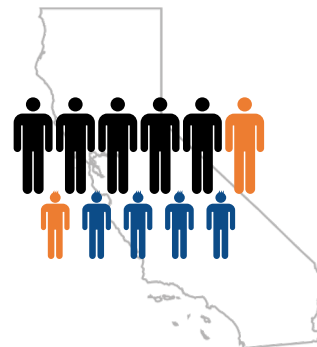
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Summary

- **Income inequality is clearly increasing.**
 - The economy is clearly favoring owners of productive resources over labor.
- **Inequality is costly to all of us**
- **The level of inequality is a policy choice.**



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