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- **This slide deck was authored by:**
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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

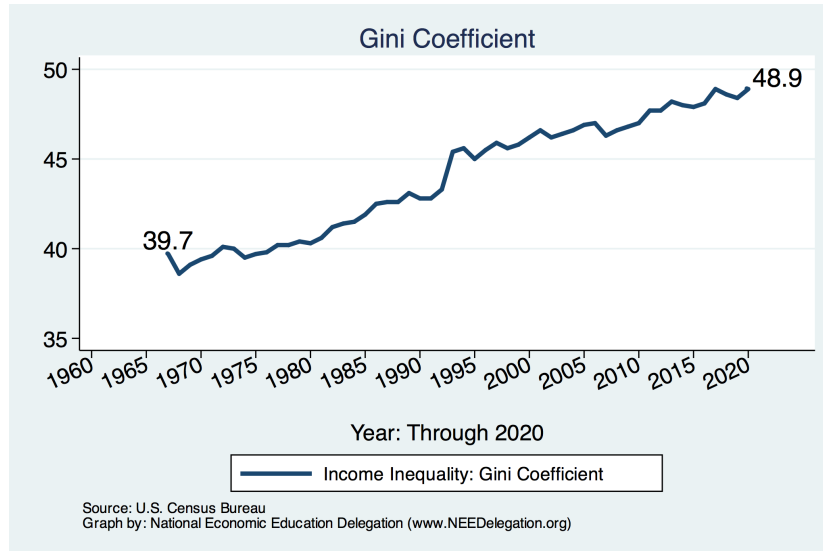
- **Definition:**

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



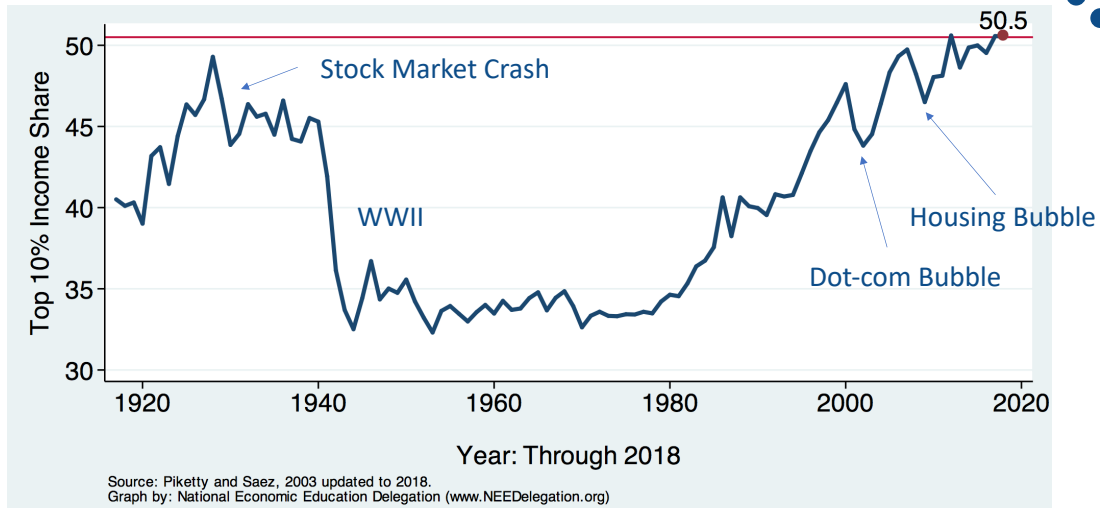
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Income Inequality: Measuring Dispersion



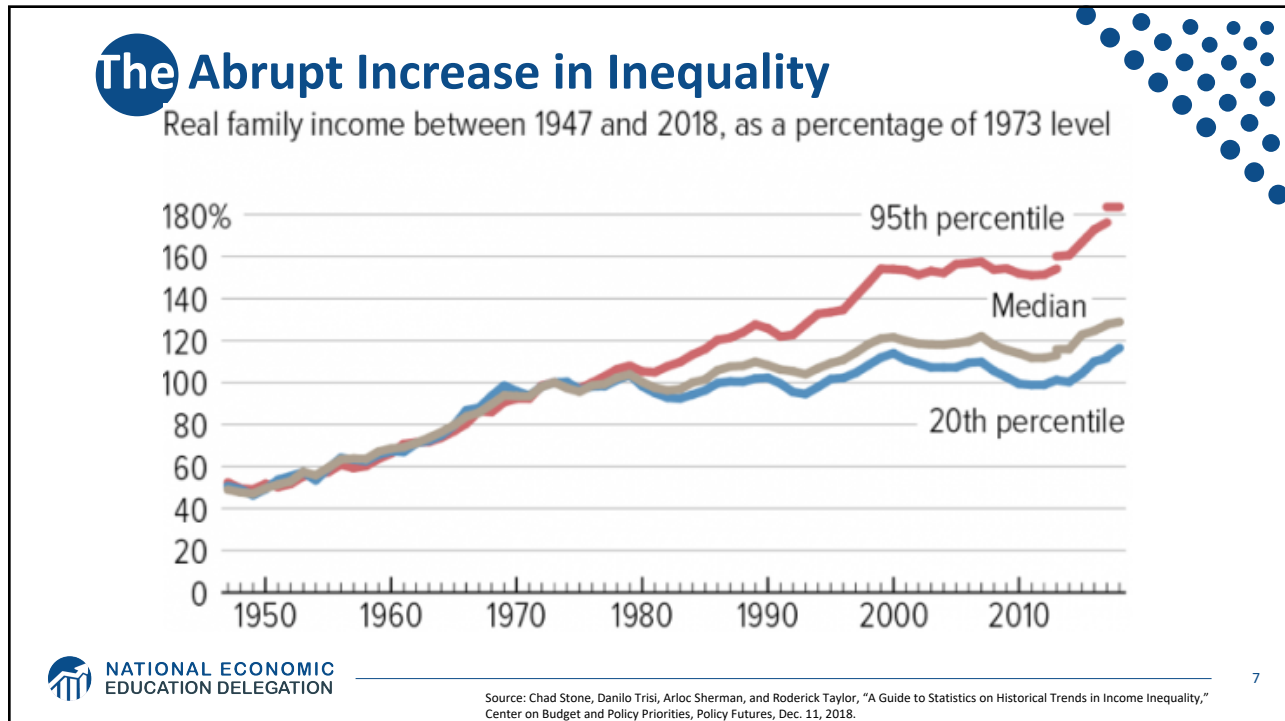
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Income Inequality: Share of Top 10%

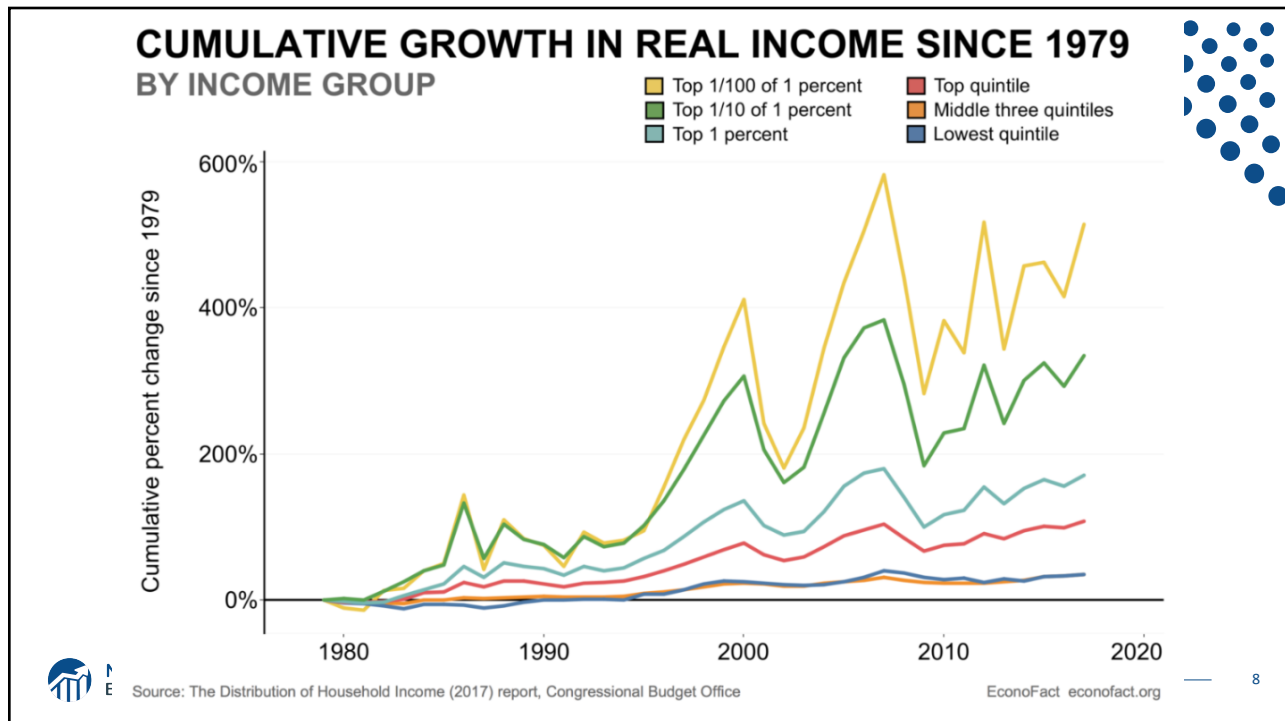


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Where Does Inequality Come From?

- **Labor Characteristics**

- Demographics
 - Age distribution
- Personal Choices
 - Educational attainment
 - Effort
 - 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
 - Access to education
- Effects on labor demand
 - Market regulation
 - Competition policy
 - Labor regulations
 - Minimum wage, overtime, health insurance, etc.

- **RE-distribution**

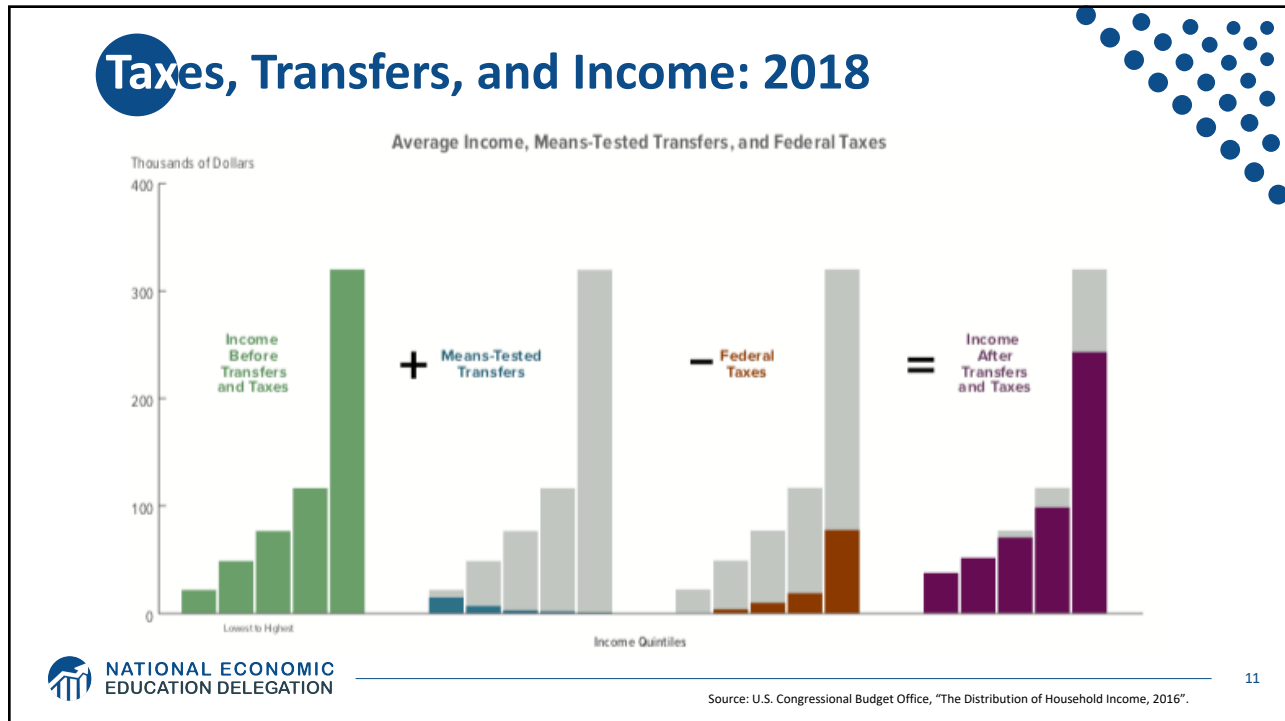
- Tax Rates
- Income support
 - Direct aid
 - Food stamps



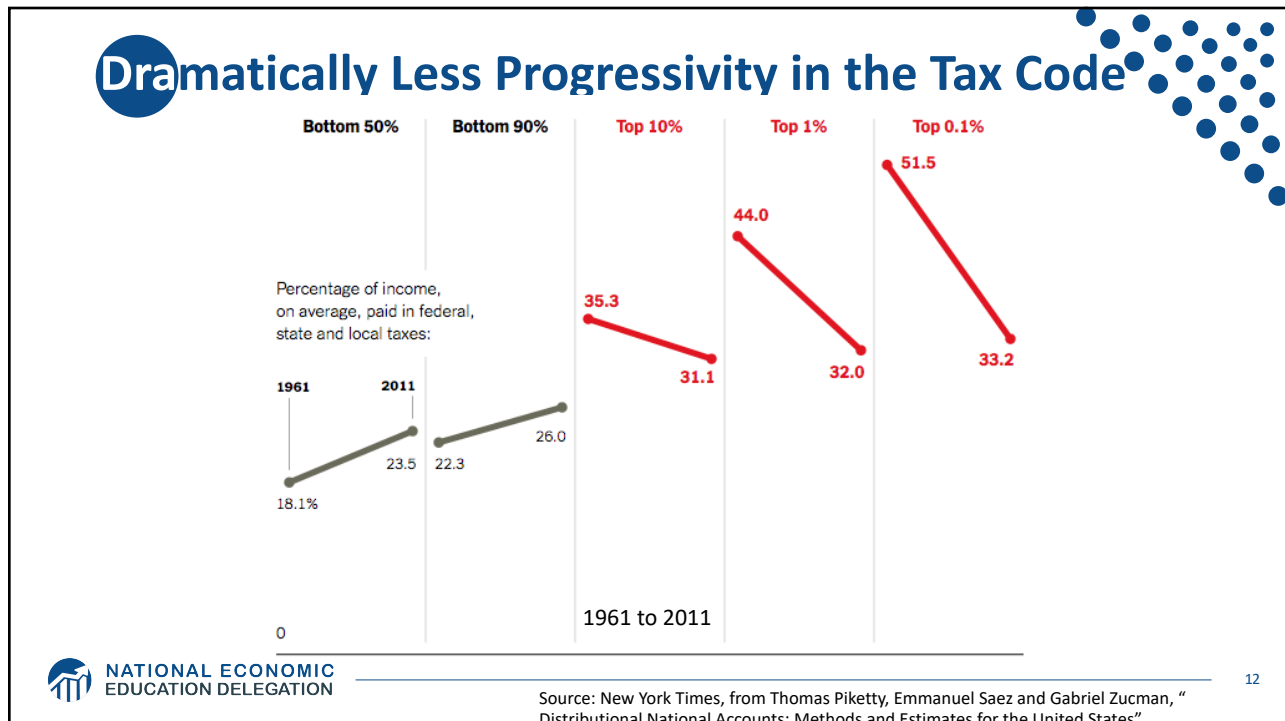
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Market Forces and Inequality

- **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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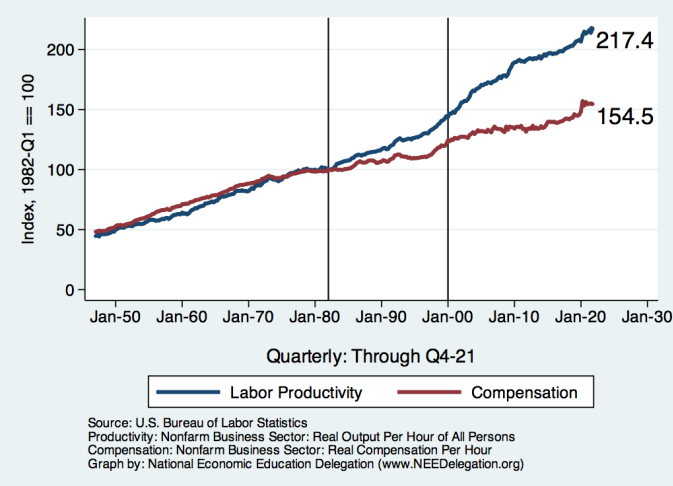
Where Does Inequality Come From? Summary

- **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

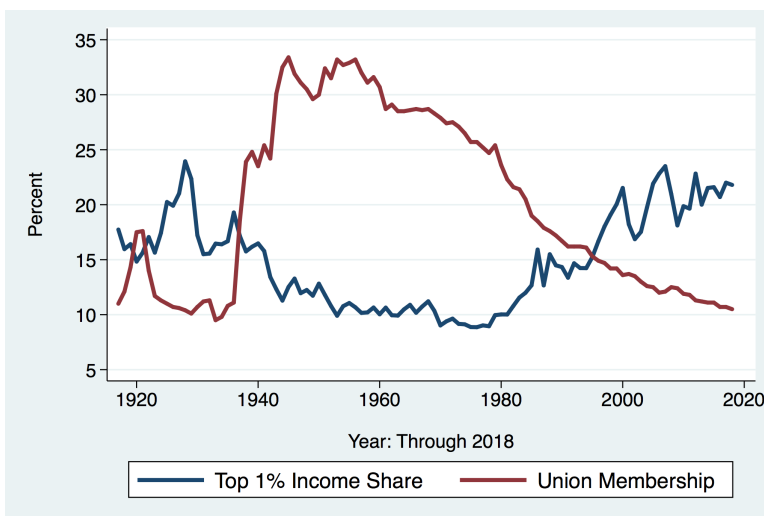


Why?

- Declining unionization
- Globalization
- Competition policy
- Cheap technology

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Declining Unionization



Unionization Rates

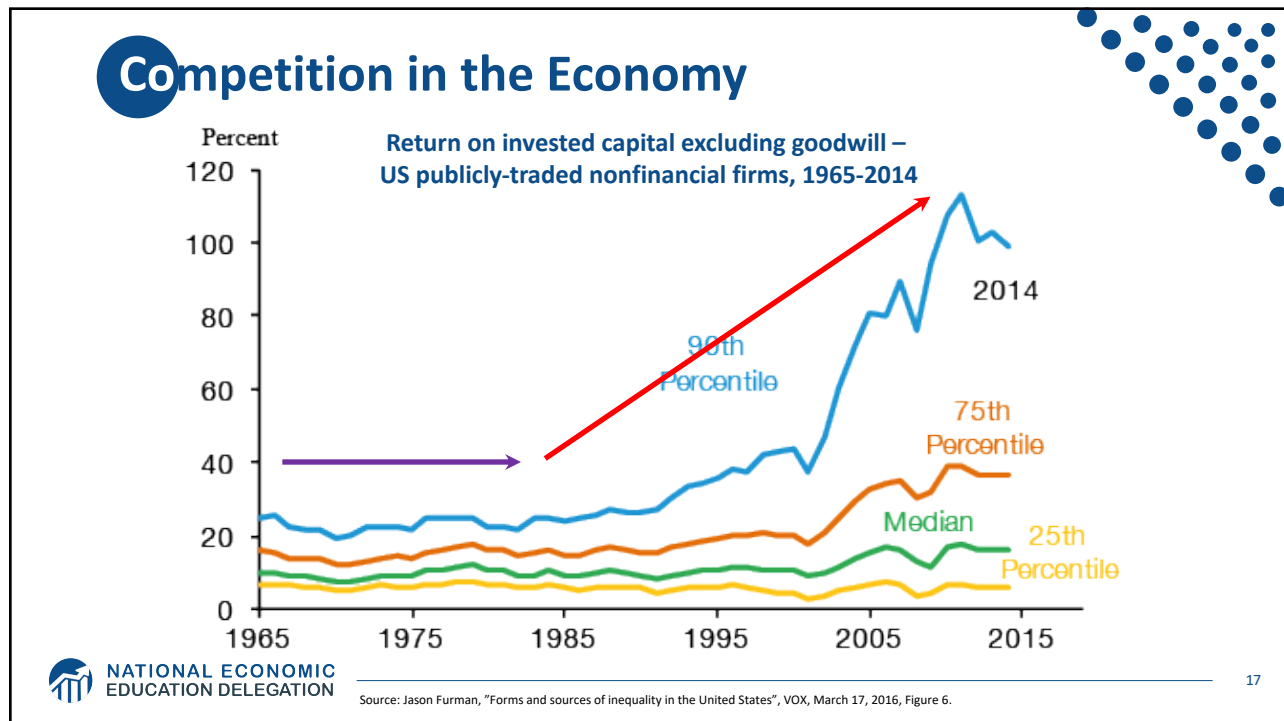
- **1983:** 20.1%
- **2021:** 10.3%

Unionization Rates

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

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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

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Technology can Hurt Low Income Workers



Early on, technology was good to low income workers



Until it was bad for them....

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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:**

- 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:**

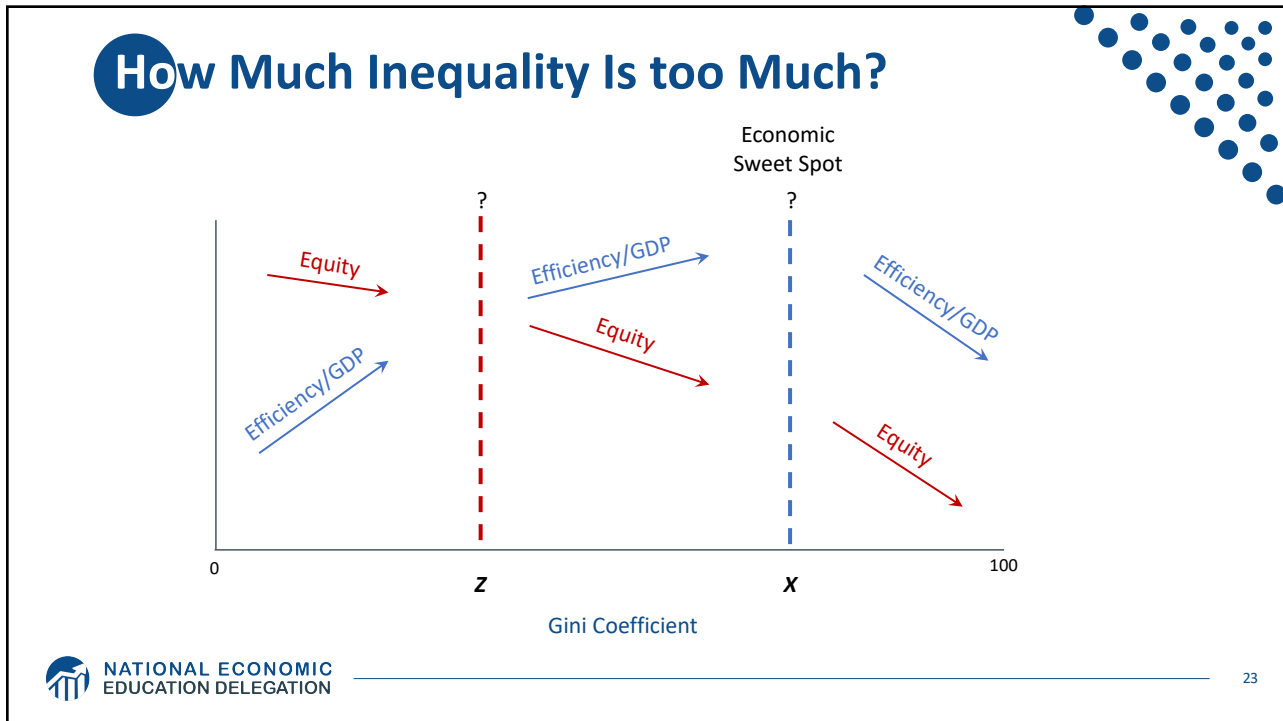
- Reduce individual motivation
- Slow economic growth

- **Too much inequality may also:**

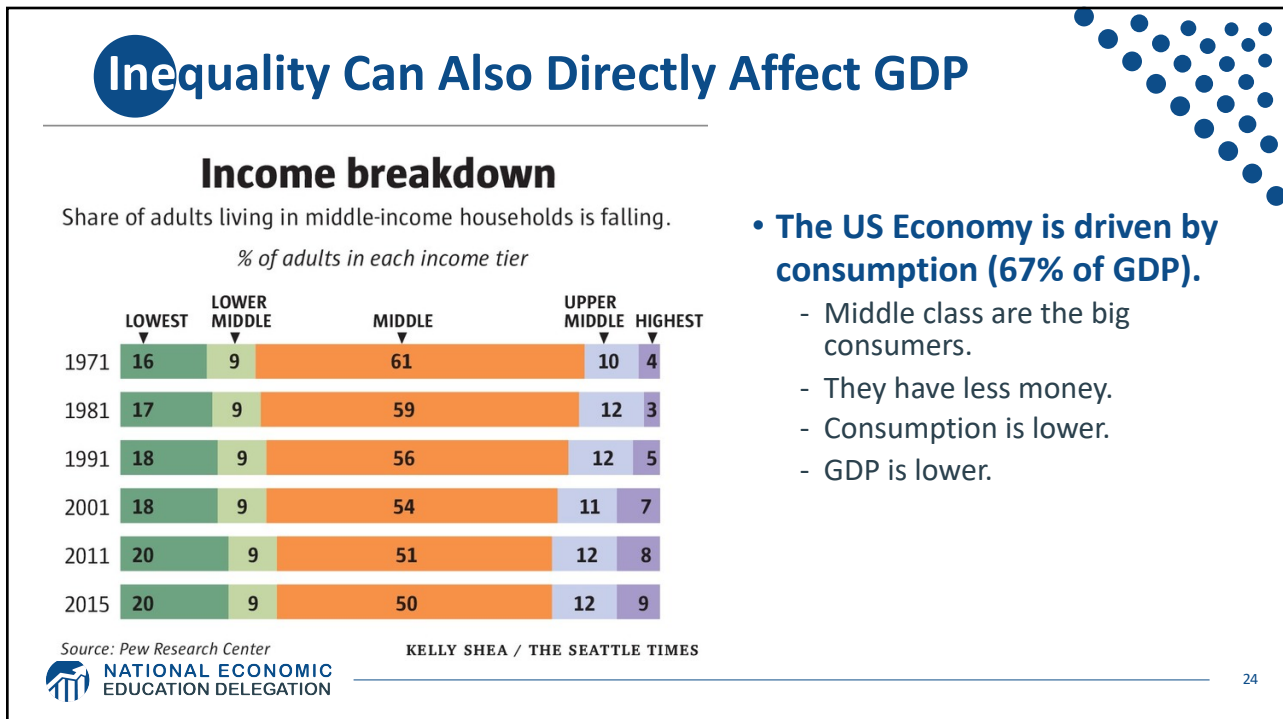
- Divide society
- Distort political environment
- Reduce political participation
- Reduce investments in public goods
 - Education
 - Environmental protections



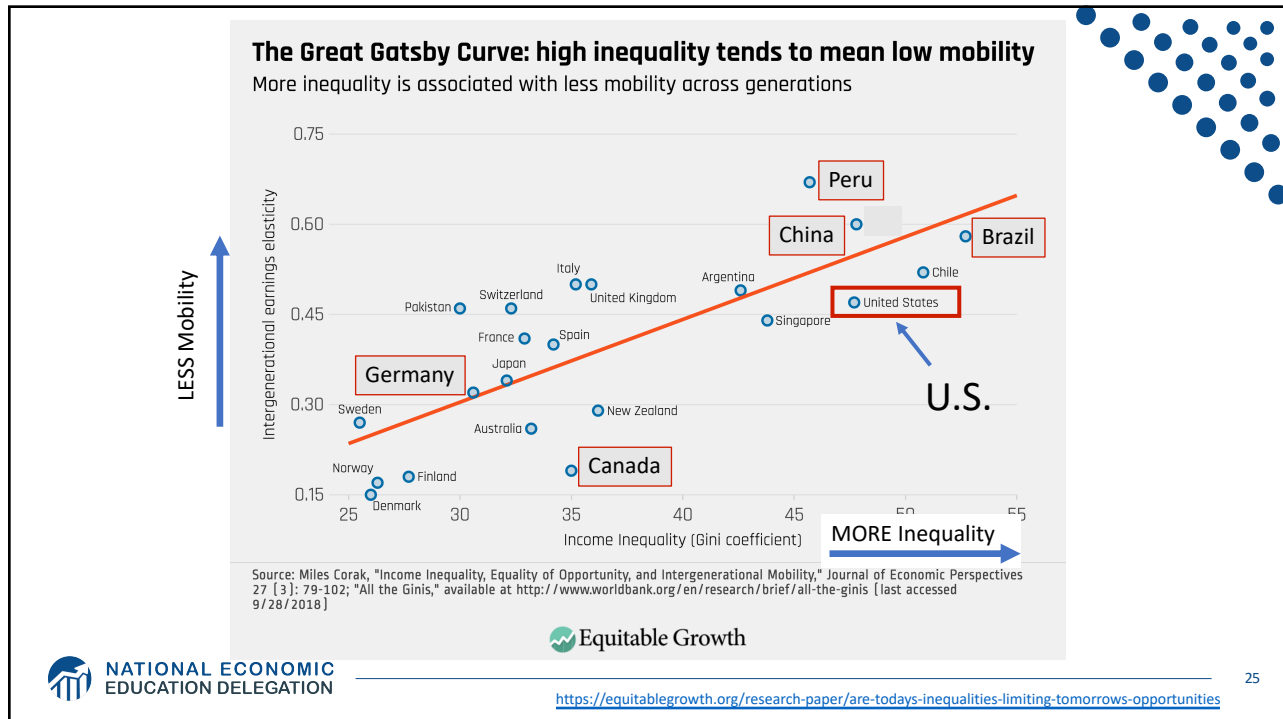
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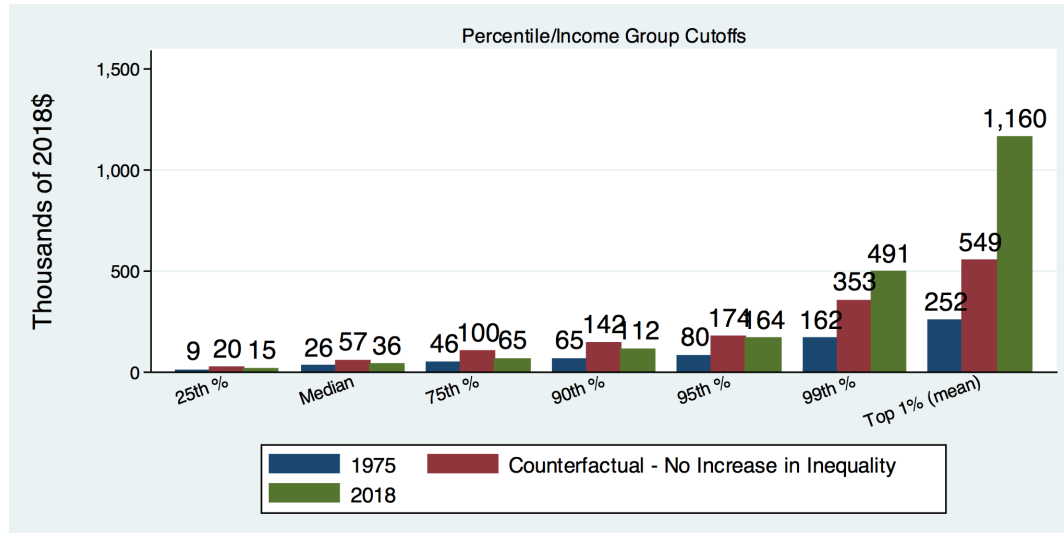
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Too Much Inequality Can:

- 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.

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How Has Inequality Influenced Incomes?



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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?**

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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



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Summary

- **Income inequality is clearly increasing.**

- The economy is clearly favoring owners of productive resources over labor.

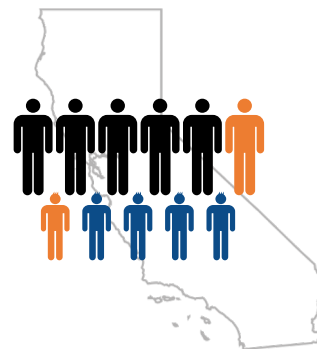
- **The causes appear to be largely driven by:**

- 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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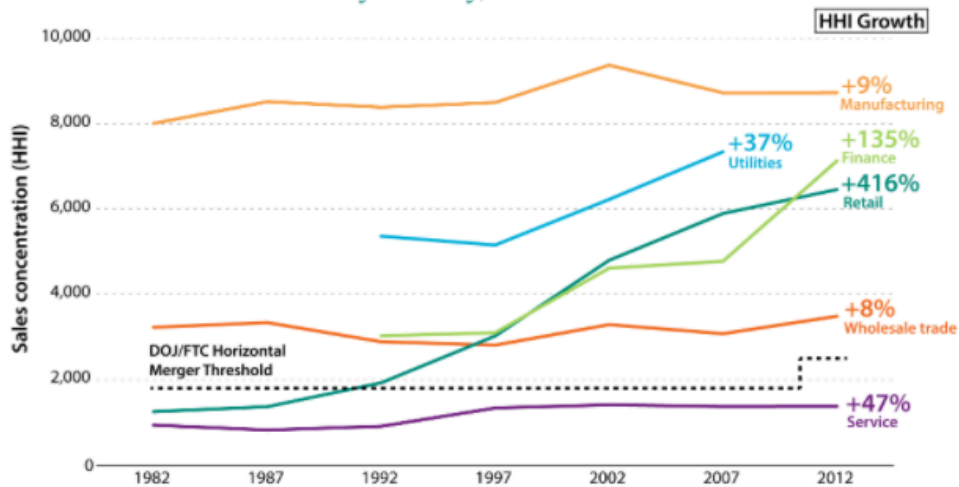
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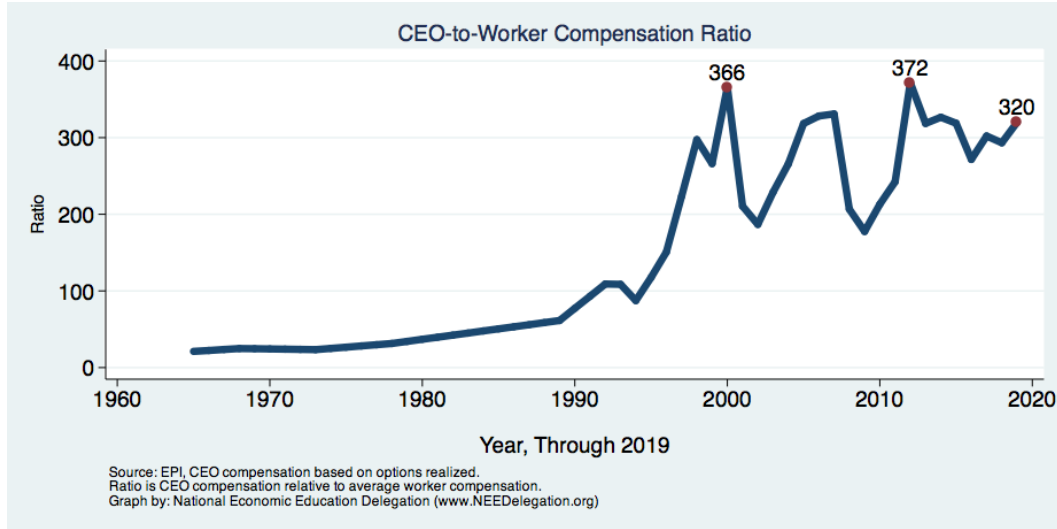
Growing Revenue Concentration

Market Concentration and Growth by Industry, 1982–2012



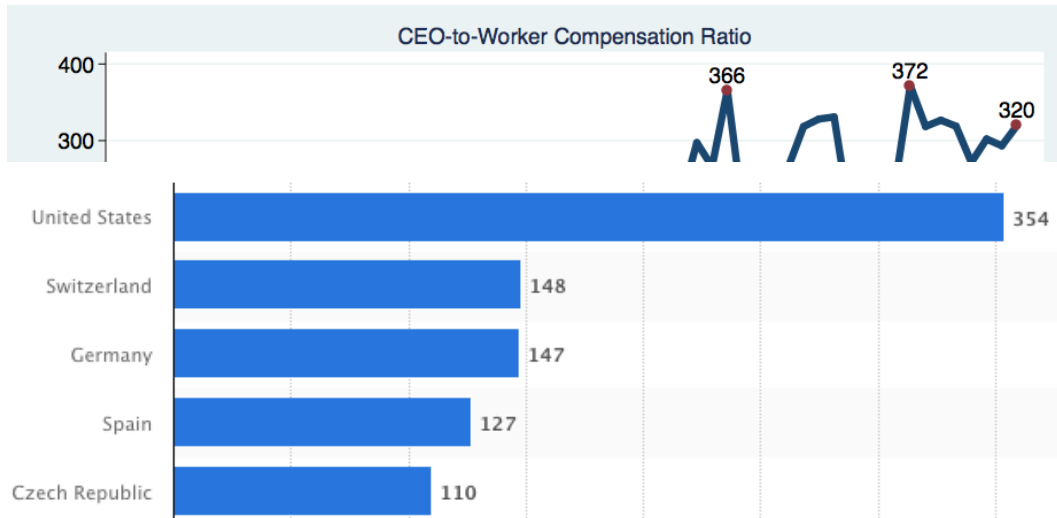
Source: The Hamilton Project, Brookings: The State of Competition and dynamism.

CEO Pay Has Been Growing Rapidly



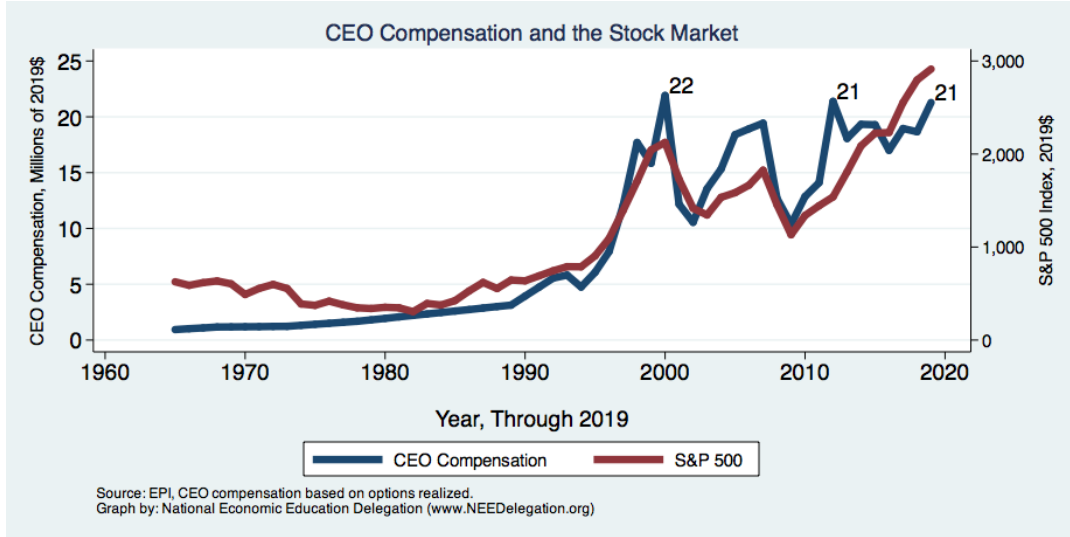
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CEO Pay Has Been Growing Rapidly



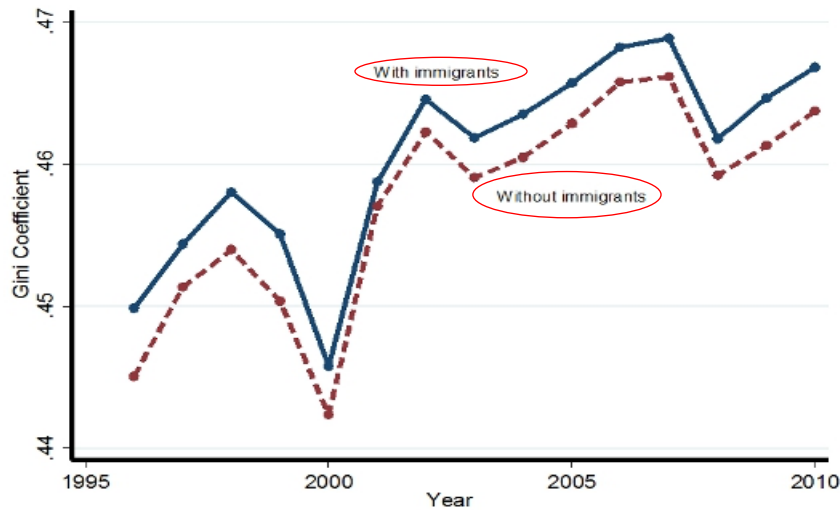
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CEO Compensation – Tied to Stock Prices



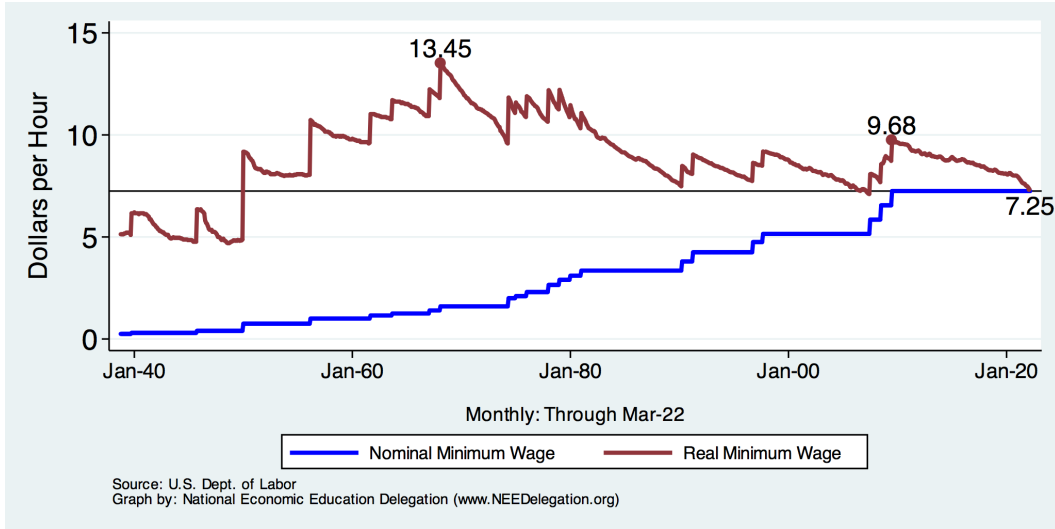
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Immigration and Inequality



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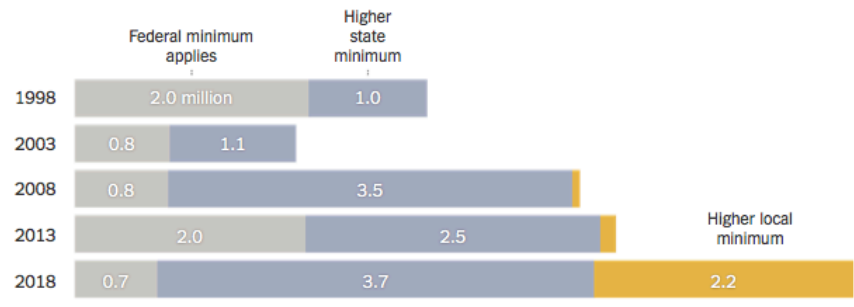
History of the Federal Minimum Wage



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

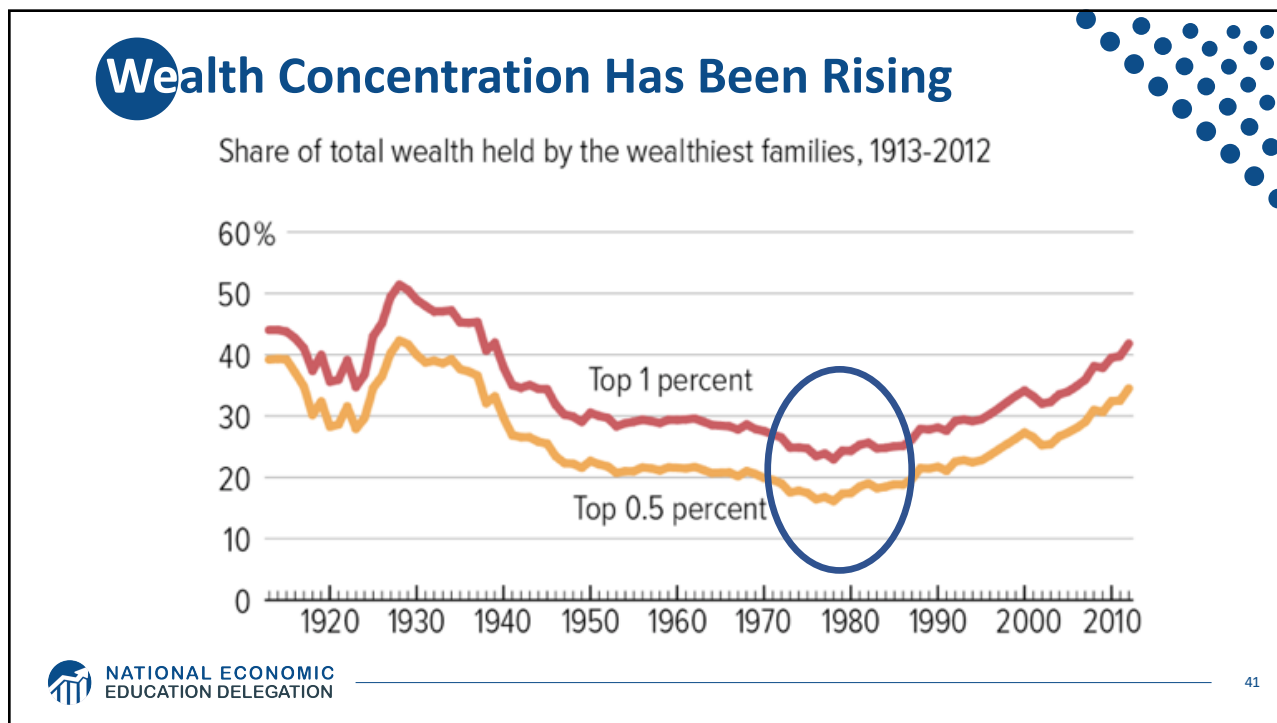
Millions of workers:



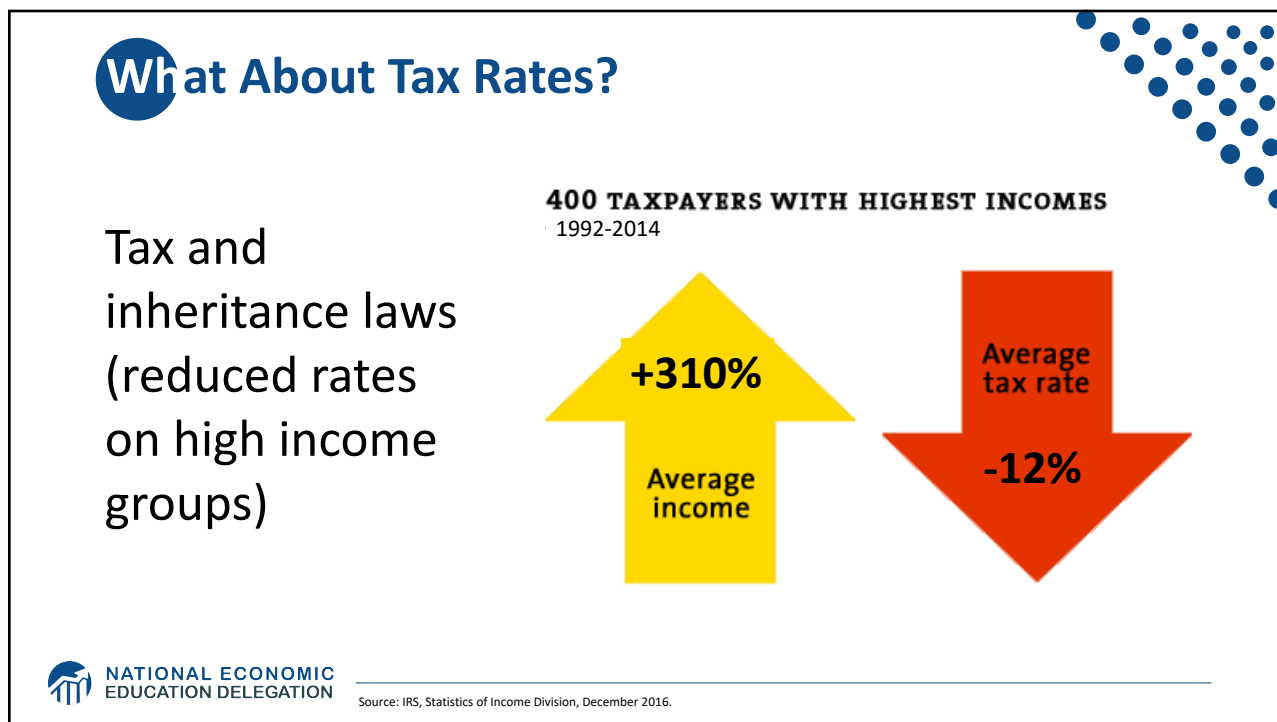
Includes farm workers and tipped incomes

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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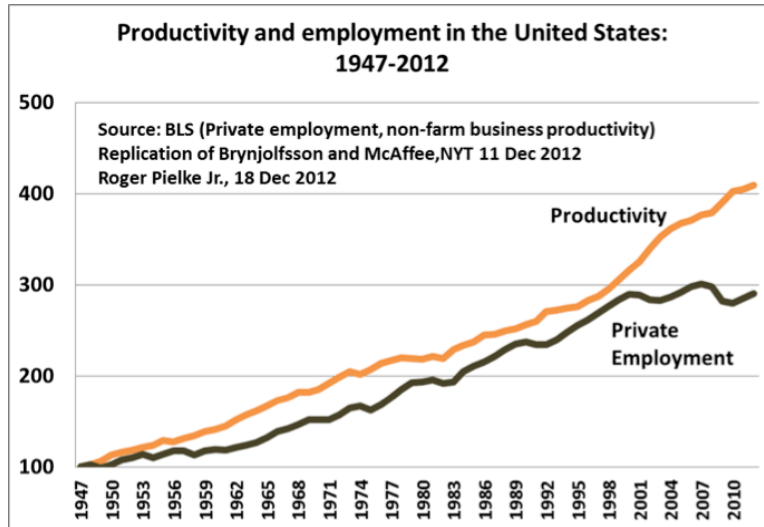


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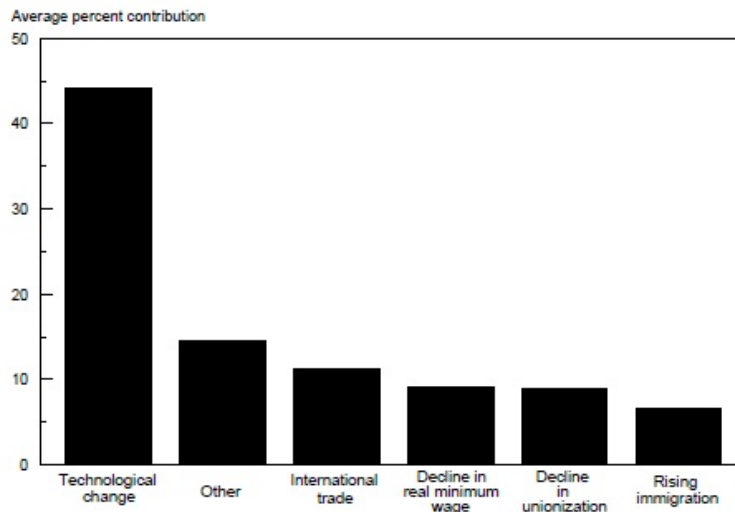
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Technology Benefits Ownership over Labor



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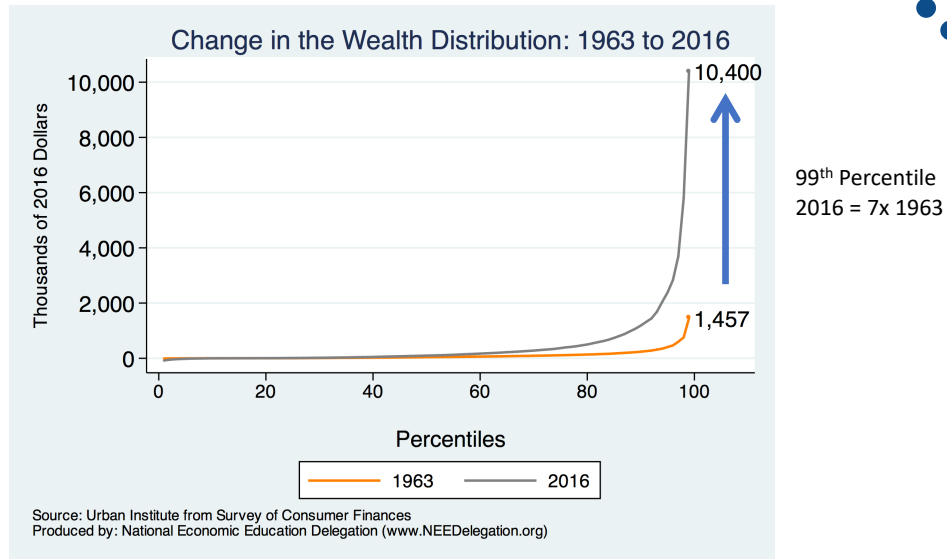
Sources of Inequality Through Late 1990s



Source: Federal Reserve Bank of New York.

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Wealth is More and More Concentrated



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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.

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Income Changes from Growing Inequality

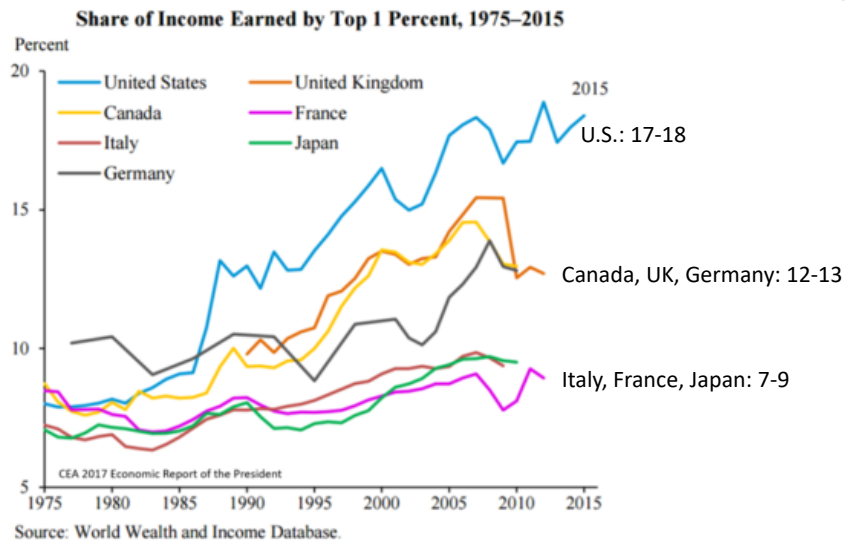
Bottom 90% of Households

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



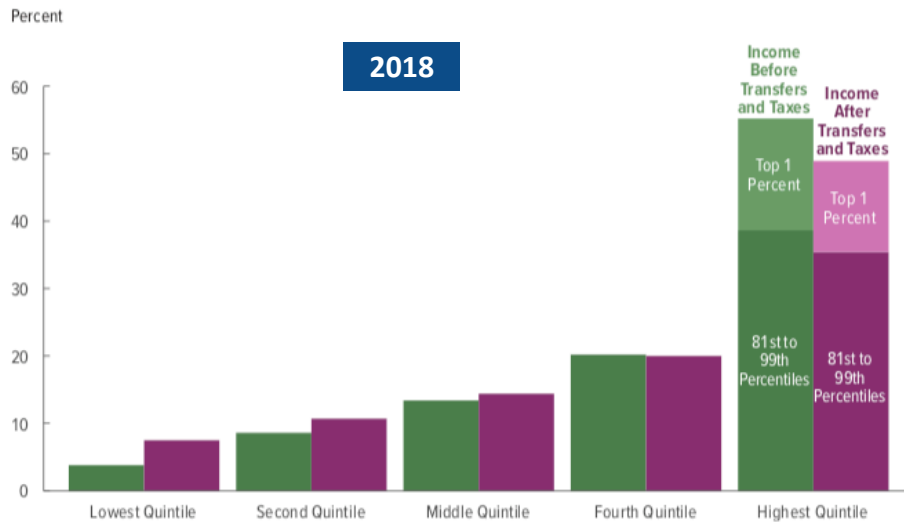
An International Perspective: Comparables



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.

Tax and Transfer Programs: Income Shares



Different Ways of Thinking About Inequality

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

How does wealth differ from income?

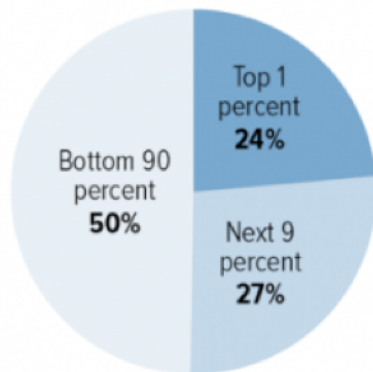
Income is measured over a period of time, say one year.

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

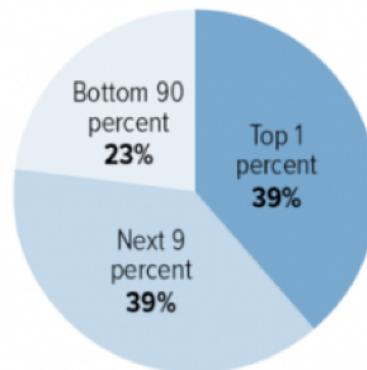
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Wealth Inequality Exceeds Income Inequality

Distribution of before-tax income, 2016

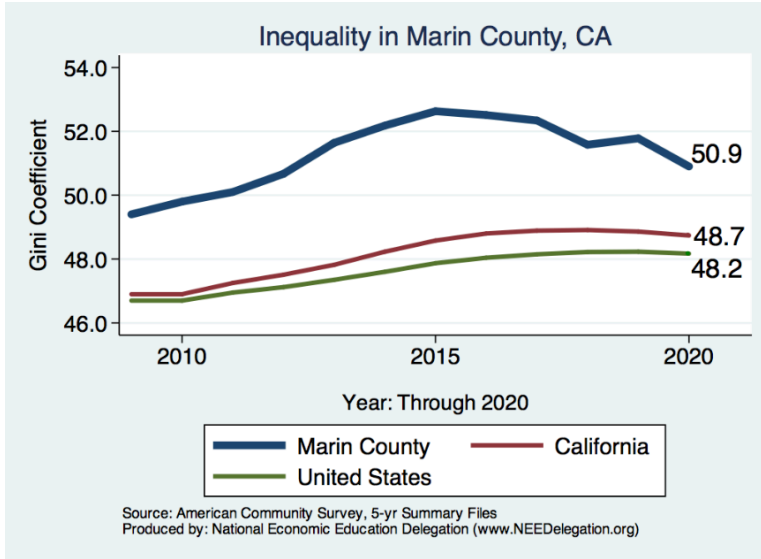


Distribution of wealth, 2016



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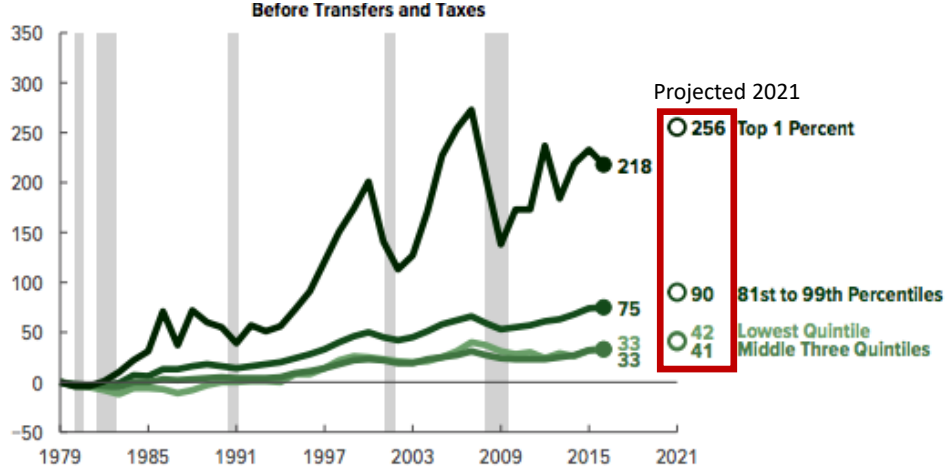
Inequality in Marin



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

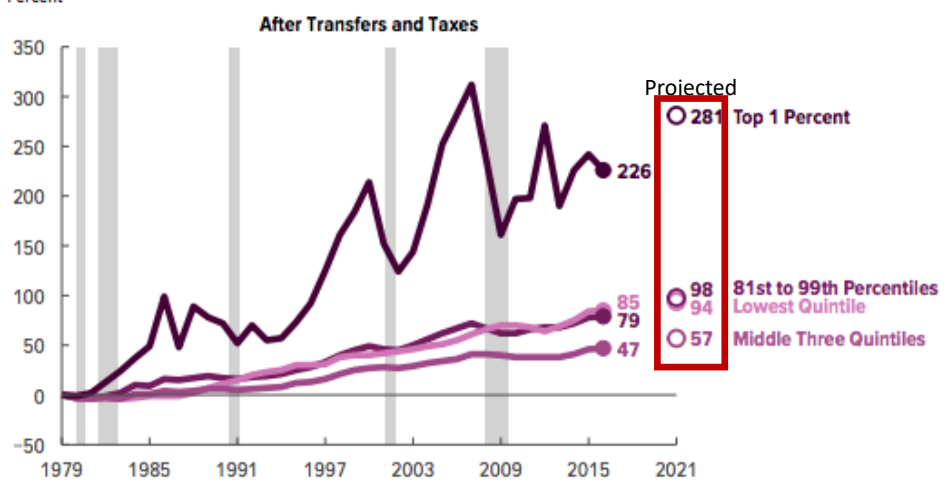
Cumulative Growth of Average Inflation-Adjusted Household Income Since 1979



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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



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