


1

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.

 NATIONAL ECONOMIC EDUCATION DELEGATION

2

2

Who Are We?

- **Honorary Board: 54 members**

- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 6 Chairs Council of Economic Advisers
 - o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
 - o Akerlof, Smith, Maskin

- **Delegates: 600+ members**

- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

- **Global Partners: 44 Ph.D. Economists**

- Aid in slide deck development



Credits and Disclaimer

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

- Jon Haveman, Executive Director of NEED

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

- Timothy Smeeding, University of Wisconsin
- Robert Wright, Augustana University

- **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)



Outline

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



5

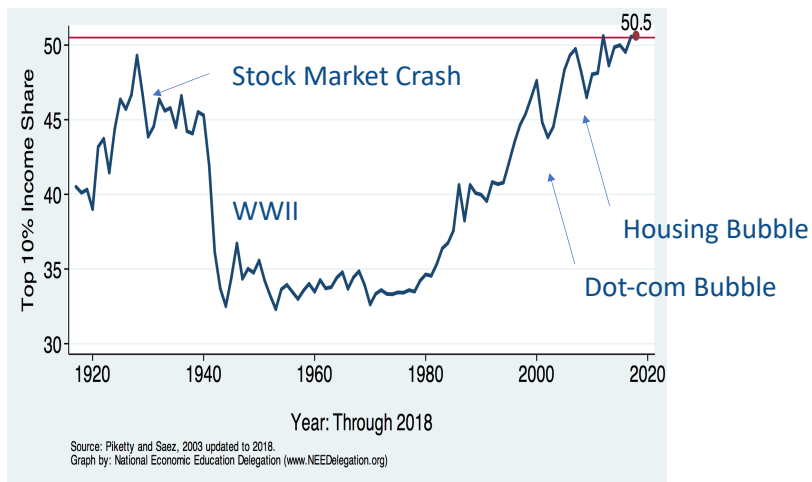
Economic Inequality: Income

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



6

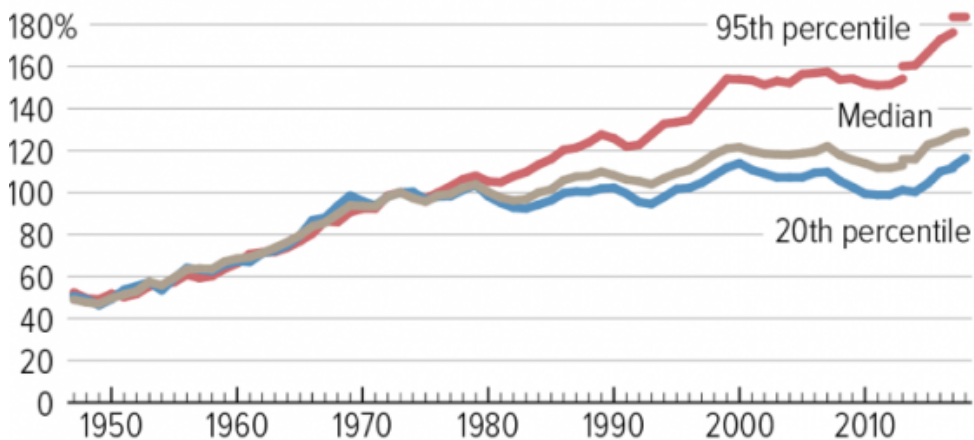
National Income Inequality: Share of Top 10%



7

The Abrupt Increase in Inequality

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



8

Income Changes from Growing Inequality

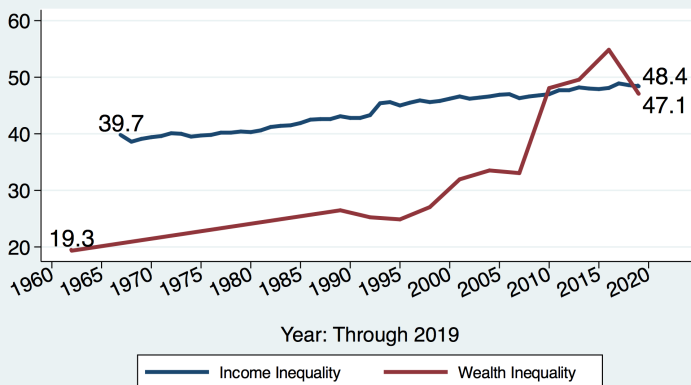
Bottom 90% of Households

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



Income and Wealth Inequality



Income Inequality (Gini)

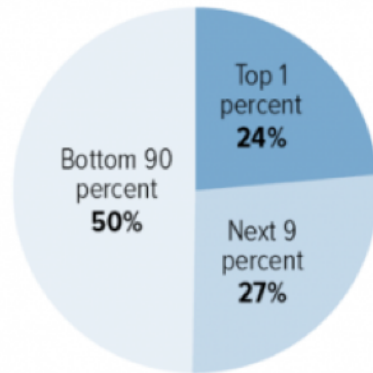
- United States: 48.1%
- Oregon: 45.0%
- Yamhill County: 44.6%

Source: U.S. Census Bureau and Board of Governors
INCOME INEQUALITY is measured by the Gini coefficient.
WEALTH INEQUALITY is the ratio of the mean wealth of the top decile to median overall wealth.
Wealth data are only available for 1962, and at three year intervals beginning in 1989.
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

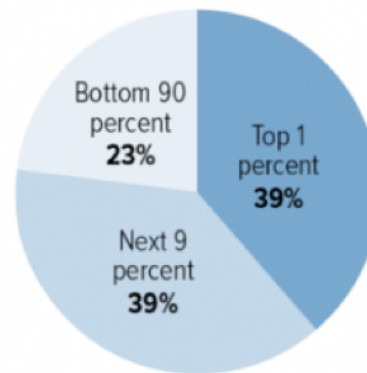


Wealth Inequality Exceeds Income Inequality

Distribution of before-tax income, 2016



Distribution of wealth, 2016



11

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

12

Government Policy and Inequality

- **Market Influence: PRE-distribution**

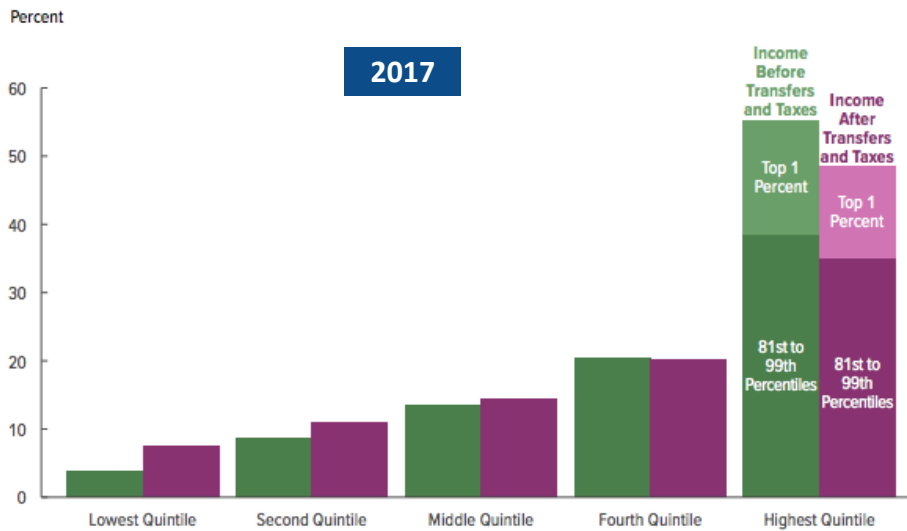
- Characteristics of labor
 - o Access to education
- Effects on labor demand
 - o Market regulation
 - Competition policy
 - o Labor regulations
 - Minimum wage, overtime, health insurance, etc.

- **RE-distribution**

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

13

Tax and Transfer Programs: Income Shares



Source: U.S. Congressional Budget Office, "The Distribution of Household Income, 2016", Average Income Before and After Means-Tested Transfers and Federal Taxes, by Income Group, 2016.

14

Dramatically Less Progressivity in the Tax Code



15

Market Forces and Inequality

• Changing demand patterns

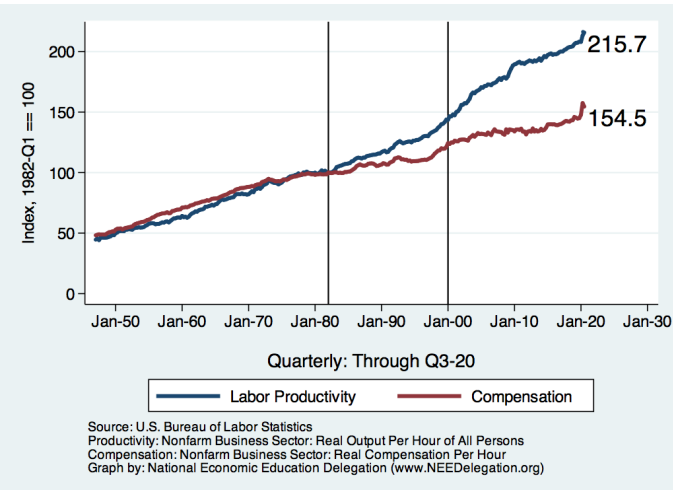
- Technology
- Globalization
- Industry composition
 - PCs instead of typewriters
 - Services instead of goods
 - Professional services instead of personal services

• Competition in labor markets

- Unionization
- Market concentration

16

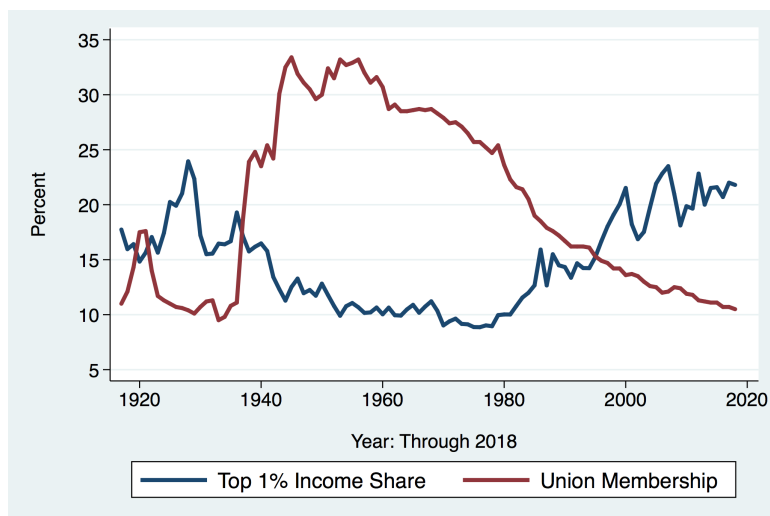
Labor Income is Unhinged from Productivity



Why?

- Declining unionization
- Globalization
- Competition policy
- Cheap technology

Declining Unionization



Unionization Rates

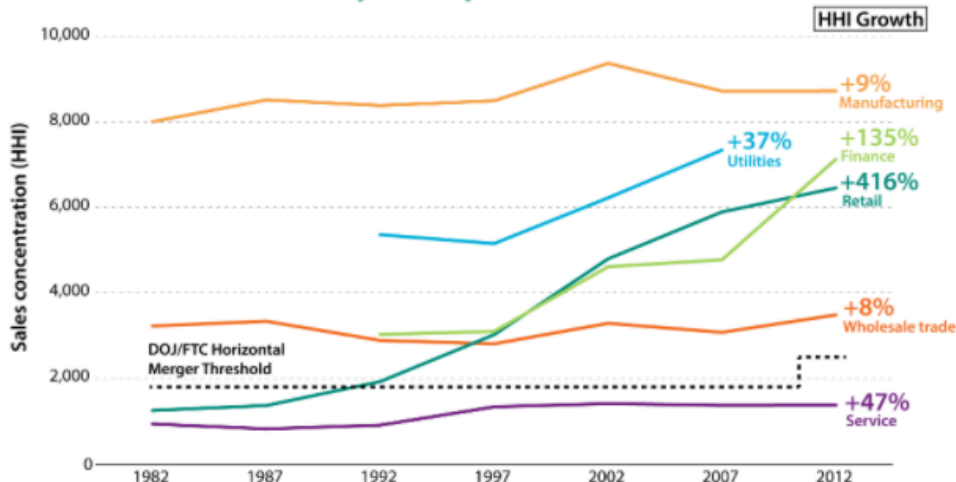
- **1983:** 20.1%
- **2020:** 10.8%

Unionization Rates

- **Public:** 34.8%
- **Private:** 6.3%

Growing Revenue Concentration

Market Concentration and Growth by Industry, 1982–2012



19

Technology can Hurt Low Income Workers



Early on, technology was good to low income workers



Until it was bad for them....

20

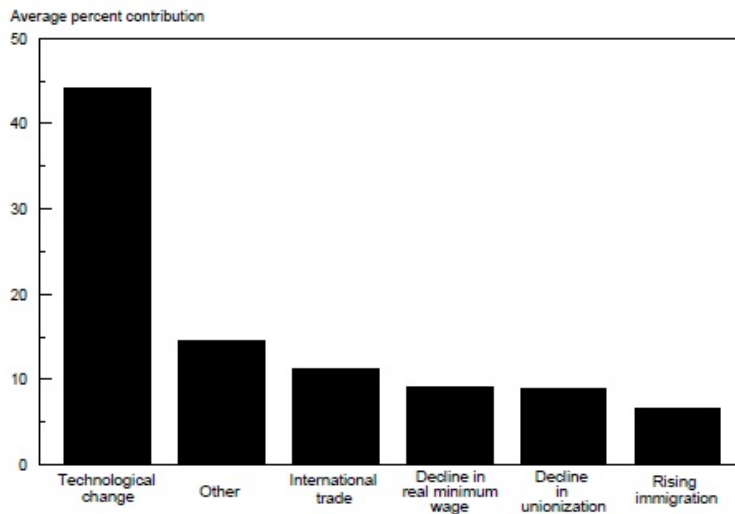
Globalization

- **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



21

Sources of Inequality Through Late 1990s



Source: Federal Reserve Bank of New York.



22

Why Does Inequality Matter?

- **Too little inequality can:**

- Reduce individual motivation
- Slow economic growth

- **Too much inequality can:**

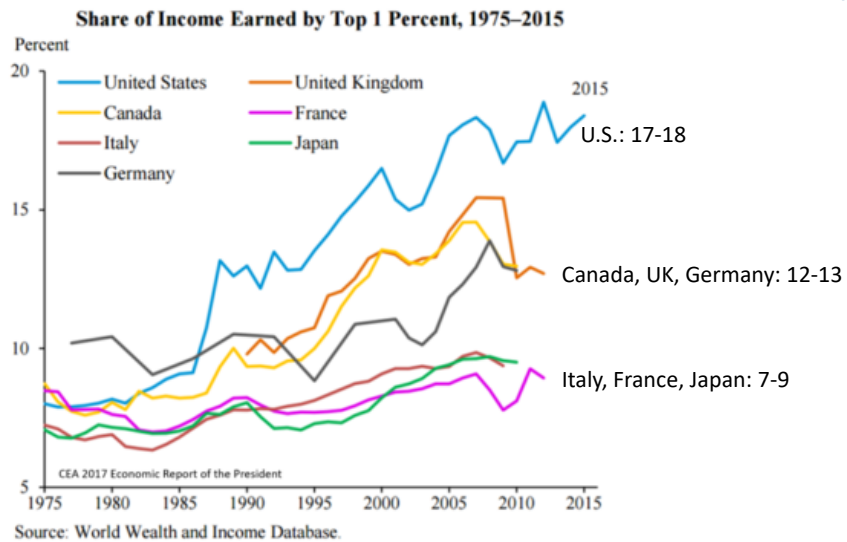
- Reduce individual motivation
- Slow economic growth

- **Too much inequality may also:**

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



An International Perspective: Comparables



Addressing Inequality: Long Term

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

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



NATIONAL ECONOMIC
EDUCATION DELEGATION

27

Summary

- **Income inequality is clearly increasing.**

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

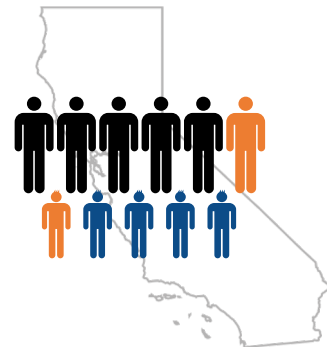
- **The causes appear to be largely driven by:**

- 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.**



NATIONAL ECONOMIC
EDUCATION DELEGATION

28

Thank you!

Any Questions?

www.NEEDelegation.org

Jon D. Haveman, Ph.D.

Jon@NEEDelegation.org

Contact NEED: info@needelegation.org

Submit a testimonial: www.NEEDelegation.org/testimonials.php

Become a Friend of NEED: www.NEEDelegation.org/friend.php



NATIONAL ECONOMIC
EDUCATION DELEGATION

29

29

Available NEED Topics Include:

- Coronavirus Economics
- Climate Change
- Economic Inequality
- Economic Mobility
- US Social Policy
- Trade and Globalization
- Minimum Wages
- The U.S. Economy
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- Black-White Wealth Gap
- Autonomous Vehicles



NATIONAL ECONOMIC
EDUCATION DELEGATION

30

30