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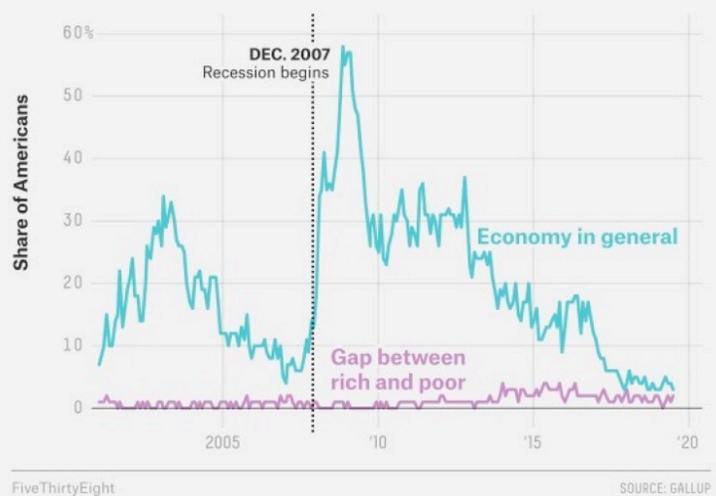
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  - NEED presentations are designed to be nonpartisan
  - It is, however, inevitable that the presenter will be asked for and will provide their own views
  - Such views are those of the presenter and not necessarily those of the National Economic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



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## Economic Inequality: Income

- **Definition:**
  - The extent to which the distribution of income deviates from complete equality
  - The dispersion of income throughout the economy



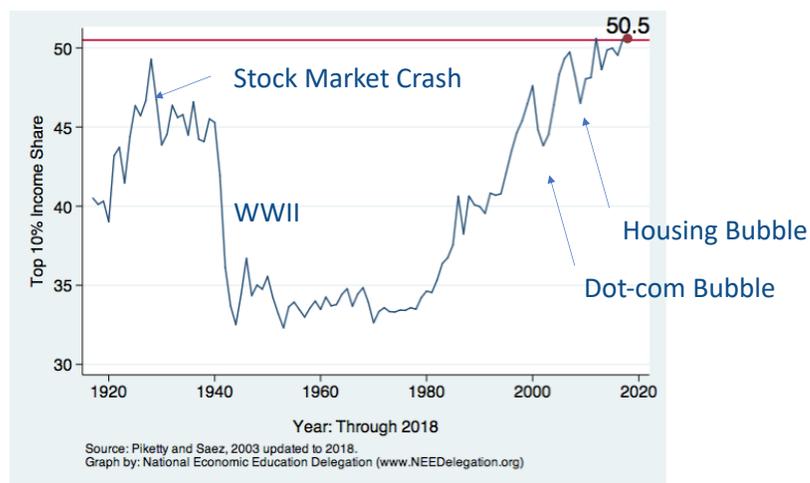
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# Different Ways of Thinking About Inequality

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

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# National Income Inequality: Share of Top 10%



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## Recent Facts on Income Inequality

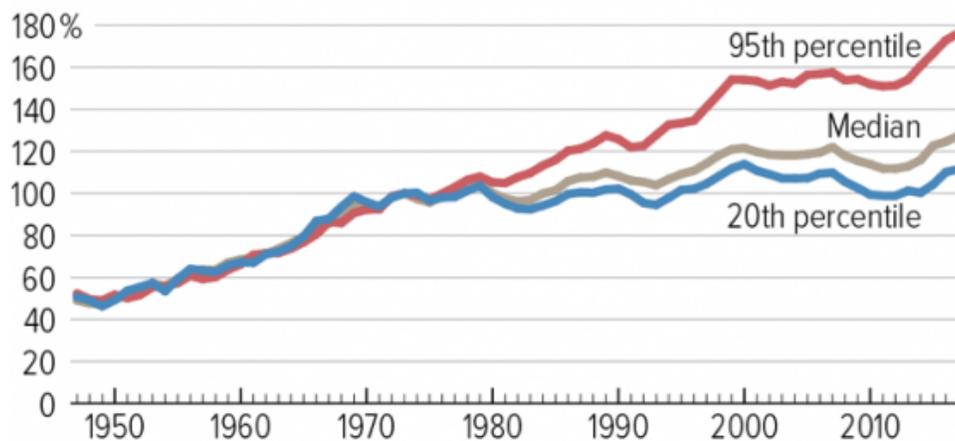
- **Beginning in the 1970s, the income gap widened.**
  - Income in the middle and lower parts of the distribution slowed
  - Incomes at the top continued to grow strongly
  - Income shares at the very top of the distribution rose to levels last seen more than 80 years ago



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.

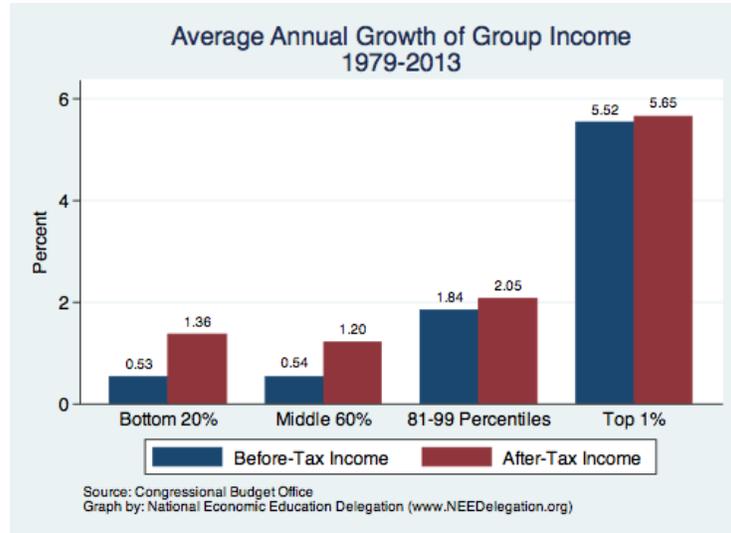
## The Abrupt Increase in Inequality

Real family income between 1947 and 2017, 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.

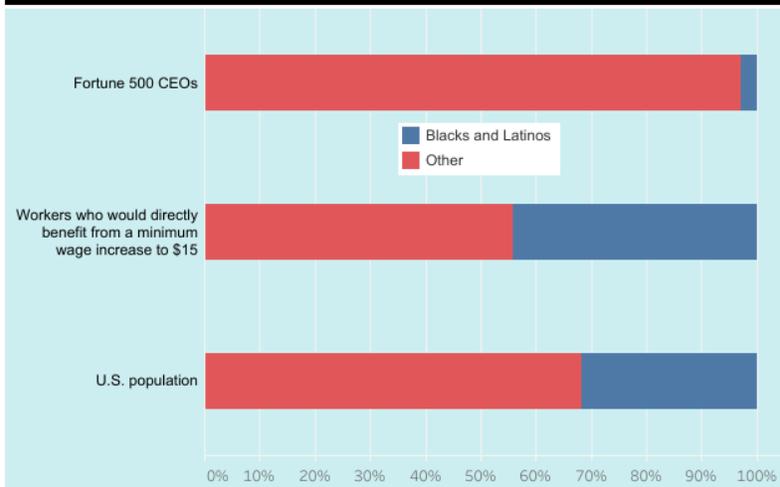
# Growth Has Been Primarily at the Very Top



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## People of Color Are Scarce at Top and Overrepresented at Bottom

U.S. Black and Latino representation, 2018



Sources: Census Bureau, Economic Policy Institute, Fortune, Black Enterprise, and Al Día News

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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

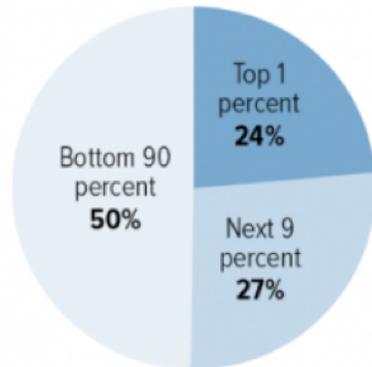
In this report, “middle-income” households are defined as those with an income that is 67% to 200% (two-thirds to double) of the overall median household income, after incomes have been adjusted for household size.



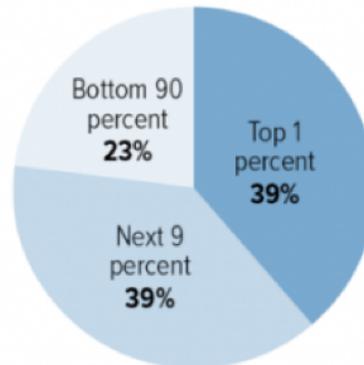
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# Wealth Inequality Exceeds Income Inequality

Distribution of before-tax income, 2016

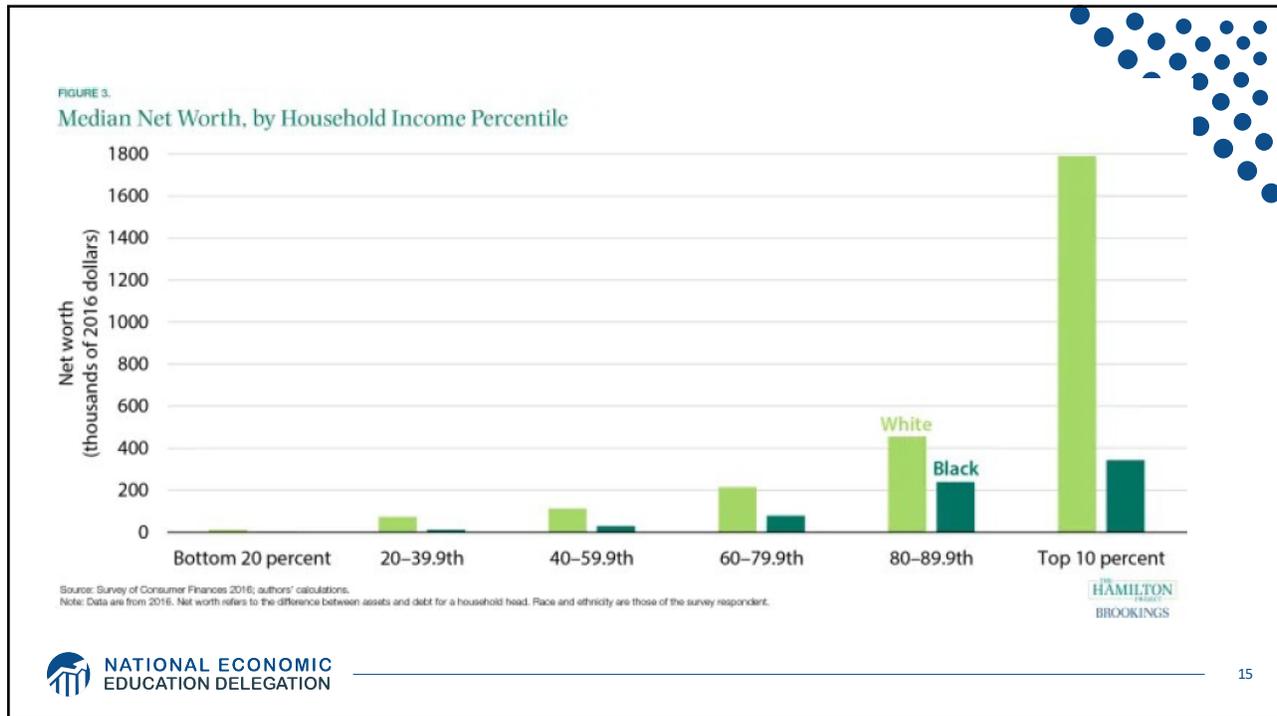


Distribution of wealth, 2016

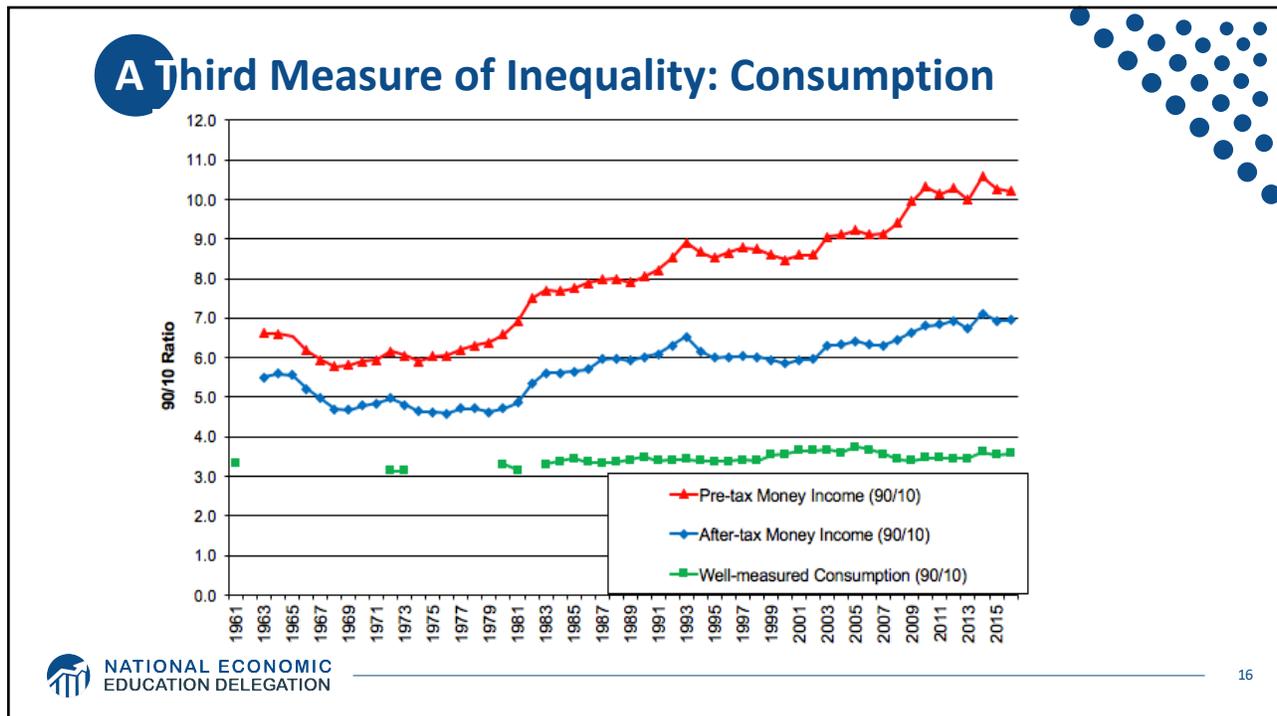


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Source: Chad Stone, Danilo Trisi, Arloc Sherman, and Roderick Taylor, “A Guide to Statistics on Historical Trends in Income Inequality,” Center on Budget and Policy Priorities, Policy Futures, Dec. 11, 2018.



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## Consumption Inequality

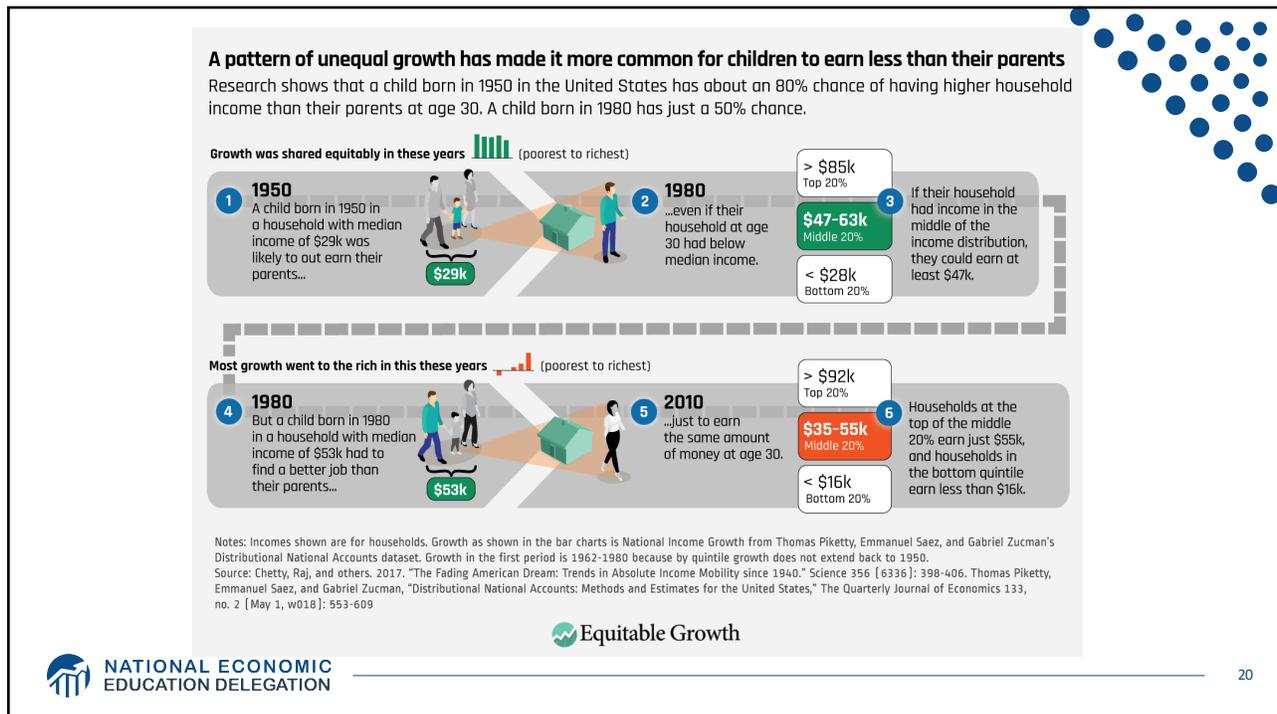
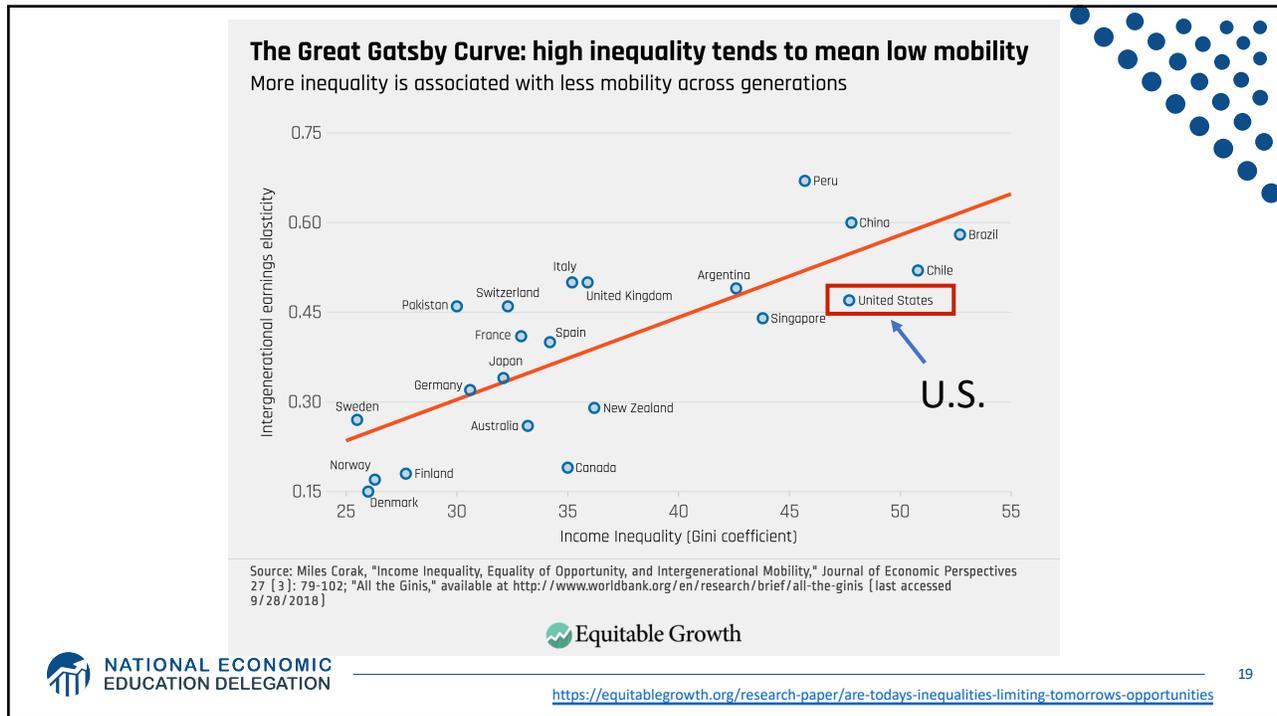
- Consumption is another important metric for judging inequality
- Arguably a better indicator of “well-being”
- Extremely difficult to measure
- Growing evidence that consumption inequality has also increased

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## Summary: Consumption Inequality

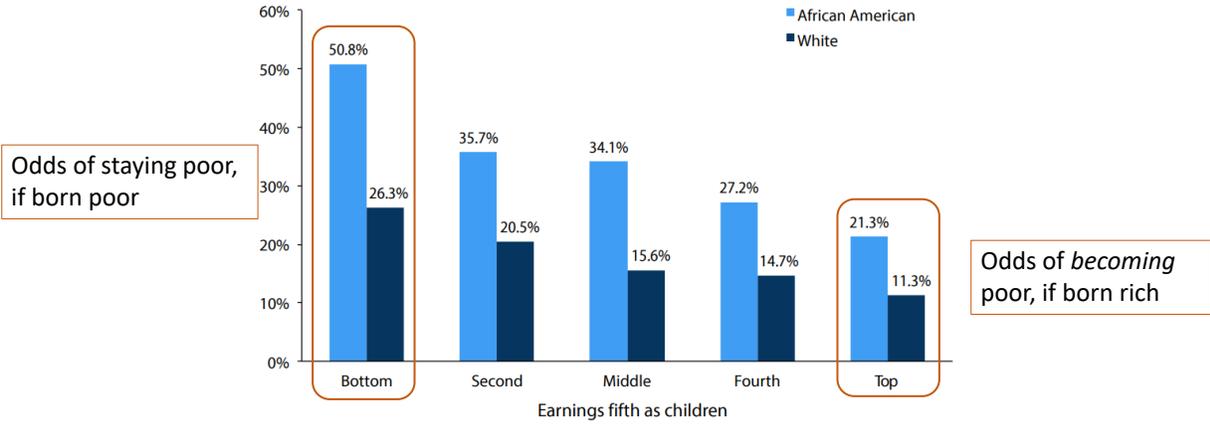
- Early research indicated that although income inequality may be increasing, consumption inequality may not be.
  - How is this possible? Borrowing, or otherwise smoothing consumption.
- Mounting evidence that it is increasing along with income and wealth inequality.
- Consensus reached? No.

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## U.S. – racial differences

**Figure 3L** Share of children from various earnings fifths ending up in the bottom fifth as adults, by race



Source: Authors' analysis of Mazumder (2011, Table 7)

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## Where Does Inequality Come From?

### • Labor Characteristics

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

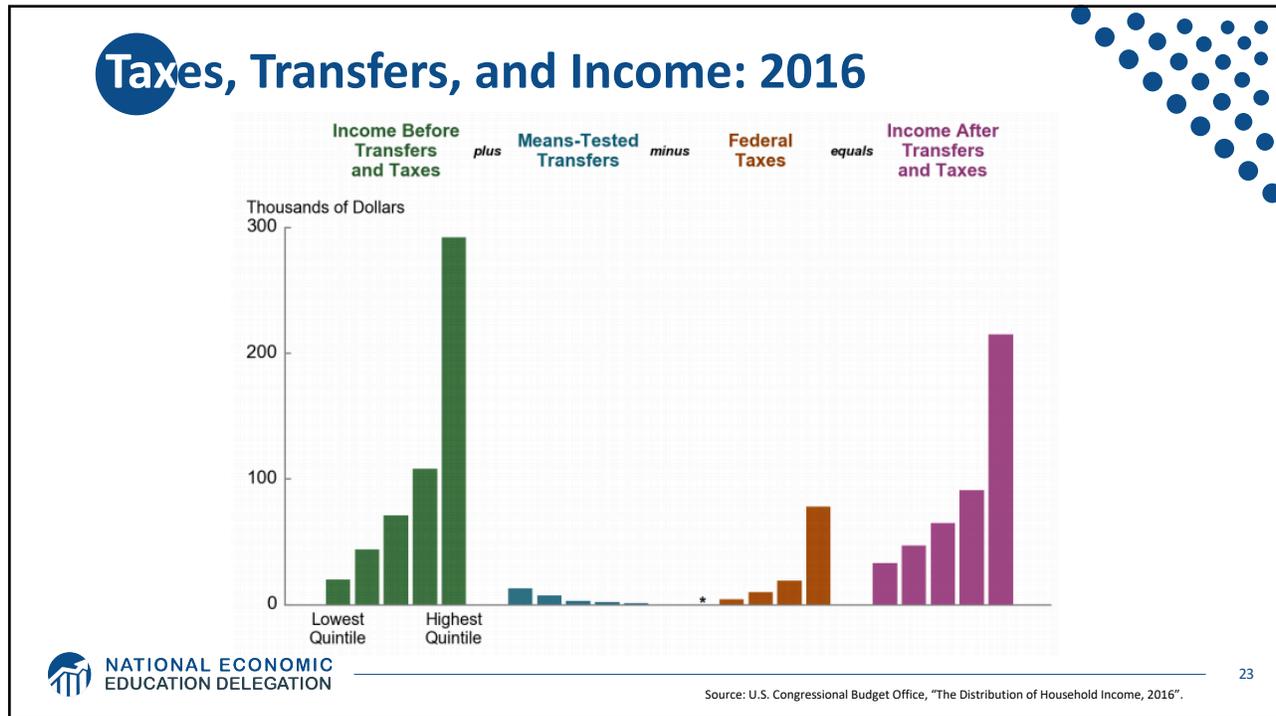
### • Market Forces

- Technology
- Changing demand patterns
- Competition for labor

### • Government Policy

- Market influence
- Redistribution

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## What is driving increasing inequality?

- **Primary drivers:**
  - Technology
  - Globalization
  - Institutions
- **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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## 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



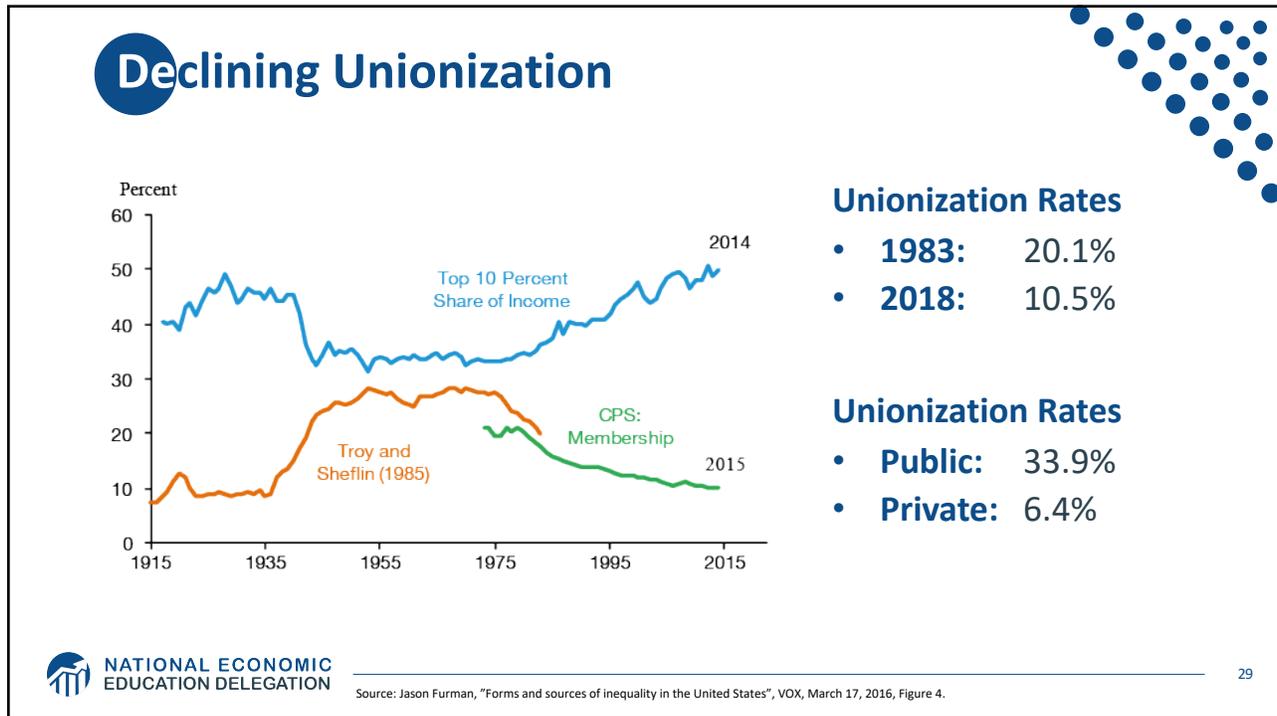
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## Mechanisms for the Effects of Globalization

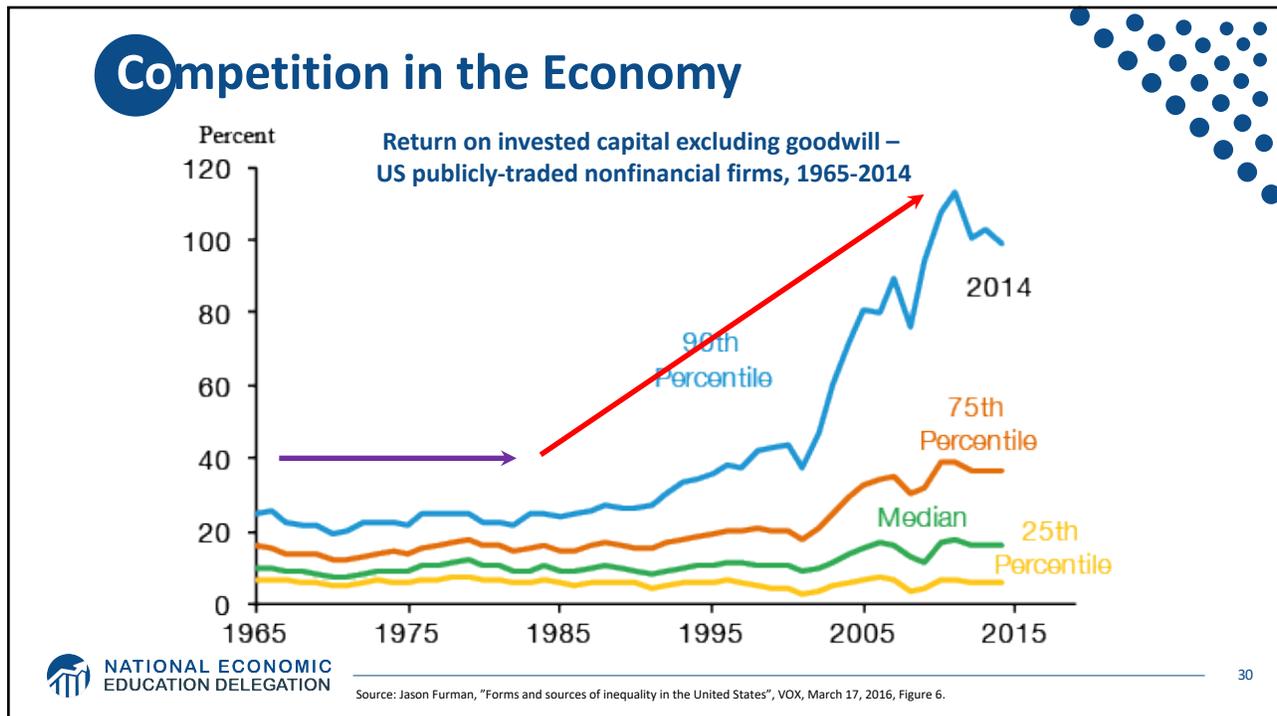
- **Merchandise trade**
  - Importing goods that are made with low-skilled workers and exporting goods that are made with high-skilled workers
    - Lowers the wages of unskilled relative to skilled
      - making the distribution of income **less equal**
- **Outsourcing**
  - Similar channel as with merchandise trade
- **Trade in services**
  - US imports of middle-skill services: business and some professional services
- **Intuitively: The same as if we were to move the actual workers.**



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## Government Policy and Racial Inequality

- Product of a long historical process of discrimination with at least two reinforcing sets of policies.
  - Policies that govern the spatial distribution of the black population.
    - Restrictive covenants, redlining, and general housing and lending discrimination
  - Policies that have a disparate impact on black individuals because of their locations.
    - The original version of Michigan Senate Bill 897 exempted individuals from this work requirement conditional on residing in a county with an unemployment rate above 8.5 percent. The higher unemployment rates in rural counties would disproportionately exempt white Medicaid recipients from the work requirement within the bill.



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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.
    - Or, inequality concentrates resources among investors.
  - 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: 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
- **Initiatives whose impacts cross neighborhood and class lines and increase upward mobility specifically for black men**
  - Mentoring programs for black boys, efforts to reduce racial bias among whites, interventions to reduce discrimination in criminal justice, and efforts to facilitate greater interaction across racial groups.

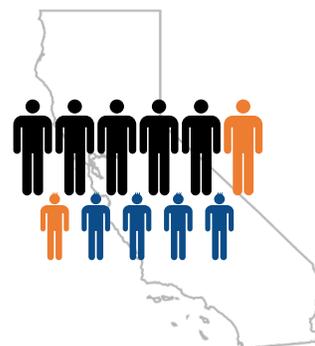


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## Summary

- **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?

[www.NEEDelegation.org](http://www.NEEDelegation.org)

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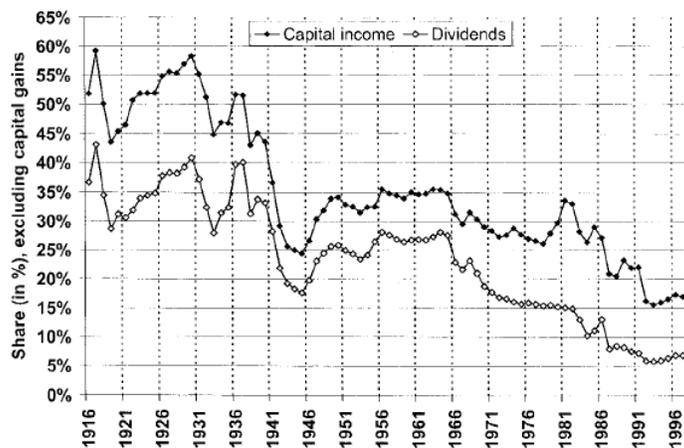


FIGURE V

The Capital Income Share in the Top 0.5 Percent, 1916–1998

Series display the share of capital income (excluding capital gains) and dividends in total income (excluding capital gains) for the top 0.5 percent income quantile.

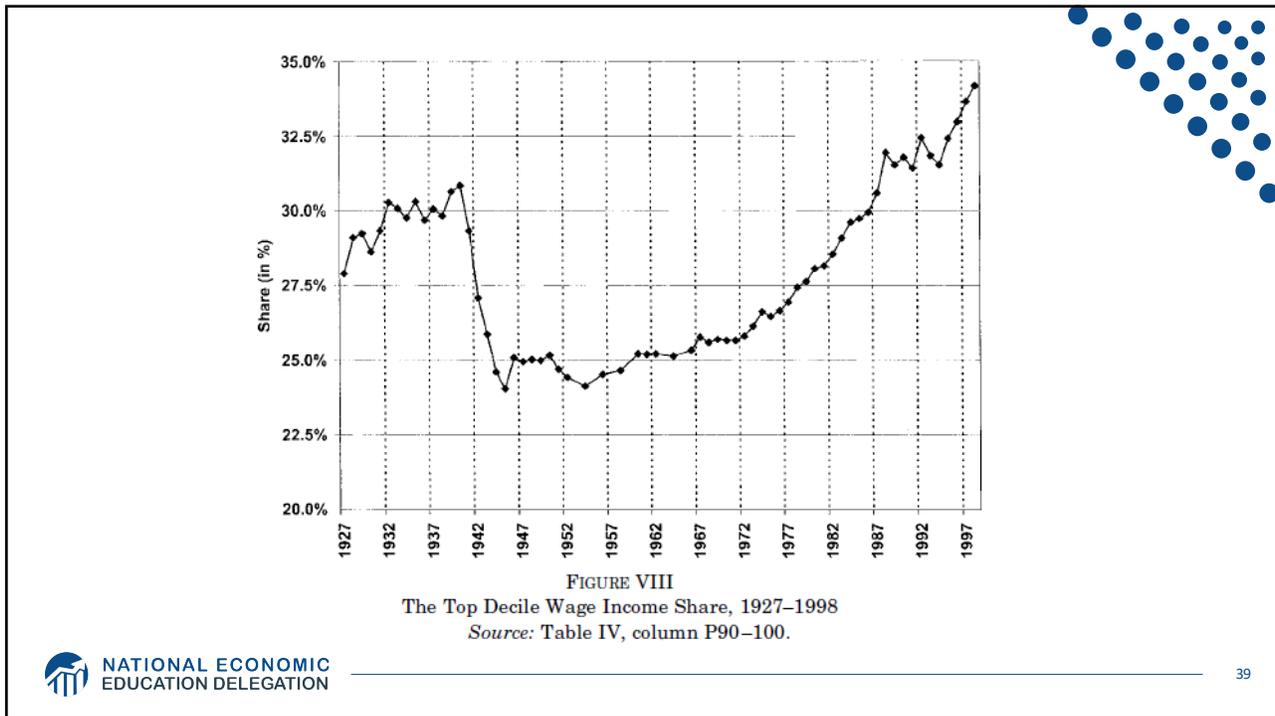
Source: Authors' computations are based on income tax returns statistics (series reported in Piketty and Saez [2001], Table A7, column P99.5–100).



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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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