


## 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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## Credits and Disclaimer

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- **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**
- **What happened?**
- **Does it matter?**
- **Is it a problem?**
- **What to do about it**



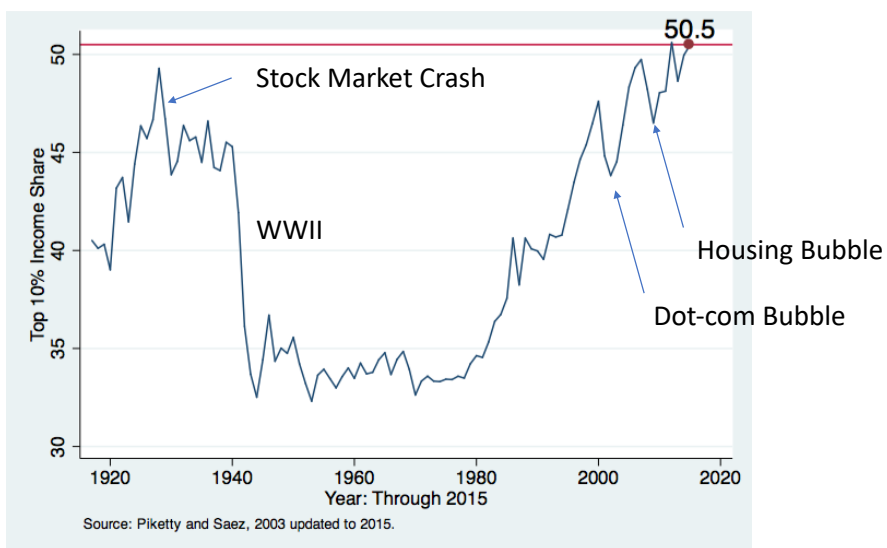
# Income Inequality

• **Definition:**

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



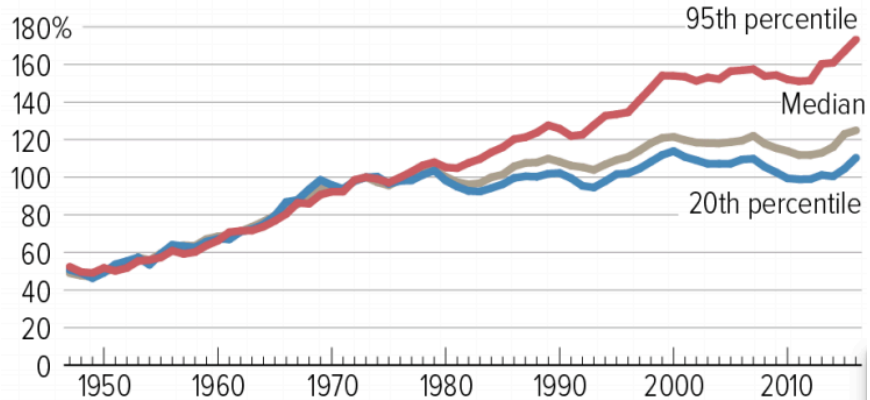
# National Income Inequality: Share of Top 10%



Source: Piketty and Saez, 2003 updated to 2015. Series based on pre-tax cash market income including realized capital gains and excluding government transfers.

## The Abrupt Increase in Inequality

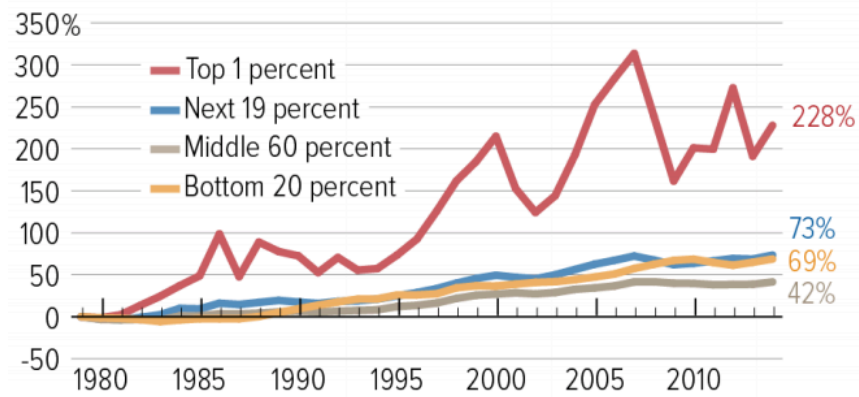
Real family income between 1947 and 2016, as a percentage of 1973 level



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, May 15, 2018, page 10.

## Most of the Action Is at the Very Top

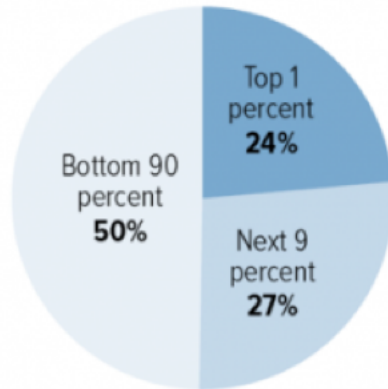
Percent change in income after transfers and taxes since 1979



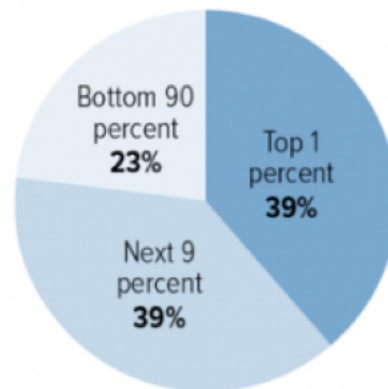
Source: Chad Stone, Danilo Trisi, Arloc Sherman, and Roderick Taylor, "A Guide to Statistics on Historical Trends in Income Inequality," Center on Budget and Policy Priorities, Policy Futures, May 15, 2018, page 11.

## 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, May 15, 2018, page 15, Figure 4.

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## Where Does Inequality Come From?

### • Labor Characteristics

- Demographics
- Personal Choices
- Immigration

### • Market Forces

- Technology
- Changing demand patterns
- Competition for labor

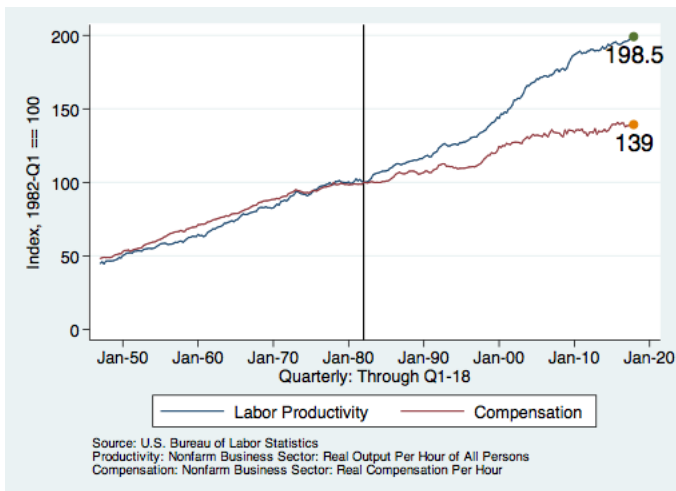
### • Government Policy

- Market influence
- Redistribution



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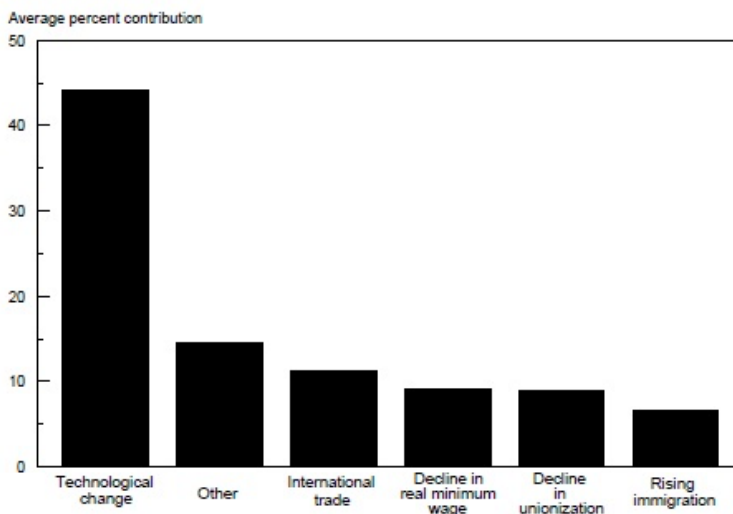
## Labor Income is Unhinged from Productivity



### Why?

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

## Sources of Inequality Through Late 1990s



Source: Federal Reserve Bank of New York.

# Why Does Inequality Matter?

- **Too little inequality can:**

- Reduce individual motivation
- Slow economic growth

- **Too much inequality can:**

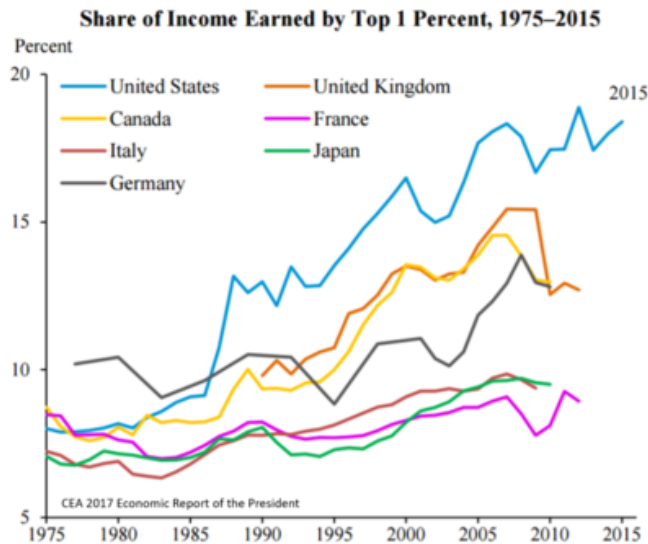
- Slow growth
- Reduce individual motivation

- **Too much inequality may also:**

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



# An International Perspective: Comparables







## What About Tax Rates?

### 400 TAXPAYERS WITH HIGHEST INCOMES

1992-2014



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Source: IRS, Statistics of Income Division, December 2016.

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

- **Other**

- 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
  - 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
  - Universal pre-K
  - Upgrade quality of elementary schools in low-income areas



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## Summary

- **Income inequality is clearly increasing.**

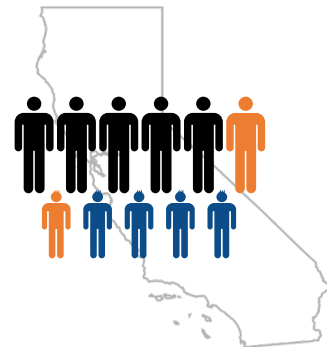
- The economy is clearly favoring owners of productive resources over labor.

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

- The market – technology, trade, and competition
- Changing institutions

- **Open questions are:**

- To act or not to act?
- If so, how?



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