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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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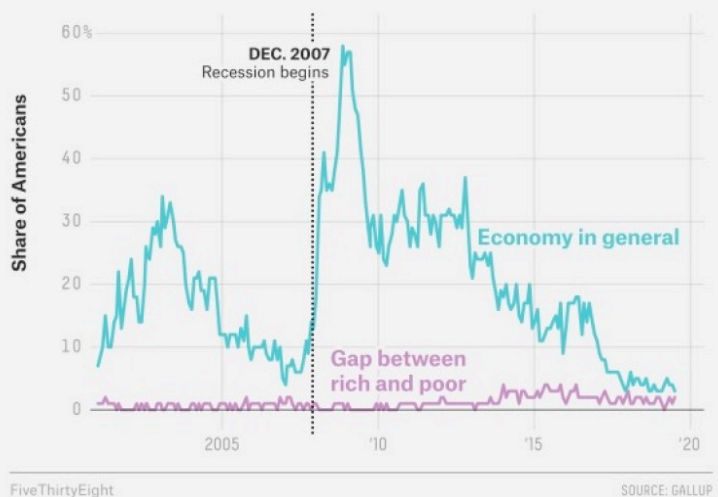
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- **This slide deck was authored by:**
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  - It is, however, inevitable that the presenter will be asked for and will provide their own views
  - Such views are those of the presenter and not necessarily 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**
- What happened?
- Does it matter?
- Is it a problem?
- What to do about it

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## Income Inequality

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



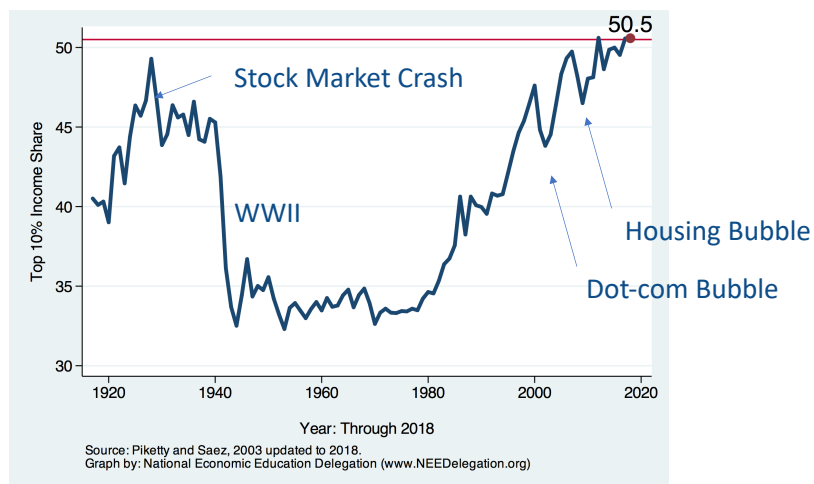
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## Different Ways of Thinking About Inequality

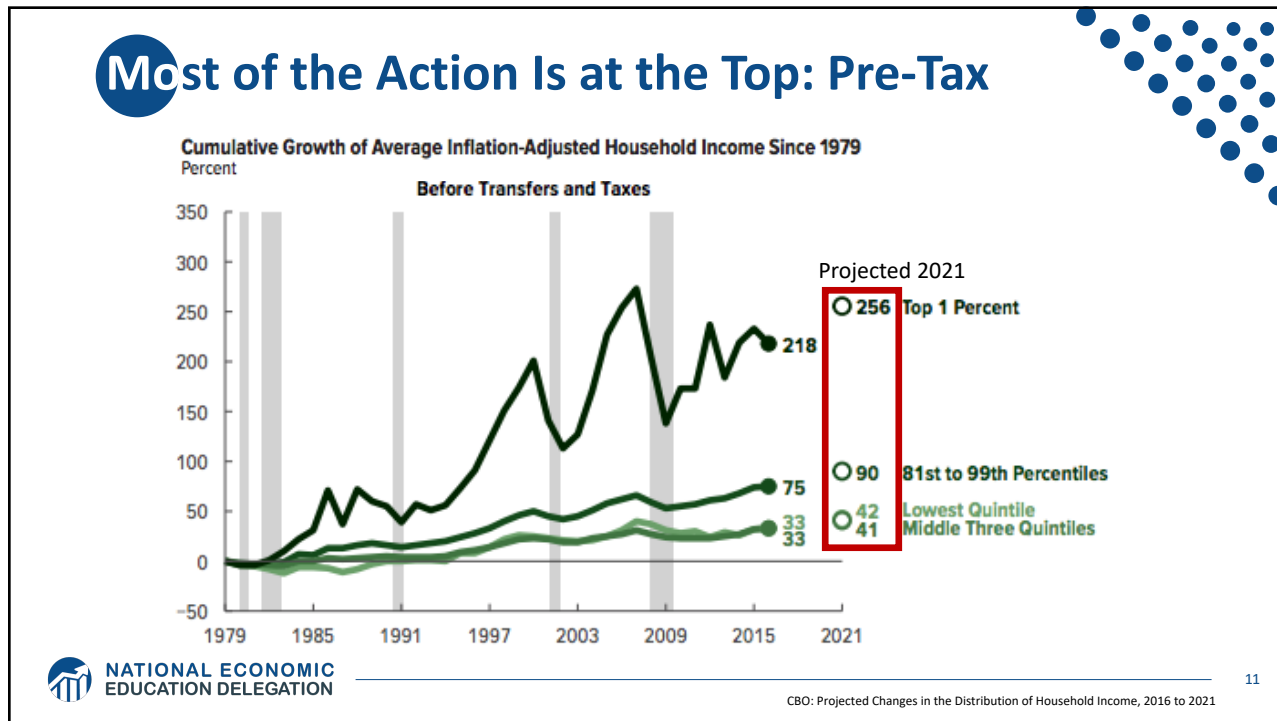
- **Income Inequality**
  - Before taxes and transfers
  - After taxes and transfers
- **Wealth Inequality**
- **Consumption Inequality**

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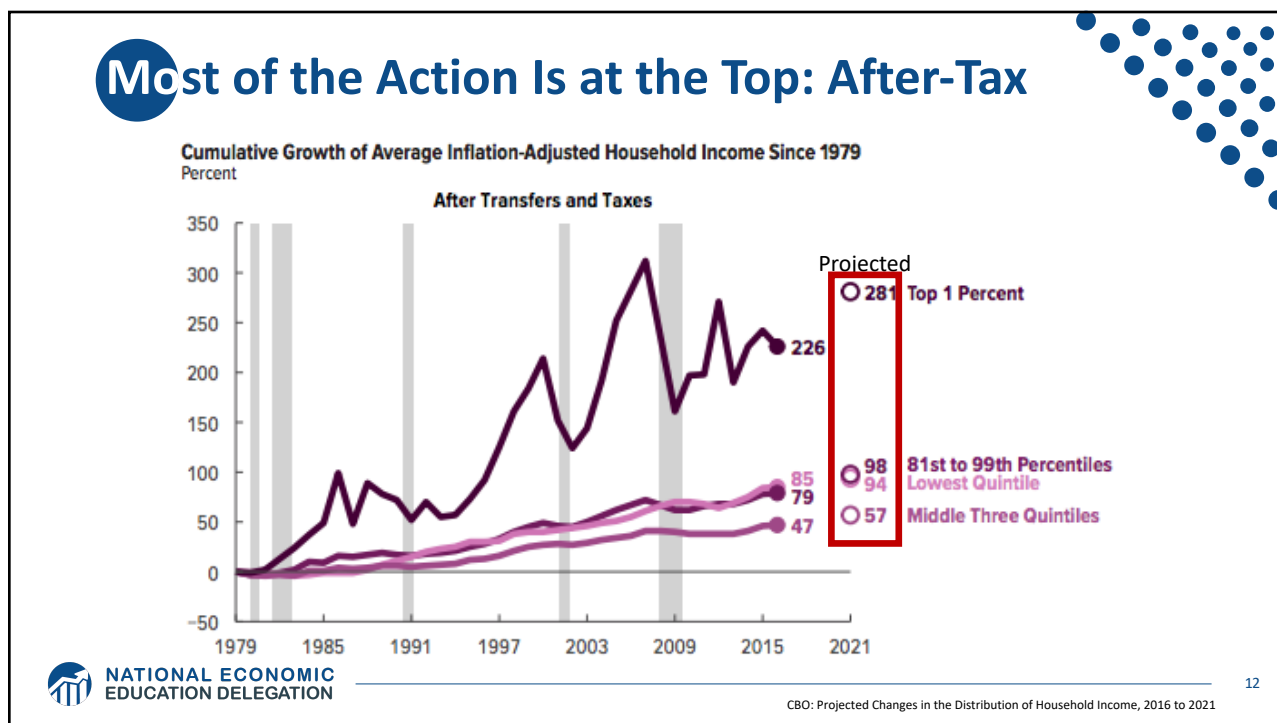
## National Income Inequality: Share of Top 10%



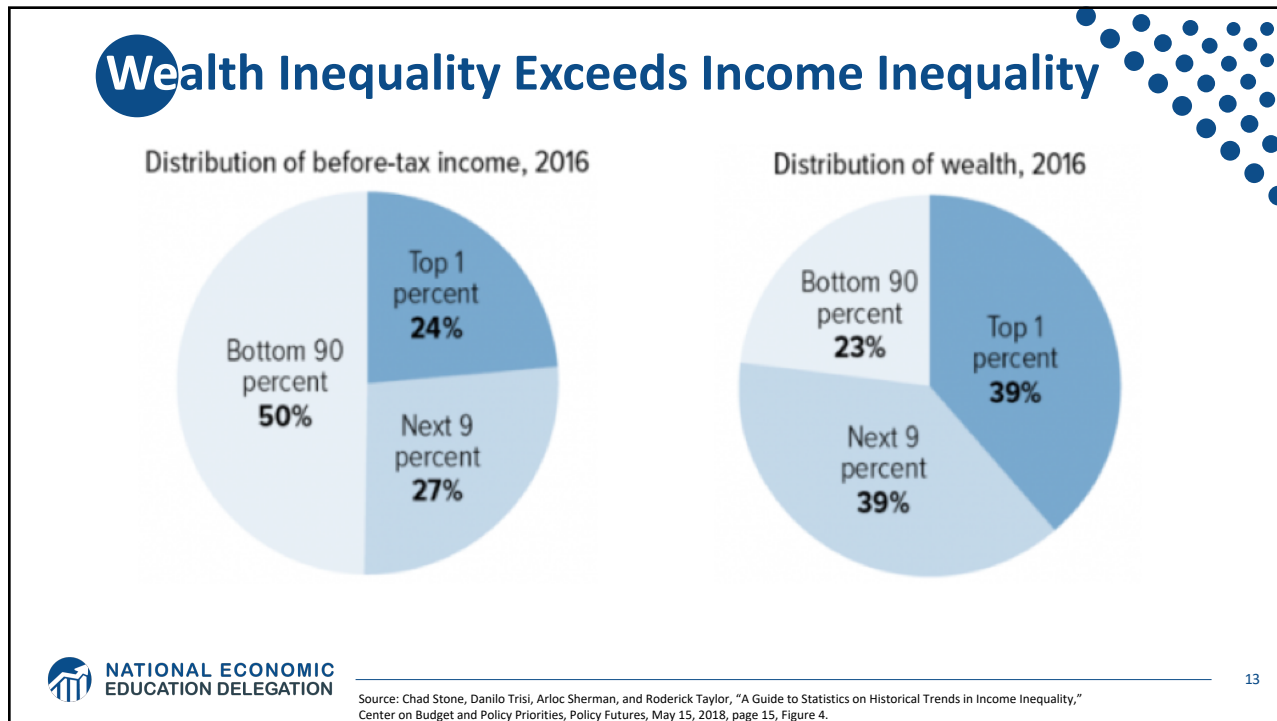
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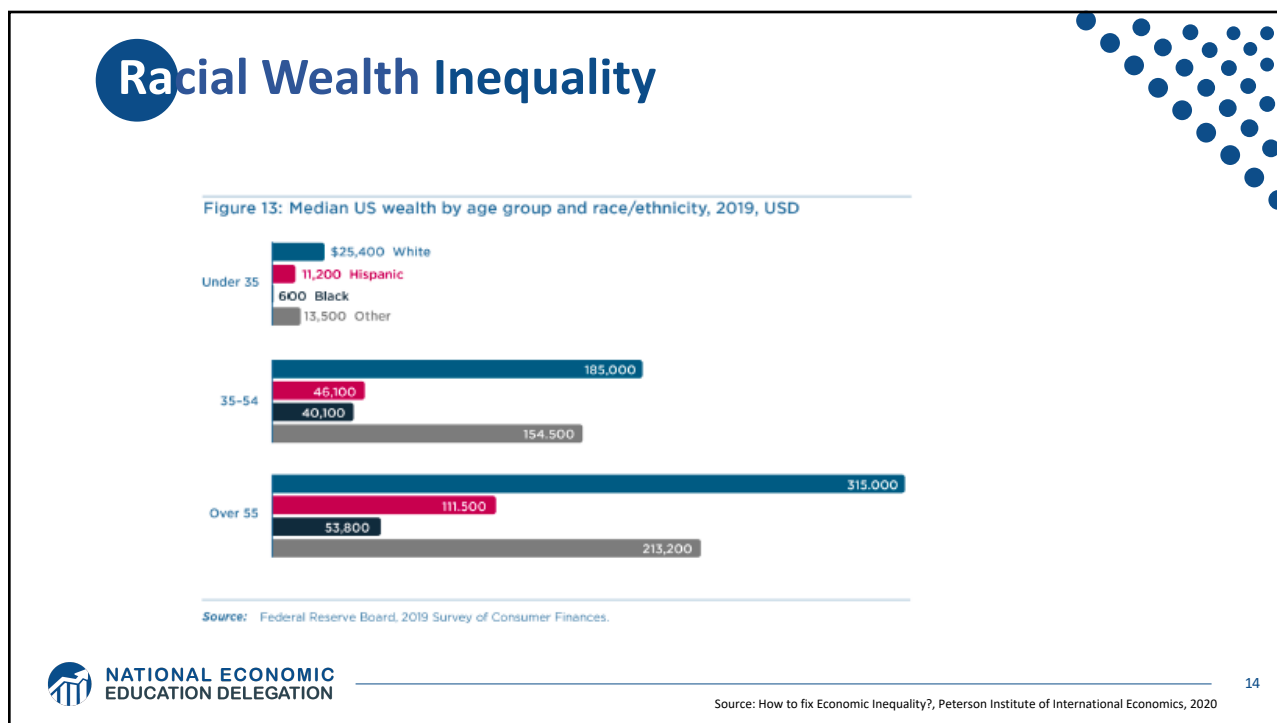
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## Outline

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## Where Does Inequality Come From?

### • Labor Characteristics

- Demographics
  - Age distribution
- Personal Choices
  - Educational attainment
  - Household composition
- Immigration

### • Market Forces

- Technology
- Globalization
- Competition for labor

### • Government Policy

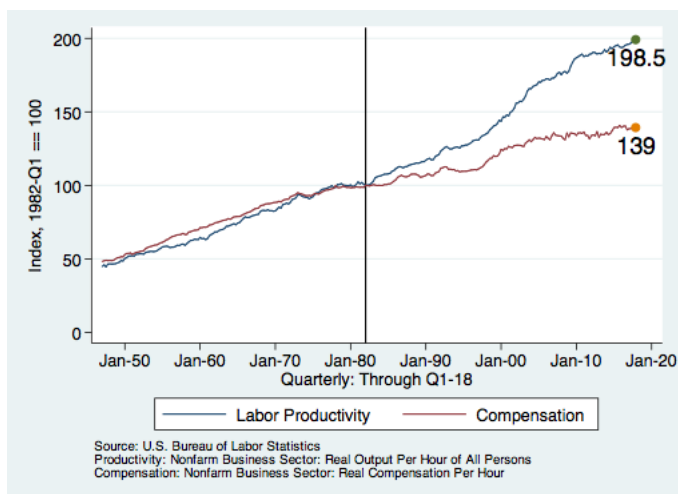
- Market influence
- Redistribution



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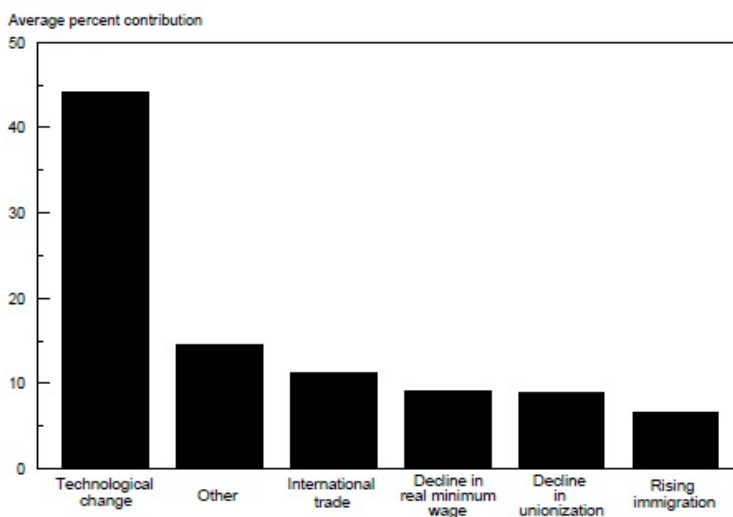
## Labor Income is Unhinged from Productivity



### Why?

- Declining unionization
- Globalization
- Immigration
- Competition policy
- Cheap technology

## Sources of Inequality Through Late 1990s



Source: Federal Reserve Bank of New York.

## Government Policy and Inequality

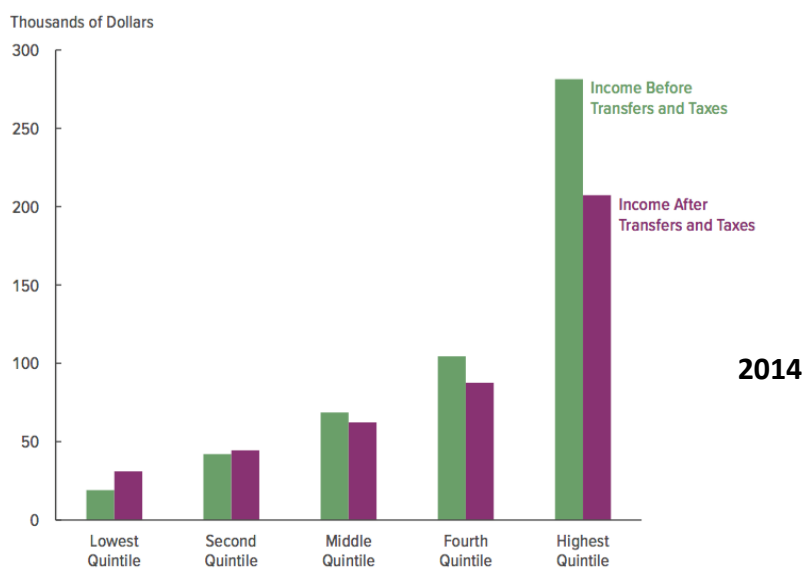
- **Market Influence: PRE-distribution**

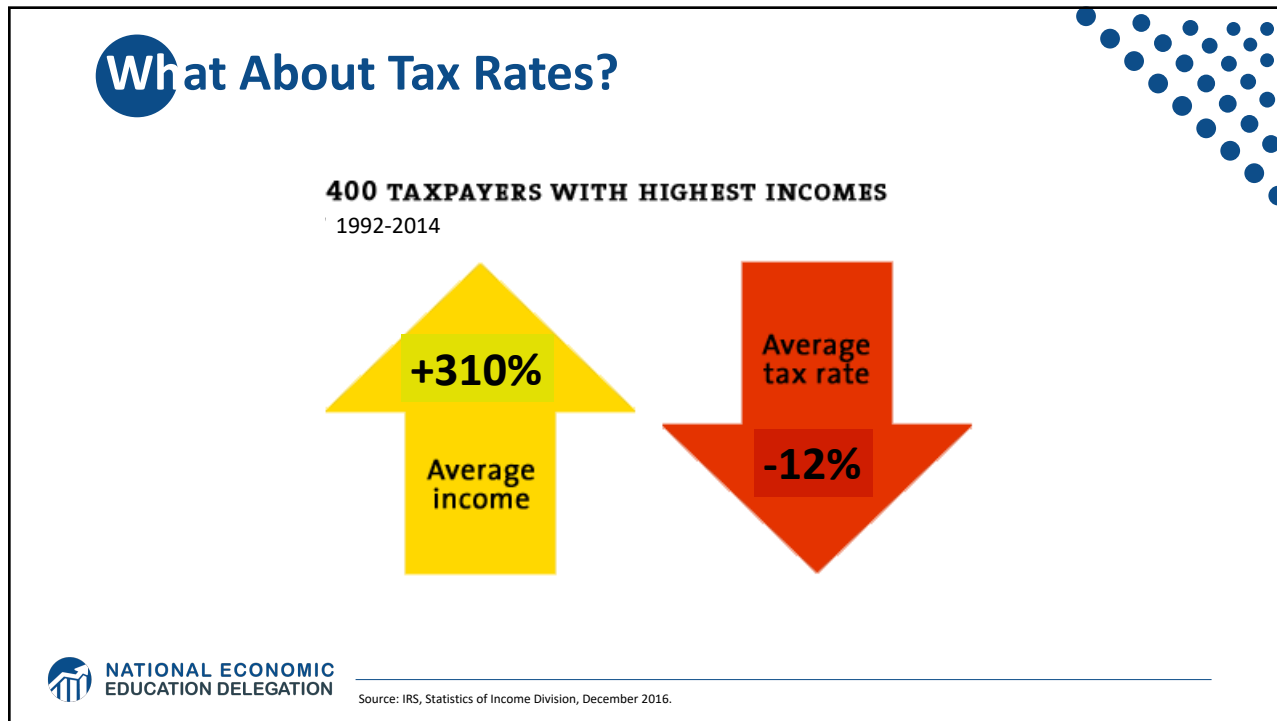
- Characteristics of labor
  - o Access to education
- Effects on labor demand
  - o Market regulation
    - Competition policy
  - o Labor regulations
    - Minimum wage, overtime, health insurance, etc.

- **RE-distribution**

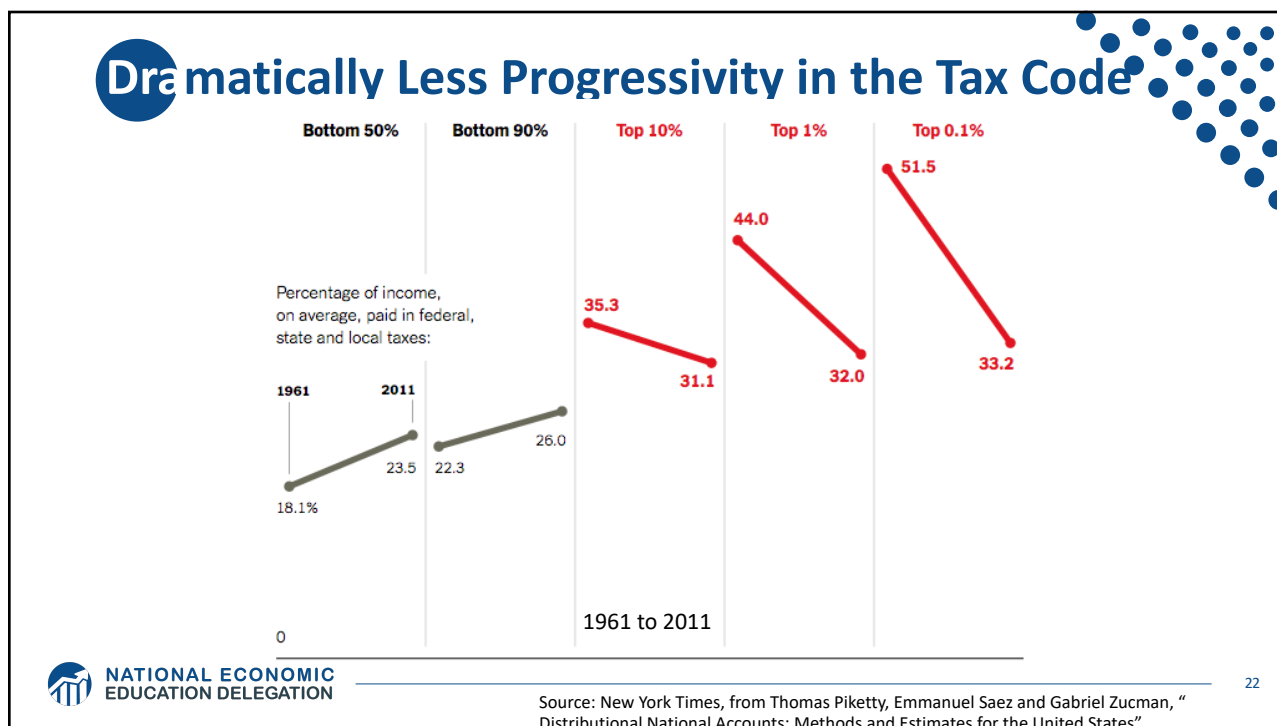
- Tax Rates
- Income support
  - o Direct aid
  - o Food stamps

## Tax and Transfer Programs and Inequality

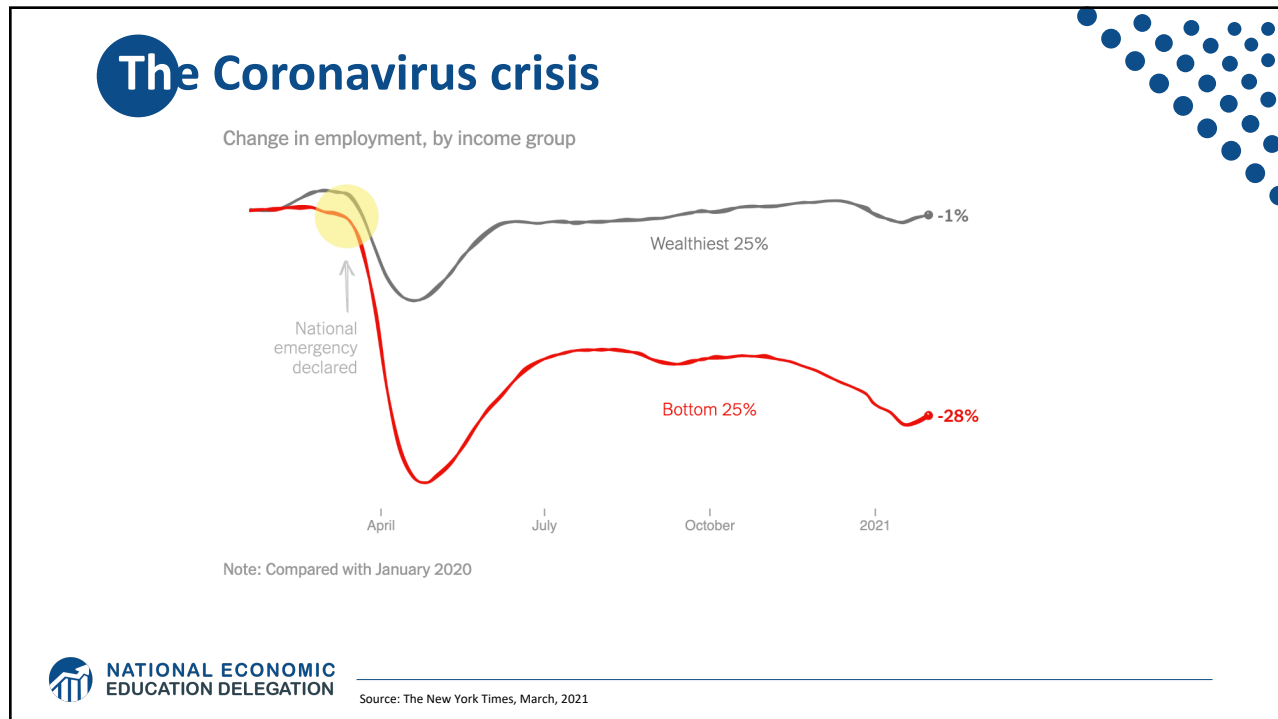




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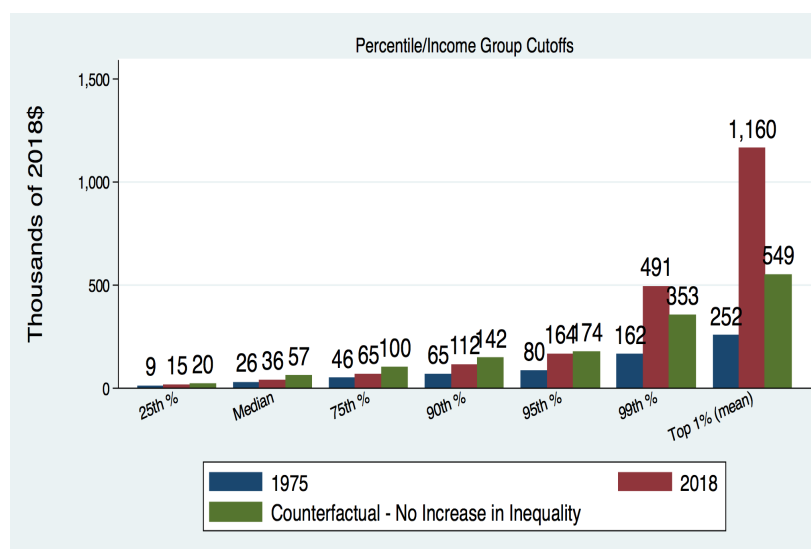
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## Why Does Inequality Matter?

- **Too little inequality can:**
  - Reduce individual motivation
  - Slow economic growth
- **Too much inequality can:**
  - Slow growth
  - Reduce individual motivation
- **Too much inequality may also:**
  - Divide society
  - Distort political environment
  - Reduce political participation
  - Reduce investments in public goods
    - Education
    - Environmental protections

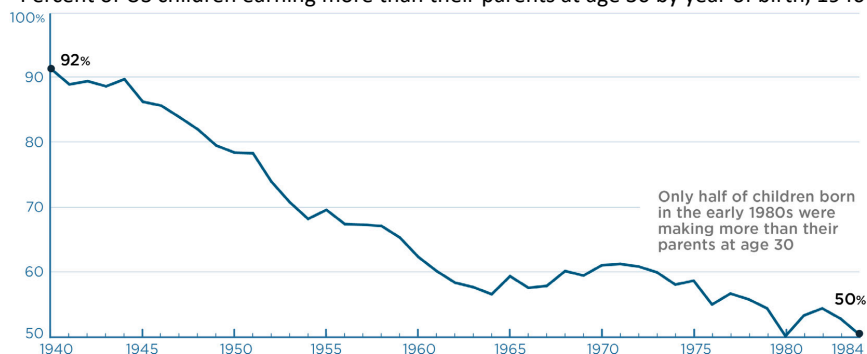


## How Has Inequality Influenced Incomes?



# The American Dream is fading

Percent of US children earning more than their parents at age 30 by year of birth, 1940-1984



**Note:** Children's income is the sum of individual and spousal income at age 30, excluding immigrants after 1994. Parental income is the sum of the spouses' incomes for families in which the highest earner is ages 25-35.

**Source:** Chetty et al. (2017).

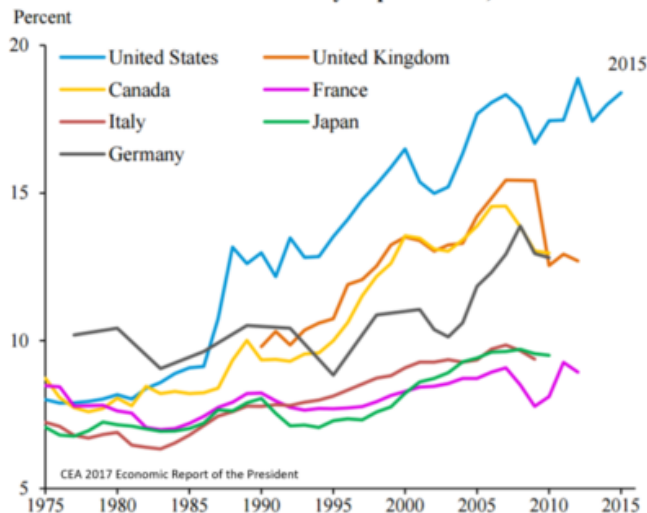


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Source: How to fix Economic Inequality?, Peterson Institute of International Economics, 2020

# An International Perspective: Comparables

Share of Income Earned by Top 1 Percent, 1975-2015



CEA 2017 Economic Report of the President

Source: World Wealth and Income Database.



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

- **Redistribution (Tax and Social Safety Net Policies)**
  - Tax and transfer programs
- **PRE-distribution (Labor Policies)**
  - Strengthen labor unions
  - Minimum wages
  - Collective bargaining
  - Other policies that favor labor over business owners



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

- **Corporate Regulation Policies**

- Reverse trends in market power

- **Locally**

- Employment services: job training, interview skills, or assistance with day-to-day issues, such as child care
- Cognizance of the potential for technologies to affect worker/employer power dynamics
  - o Uber, Lyft, etc.



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## 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

- **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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## 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.



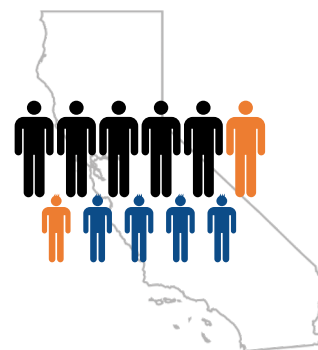
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## Summary

- **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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