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Outline

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

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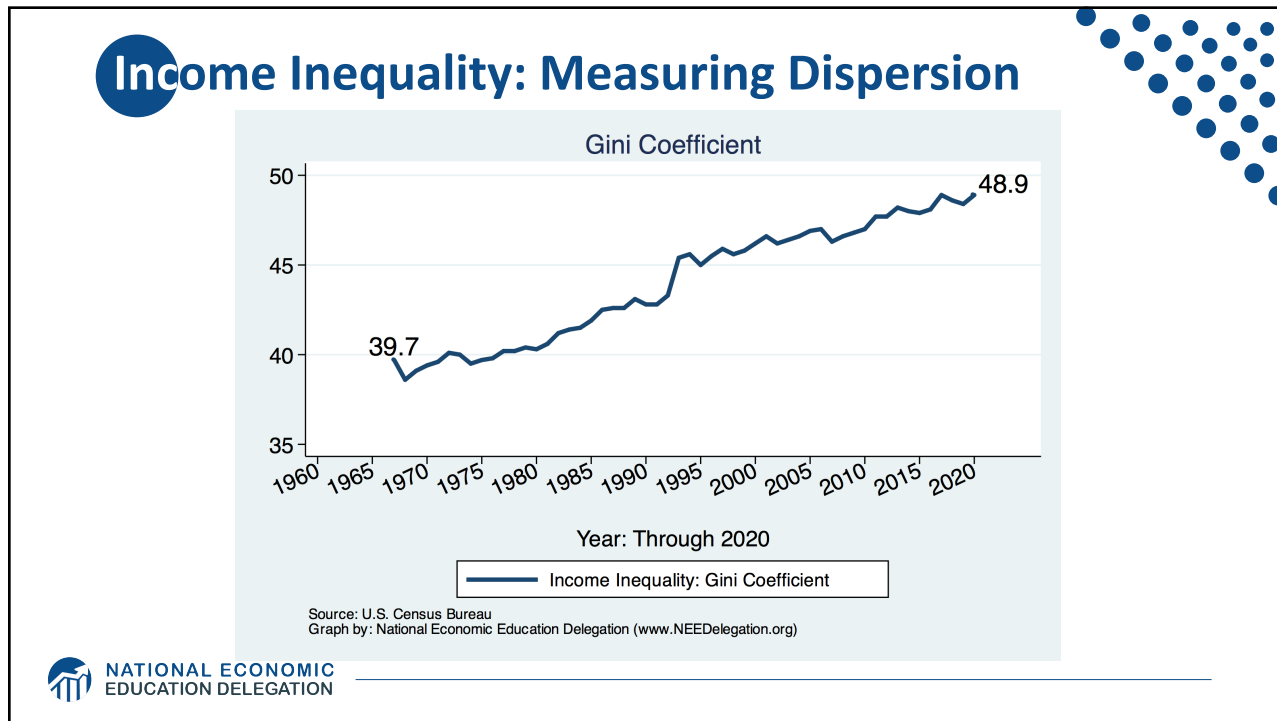
Economic Inequality: Income

- **Definition:**

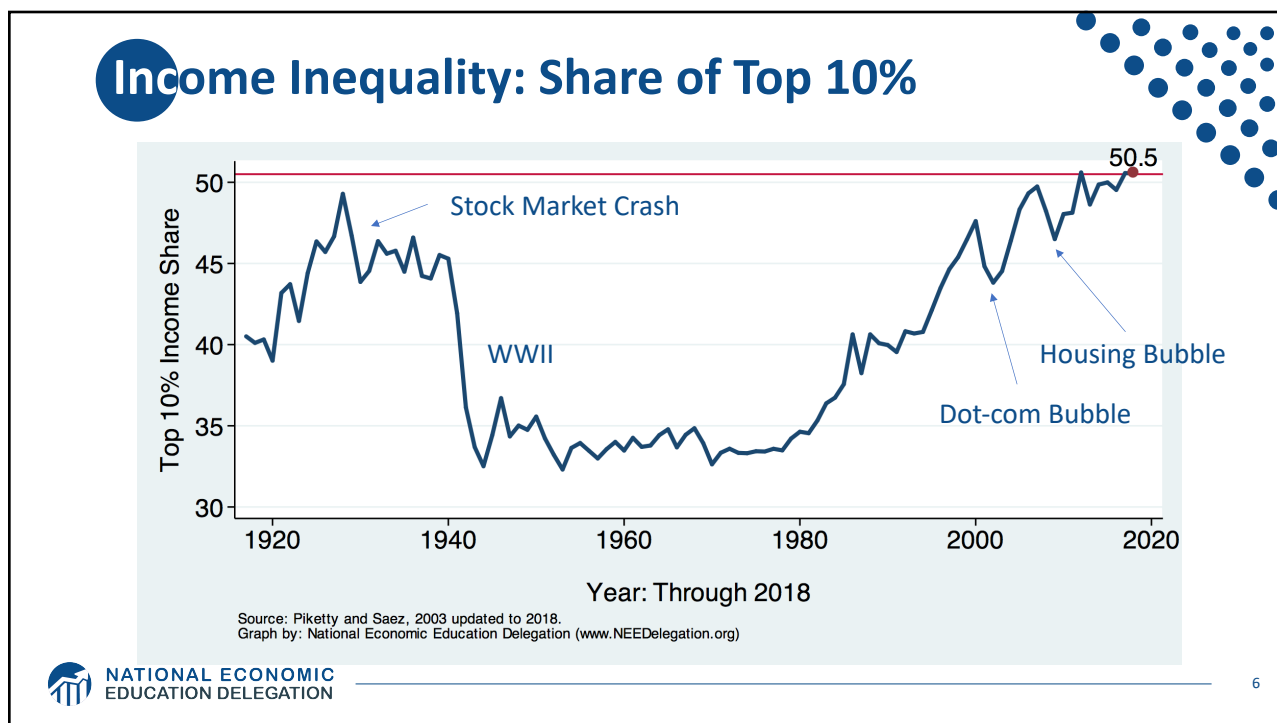
- The extent to which the distribution of income deviates from complete equality
- The dispersion of income/wealth throughout the economy



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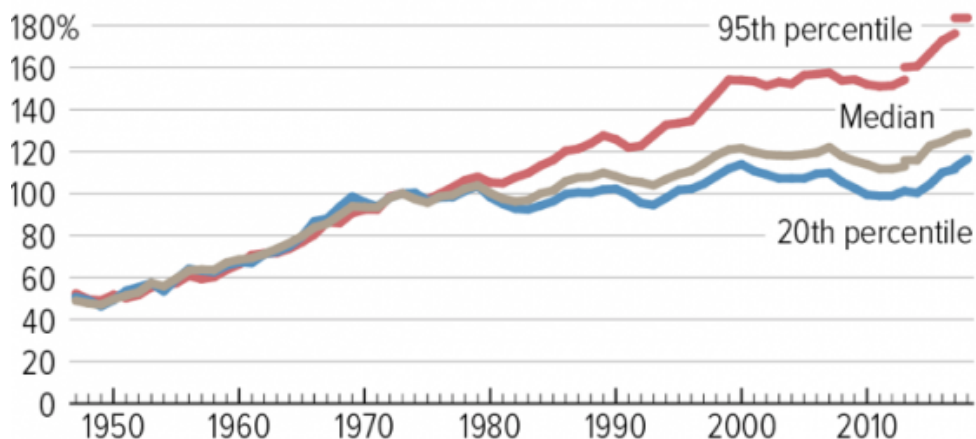
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The Abrupt Increase in Inequality

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



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Where Does Inequality Come From?

• Labor Characteristics

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

• Market Forces

- Technology
- Changing demand patterns
- Competition for labor

• Government Policy

- Market influence
- Redistribution

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Government Policy and Inequality

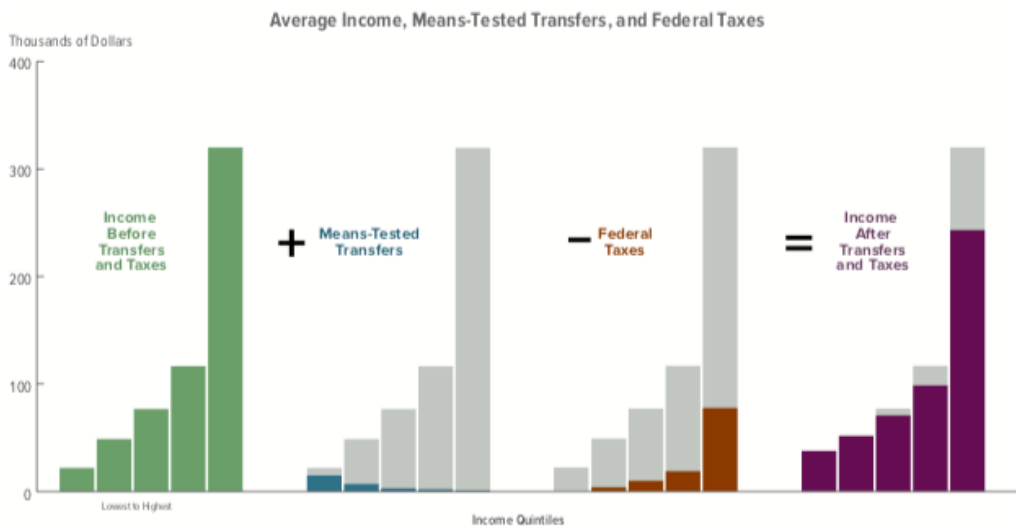
• Market Influence: PRE-distribution

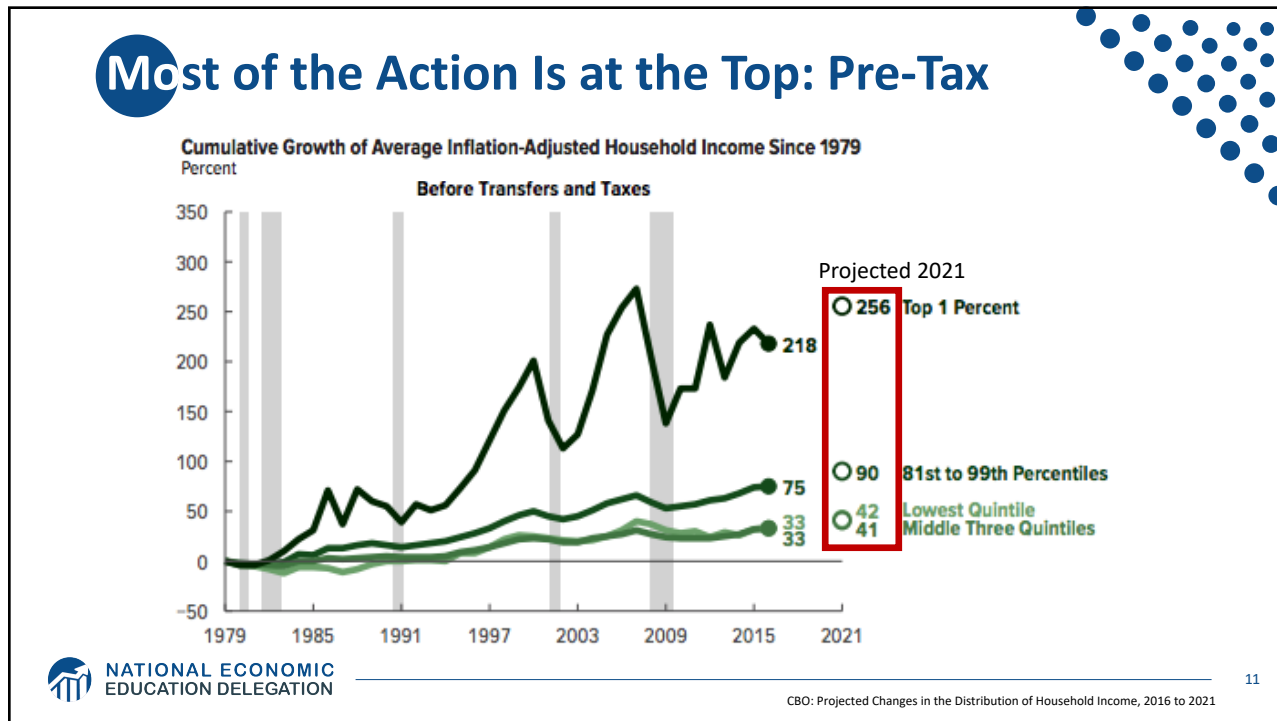
- Characteristics of labor
 - o Access to education
- Effects on labor demand
 - o Market regulation
 - Competition policy
 - o Labor regulations
 - Minimum wage, overtime, health insurance, etc.

• RE-distribution

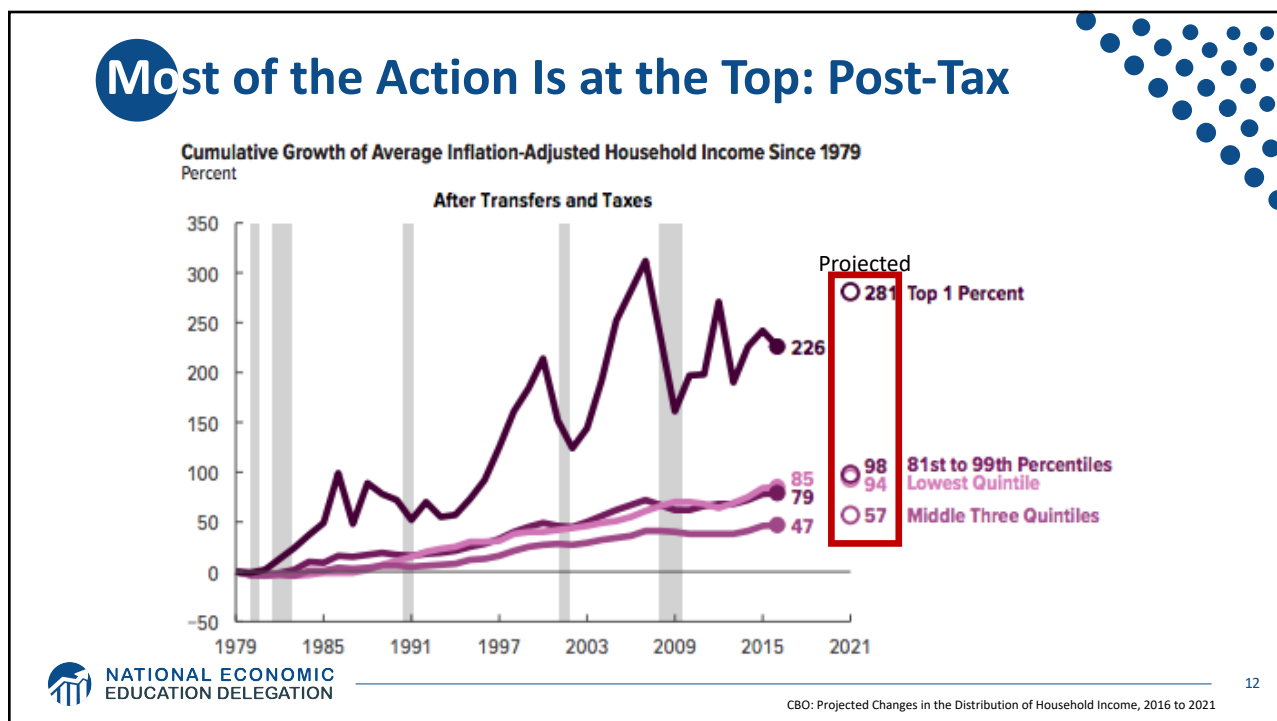
- Tax Rates
- Income support
 - o Direct aid
 - o Food stamps

Taxes, Transfers, and Income: 2018

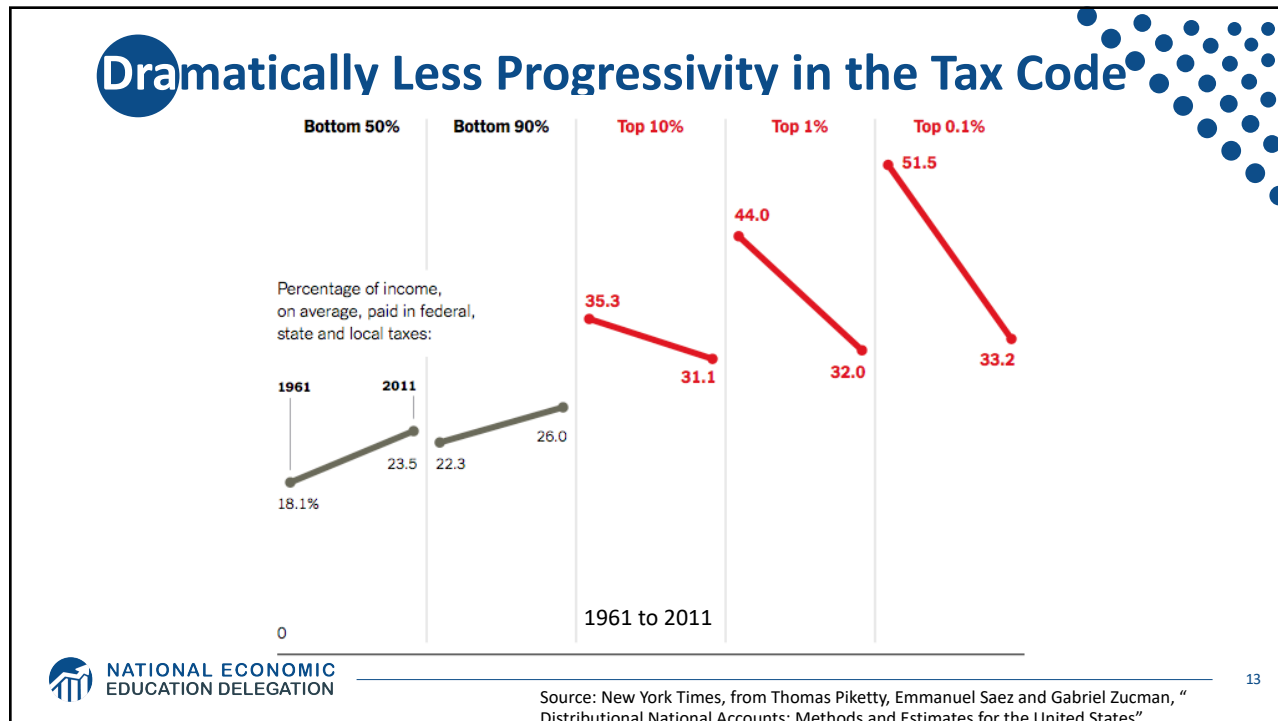




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Market Forces and Inequality

- **Changing demand patterns**
 - Technology
 - 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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Where Does Inequality Come From? Summary

- **Labor characteristics**
 - What do workers bring to the market?
- **Market forces**
 - How does the market value the labor characteristics?
- **Government policies**
 - PRE-distribution – affecting markets
 - Redistribution – affecting incomes

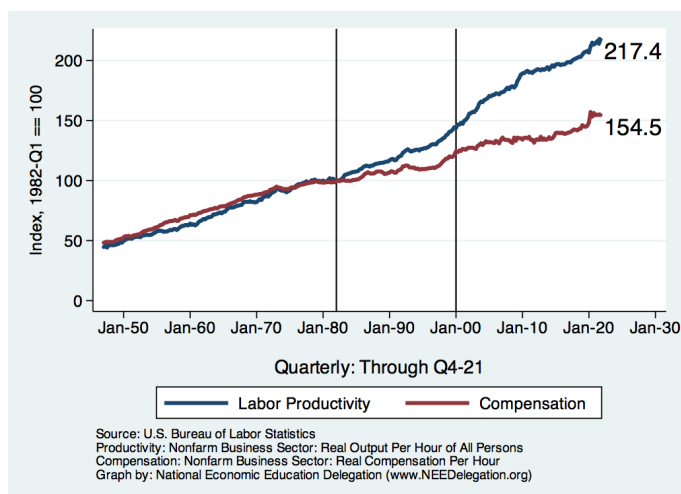


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Labor Income is Unhinged from Productivity



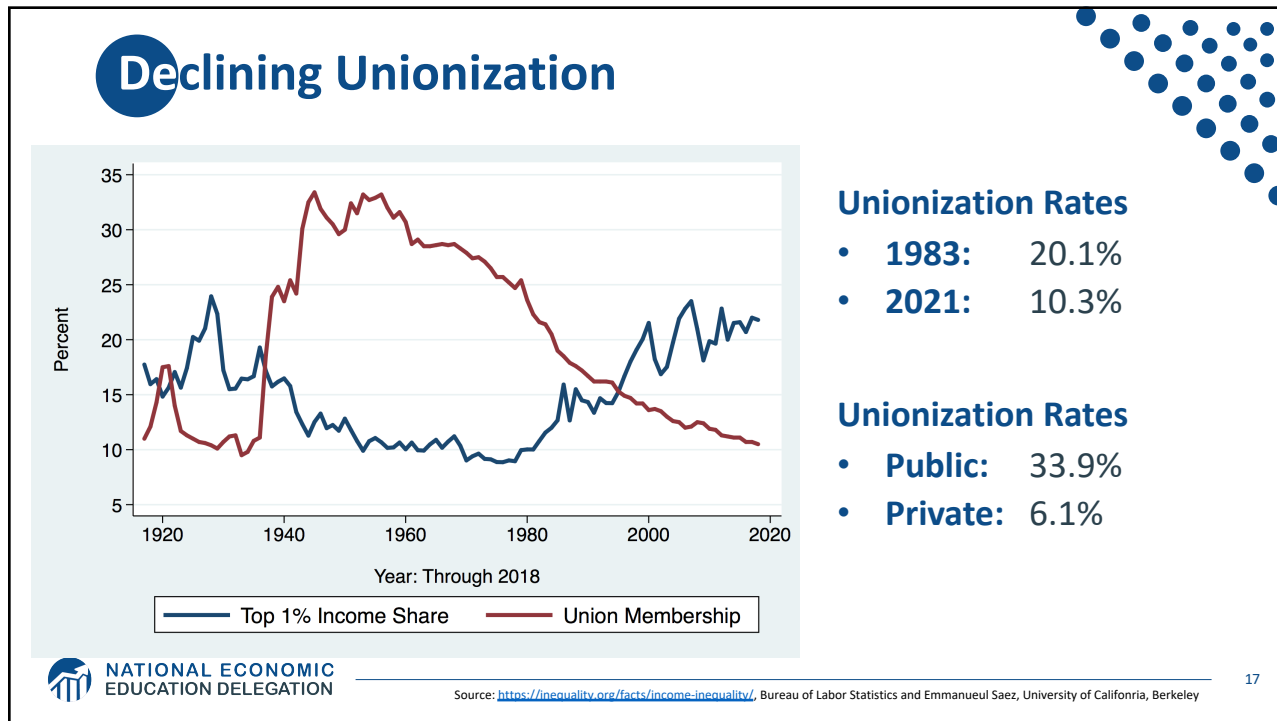
Why?

- Declining unionization
- Globalization
- Competition policy
- Cheap technology

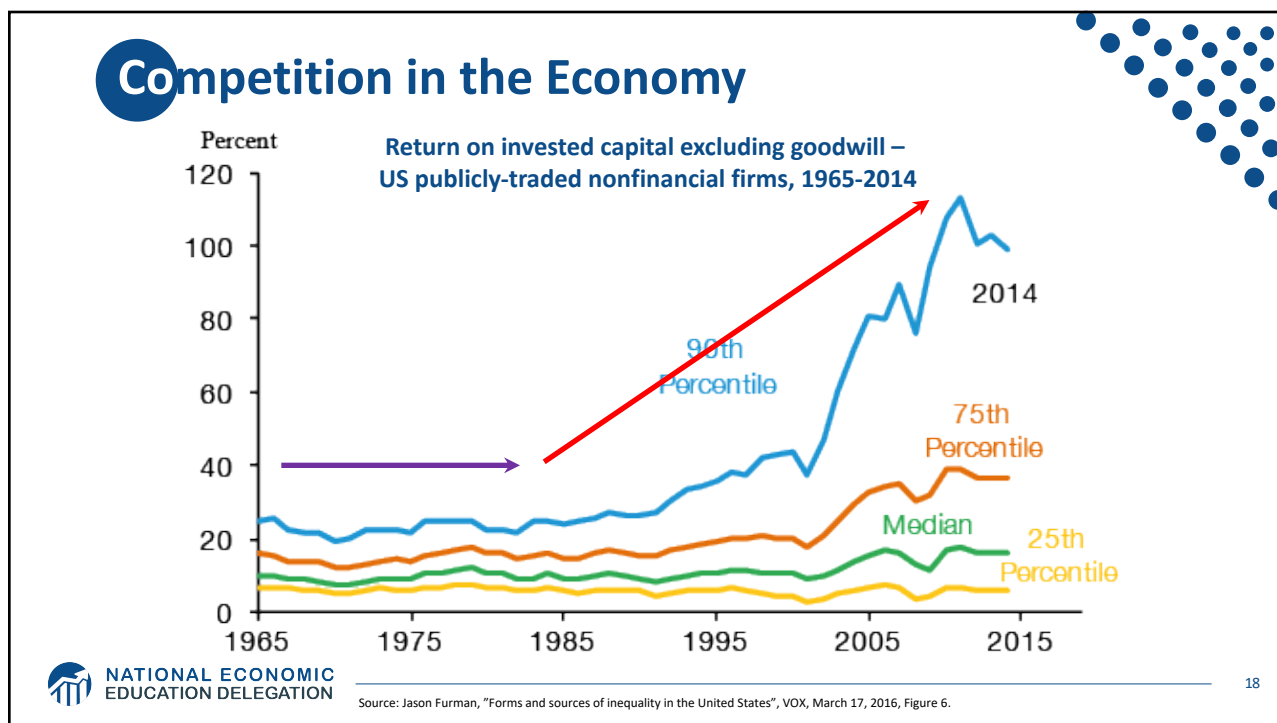


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Technological Change and Inequality

- **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

Technology can Hurt Low Income Workers



Early on, technology was good to low income workers



Until it was bad for them....

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:**
 - Technology
 - Globalization
 - Institutions
 - Unions and government policy
- **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:**

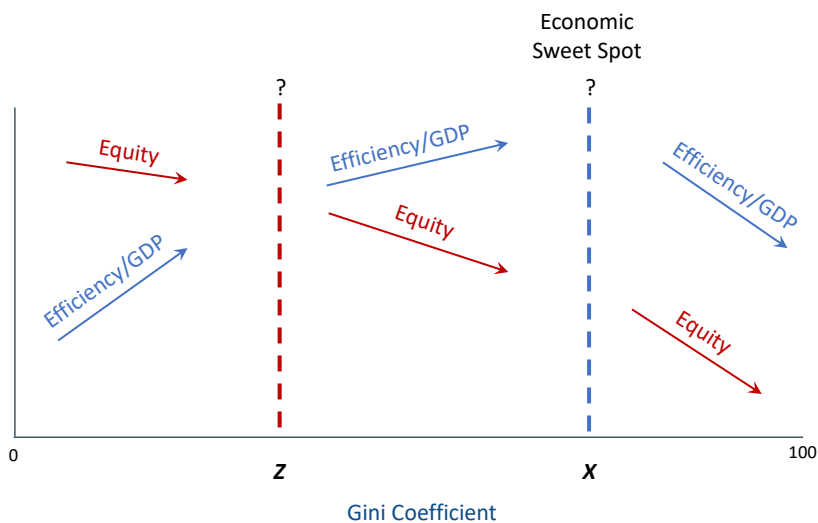
- Divide society
- Distort political environment
- Reduce political participation
- Reduce investments in public goods
 - o Education
 - o Environmental protections



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How Much Inequality Is too Much?



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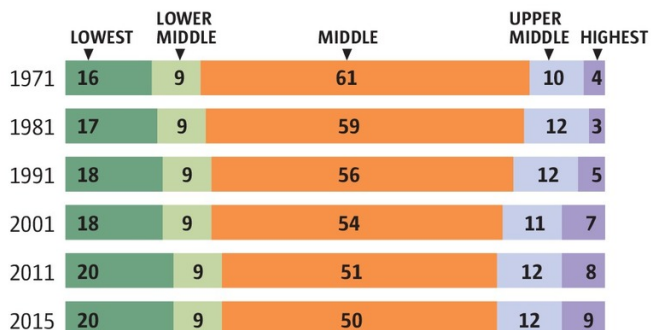
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Inequality Can Also Directly Affect GDP

Income breakdown

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

% of adults in each income tier



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

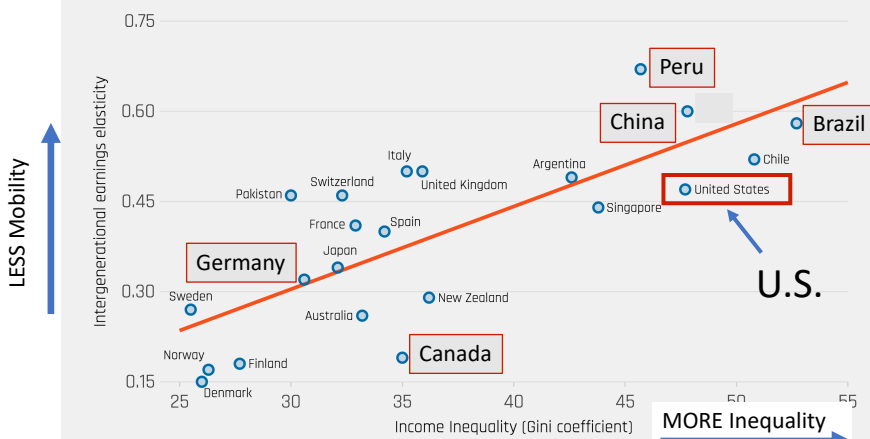
- Middle class are the big consumers.
- They have less money.
- Consumption is lower.
- GDP is lower.

Source: Pew Research Center
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KELLY SHEA / THE SEATTLE TIMES

The Great Gatsby Curve: high inequality tends to mean low mobility

More inequality is associated with less mobility across generations



Source: Miles Corak, "Income Inequality, Equality of Opportunity, and Intergenerational Mobility," Journal of Economic Perspectives 27 (3): 79-102; "All the Ginis," available at <http://www.worldbank.org/en/research/brief/all-the-ginis> (last accessed 9/28/2018)

Equitable Growth

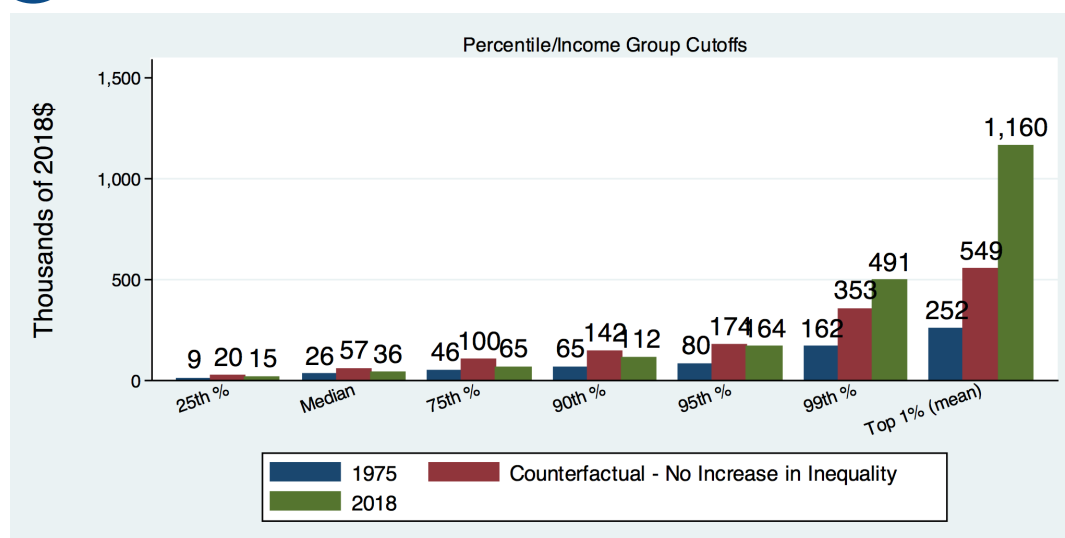
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<https://equitablegrowth.org/research-paper/are-todays-inequalities-limiting-tomorrows-opportunities>

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?
- Concentrate political power.

How Has Inequality Influenced Incomes?



Addressing Inequality: Is It A Problem?

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

- Economic issues (*Efficiency*)
 - There is evidence that at some level, increased inequality slows economic growth.
- Noneconomic issues (*Equity*)
 - 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?**

Addressing Inequality: Immediately Available Policy Solutions (1/2)

- **RE-distribution**

- Tax and transfer programs

- **PRE-distribution**

- Strengthen labor unions
- Collective bargaining
- Other policies that favor labor over business owners
- Minimum wages



Addressing Inequality: Immediately Available Policy Solutions (2/2)

- **Other**

- Reverse trends in market concentration.

- **Locally**

- Employment services: job training, interview skills, or assistance with day-to-day issues, such as child care

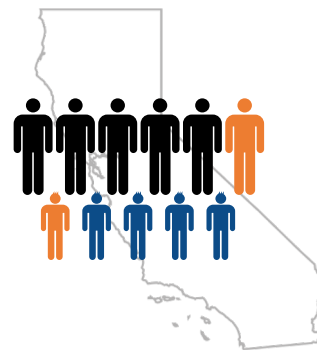
Addressing Inequality: Long Term

- **It's all about access to resources:**

- Education, in particular
 - Improve public education
 - Reduce disparities in quality of public education
 - Improve counseling in low-income schools
 - With respect to college – paths to success and funding
 - Investments are needed in early education, not later (e.g. universal pre-k)
- Opportunities for wealth-building
- Housing

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.**



Thank you!

Any Questions?

www.NEEDelegation.org

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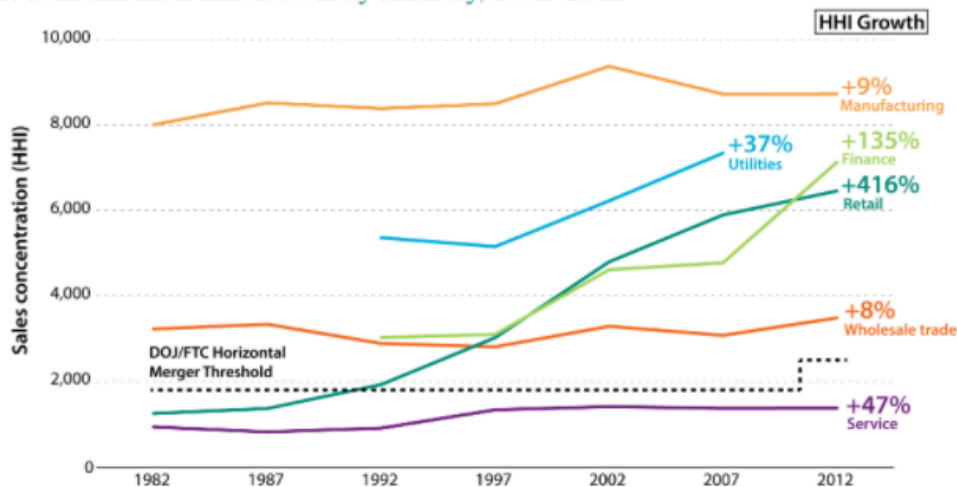
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Growing Revenue Concentration

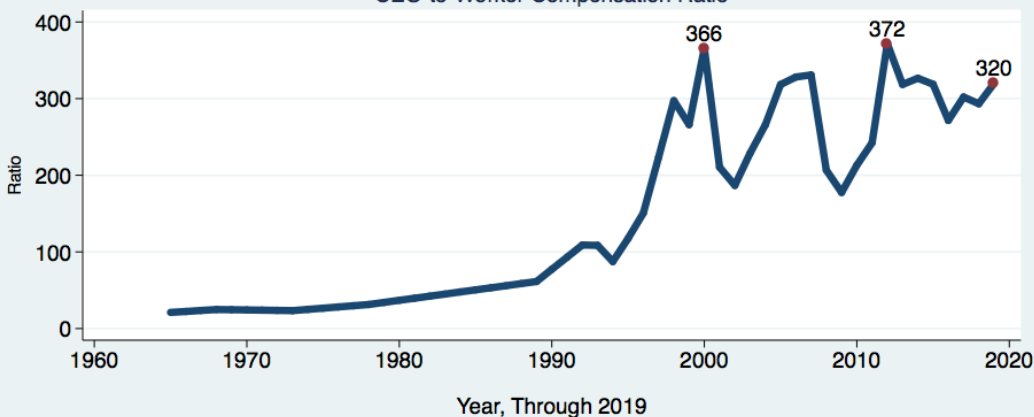
Market Concentration and Growth by Industry, 1982–2012



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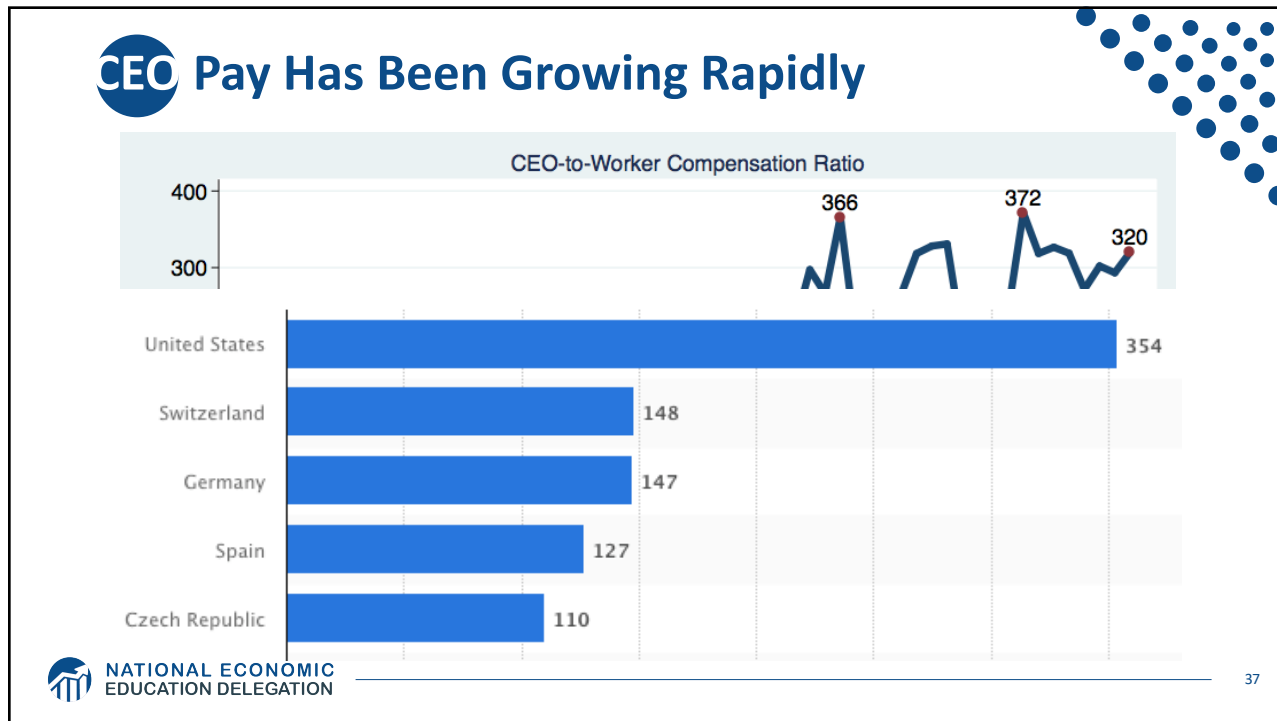
CEO Pay Has Been Growing Rapidly

CEO-to-Worker Compensation Ratio

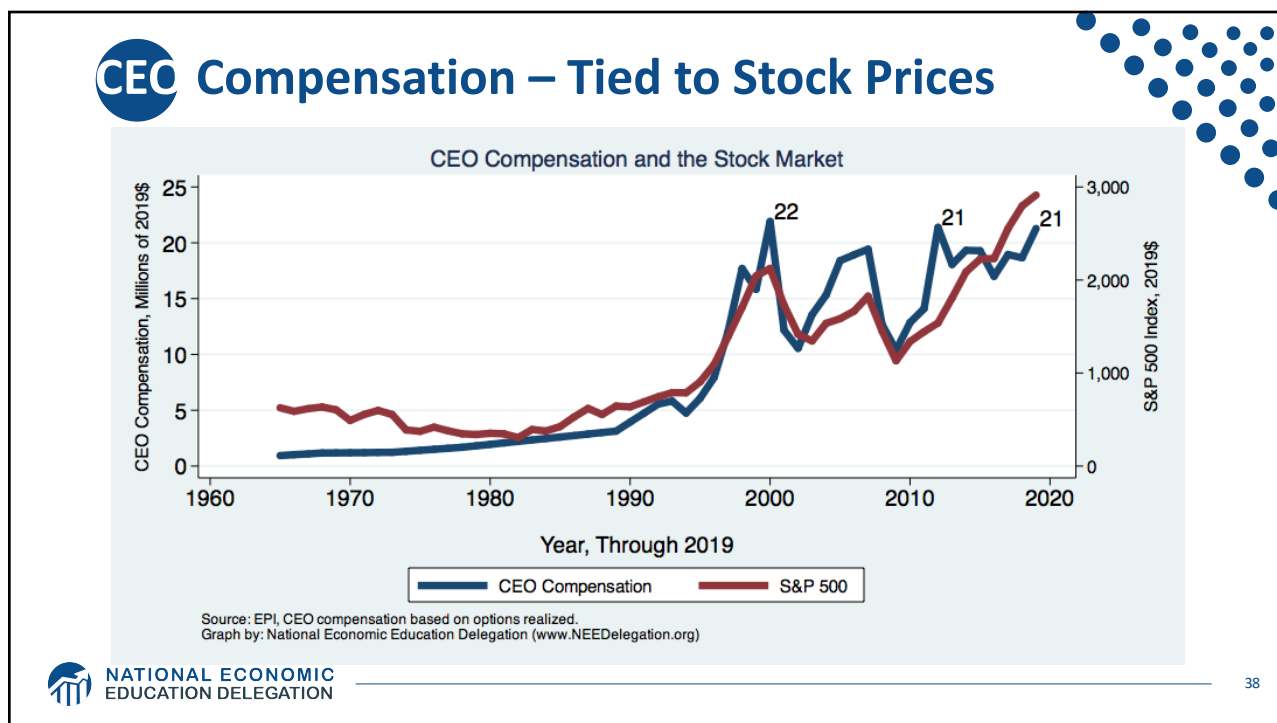


Source: EPI, CEO compensation based on options realized.
Ratio is CEO compensation relative to average worker compensation.
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

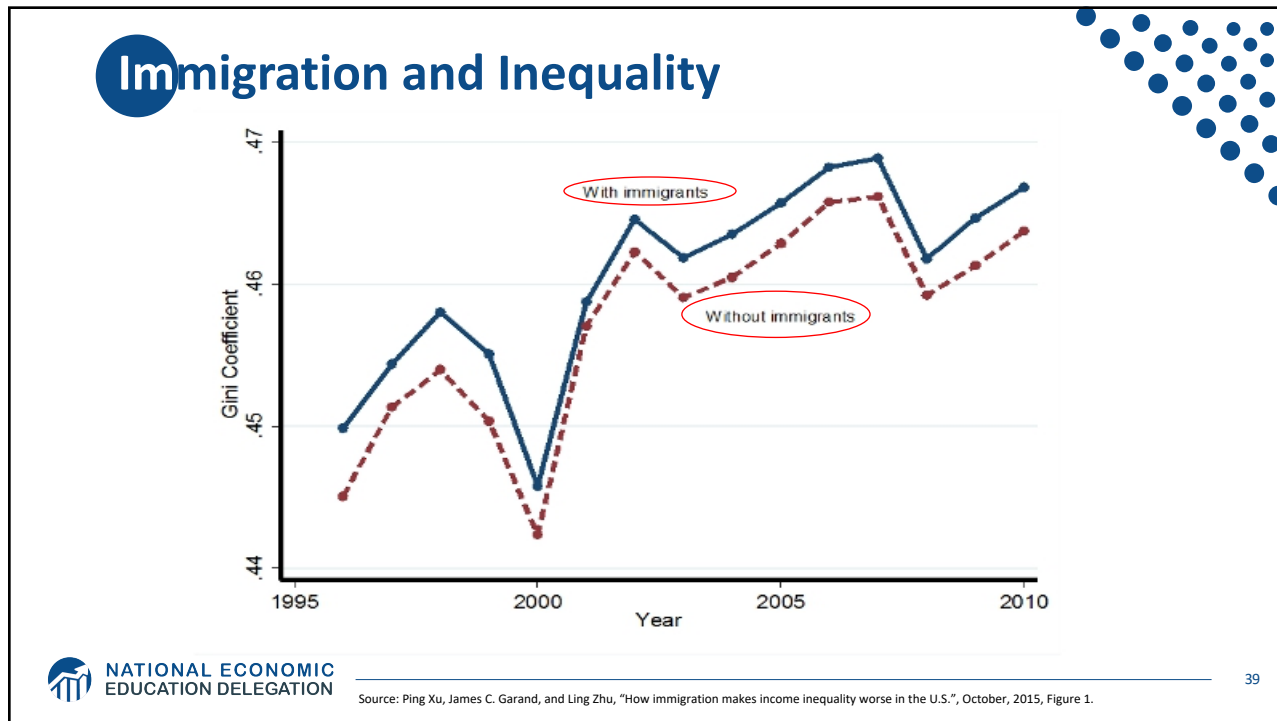
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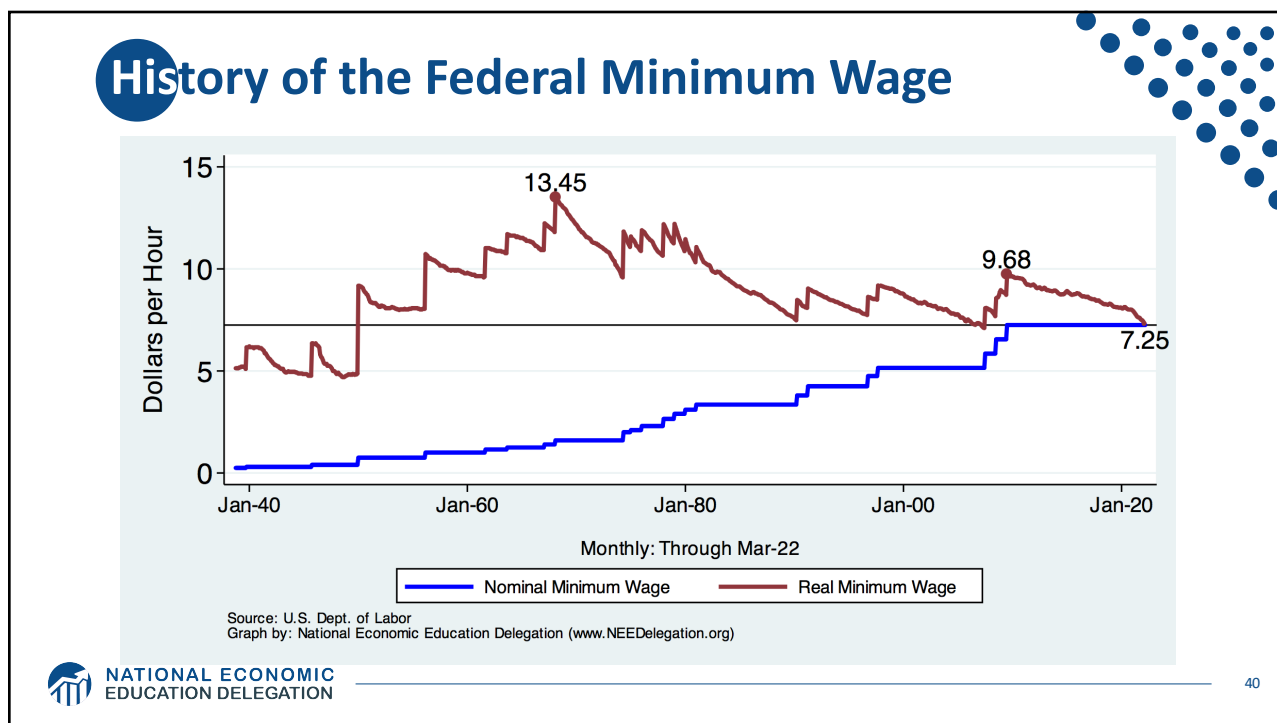
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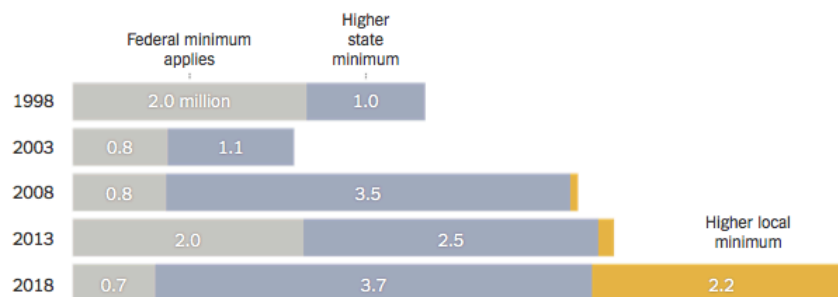
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Most Minimum Wage Workers Aren't Bound by the Federal Minimum Anymore

Millions of workers:



Includes farm workers and tipped incomes

Source: Author's analysis of Current Population Survey; data from the Berkeley Center for Labor Research and Education, as well as Kavya Vaghul and Ben Zipperer (2016).



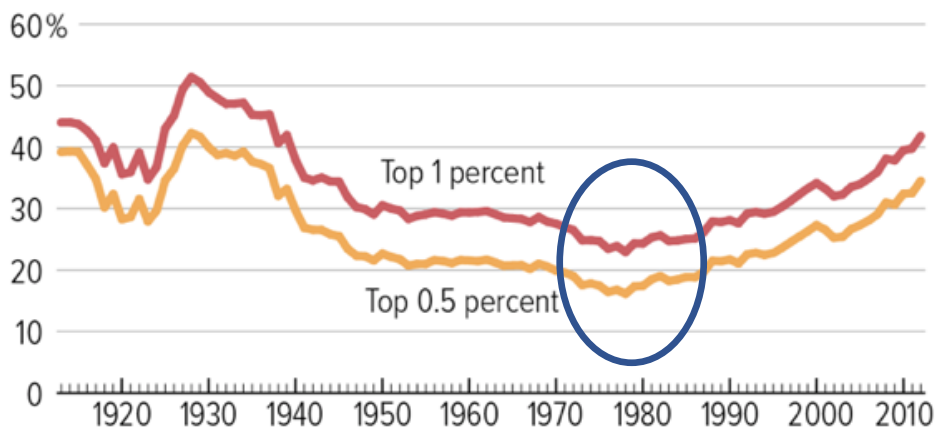
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Wealth Concentration Has Been Rising

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



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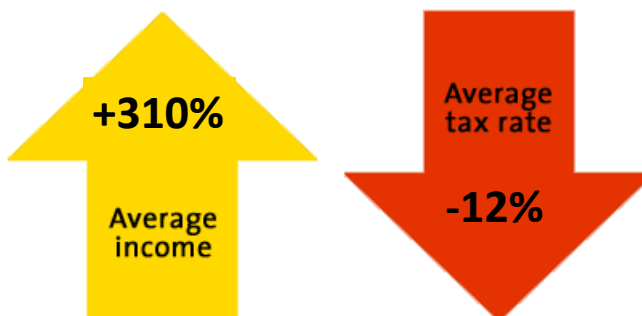
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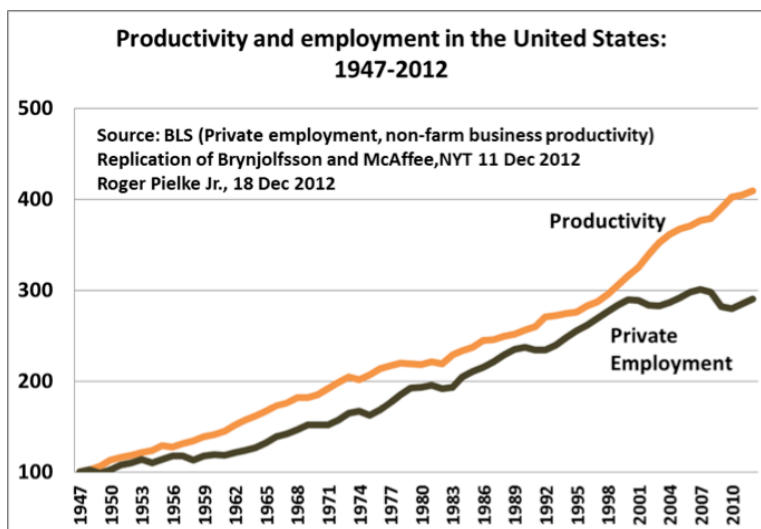
What About Tax Rates?

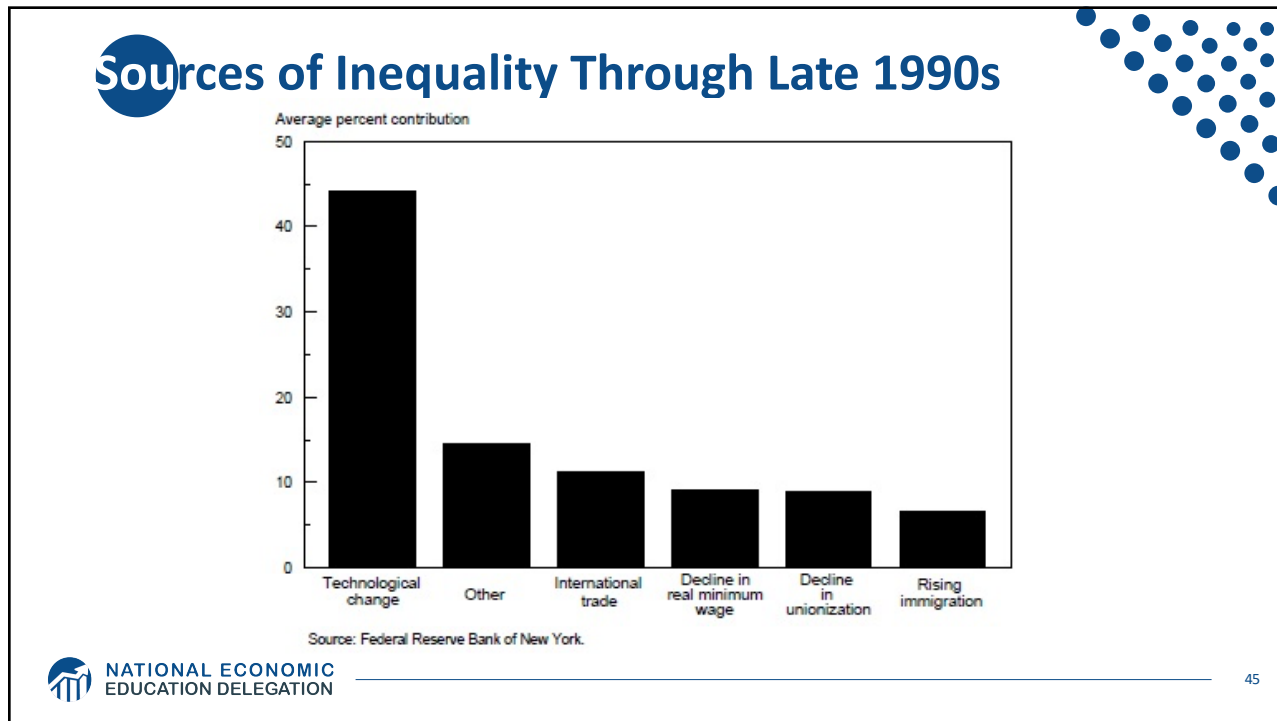
Tax and inheritance laws (reduced rates on high income groups)

400 TAXPAYERS WITH HIGHEST INCOMES
1992-2014

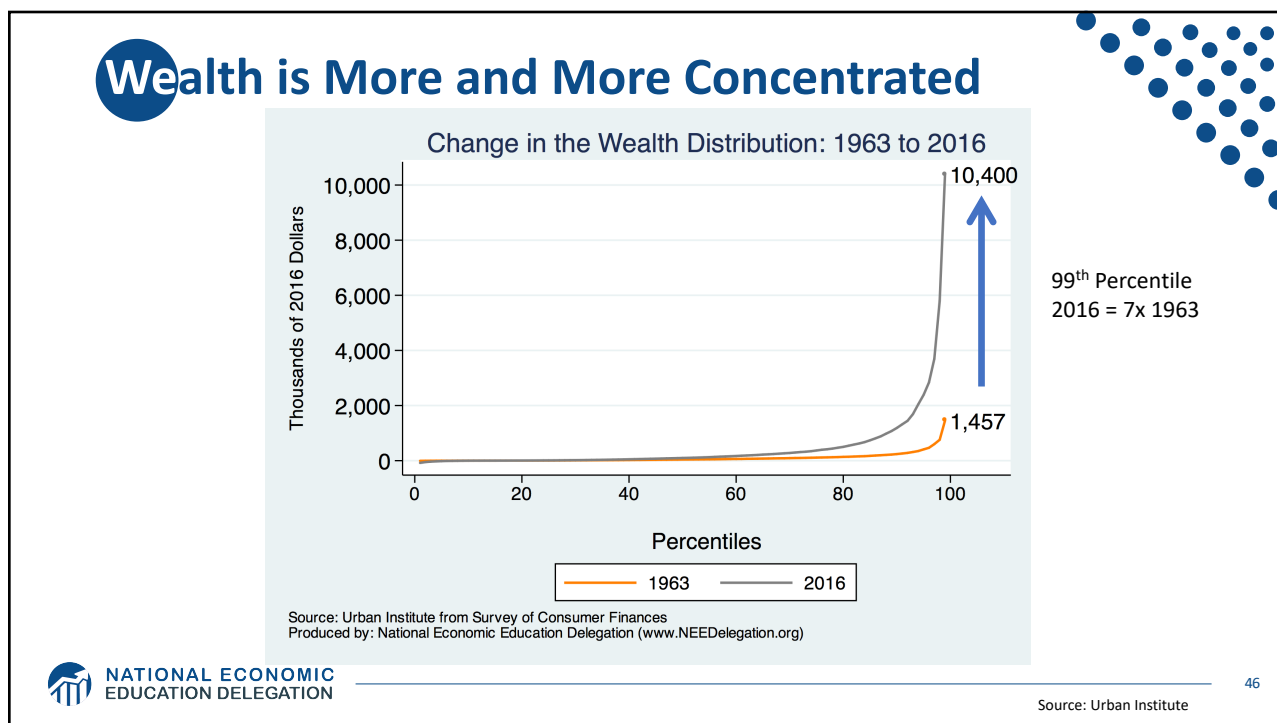


Technology Benefits Ownership over Labor





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A Modern Example: Uber & Lyft

- **Technology:**

- Facilitates market power for owners.
- Reduces bargaining power for labor.
- Shifts costs of doing business onto labor.

- **Modern day Robber Barons?**

- Ruthlessly absorbing as much income as they can.
- Lack of regard for labor.

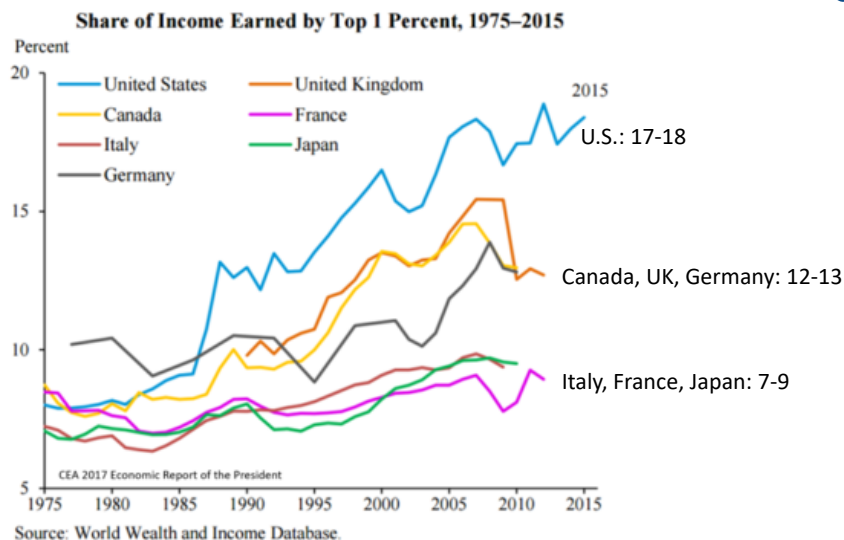
Income Changes from Growing Inequality

Bottom 90% of Households

INCOME GROUP	TOTAL LOSS/GAIN IN ANNUAL INCOME*	AVERAGE LOSS/GAIN PER HOUSEHOLD PER YEAR*
TOP 1%	\$673 billion more	\$597,241 more
96-99	\$140 billion more	\$29,895 more
91-95	\$29 billion more	\$4,912 more
81-90	\$43 billion less	\$3,733 less
61-80	\$194 billion less	\$8,598 less
41-60	\$224 billion less	\$10,100 less
21-40	\$189 billion less	\$8,582 less
BOTTOM 20%	\$136 billion less	\$5,623 less

* Compared to what incomes would have been had all income groups seen the same growth rate in 1979-2005 as they did during previous decades. Source: Jacob Hacker, Yale University; Paul Pierson, UC-Berkeley

An International Perspective: Comparables



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Tension in Policy Solutions

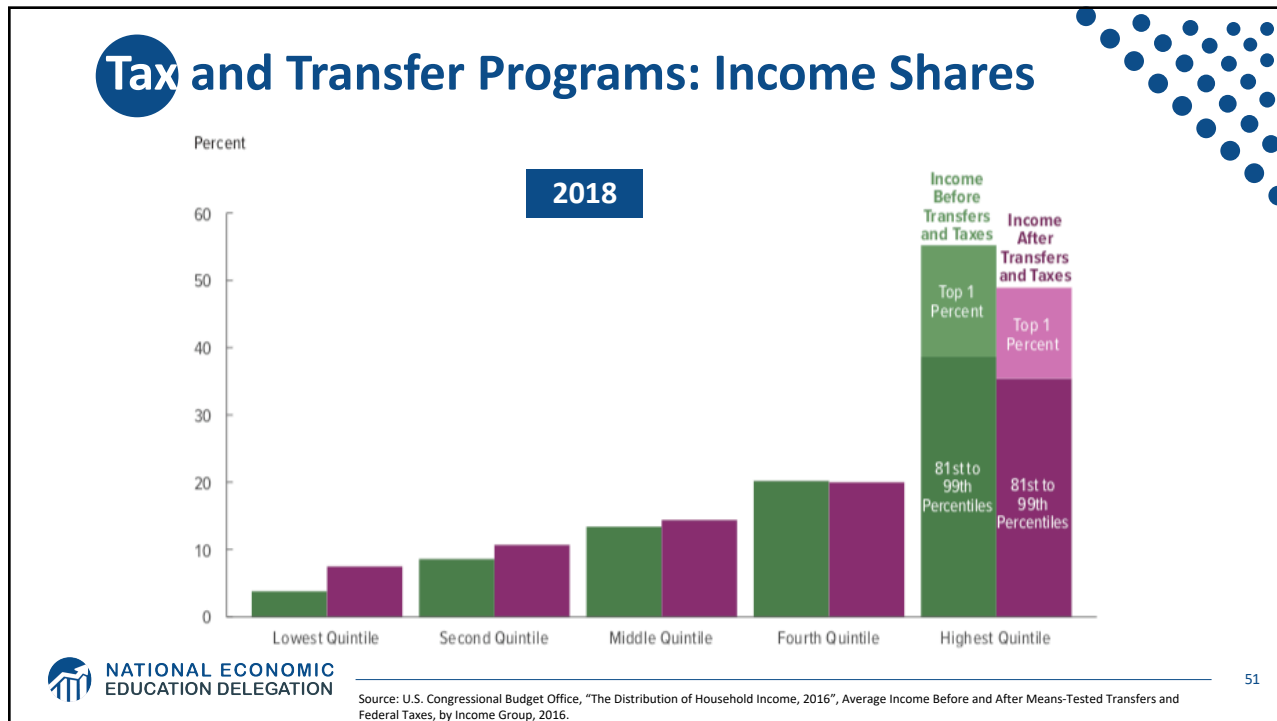
- **Is it possible to increase growth at the same time that you reduce income inequality?**
 - Common refrain among some that government intervention in the economy is always and everywhere bad for growth.
- **Possibly: expanding equality of access promotes the full utilization of resources.**
 - Expanding equality of access requires resources likely from the well-to-do.



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Different Ways of Thinking About Inequality

- **Income inequality**
 - Before taxes and transfers
 - After taxes and transfers
- **Wealth inequality**

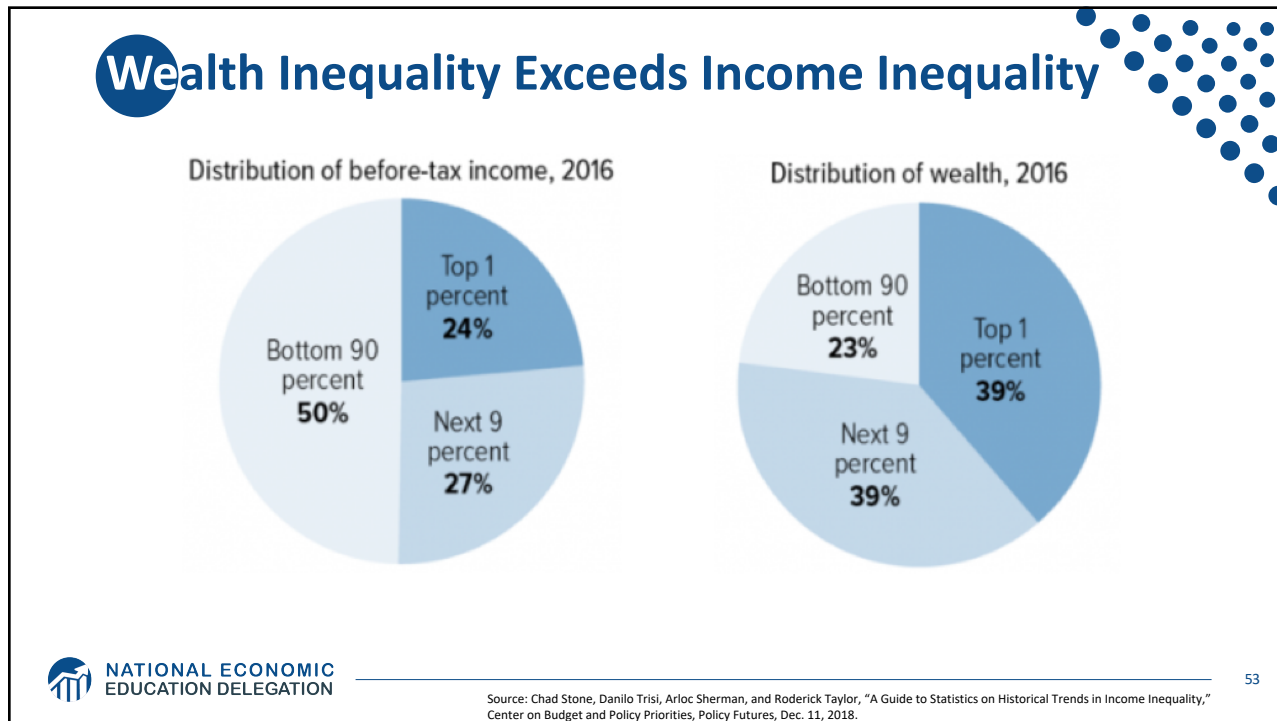
How does wealth differ from income?

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

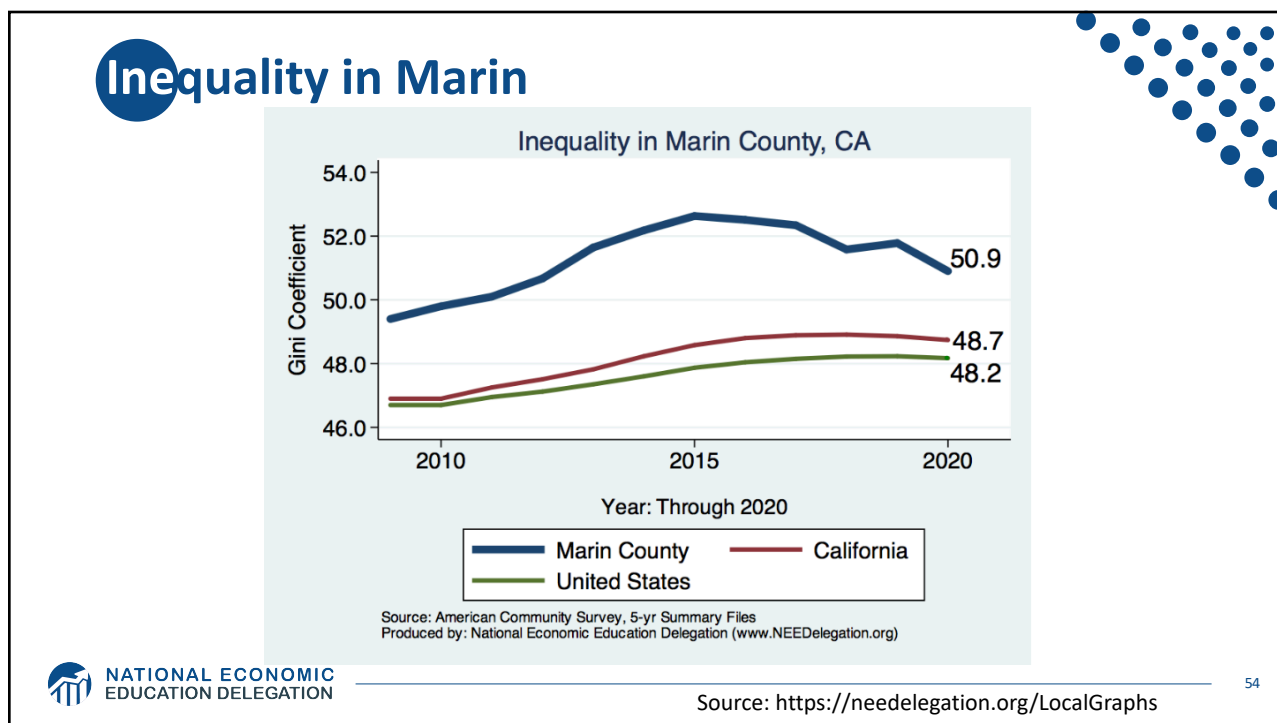
Wealth is one's accumulated savings, including physical and financial assets (net worth).

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