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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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Who Are We?

- **Honorary Board: 48 members**

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

- **Delegates: 367 members**

- At all levels of academia and some in government service
- All have a Ph.D. in economics

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

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

- Timothy Smeeding, University of Wisconsin
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Outline

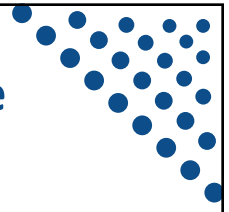
- **How do we measure income inequality?**
- **Causes of income inequality**
- **Potential impacts of inequality**
- **Policies to address inequality**



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Measuring inequality: The Lorenz Curve



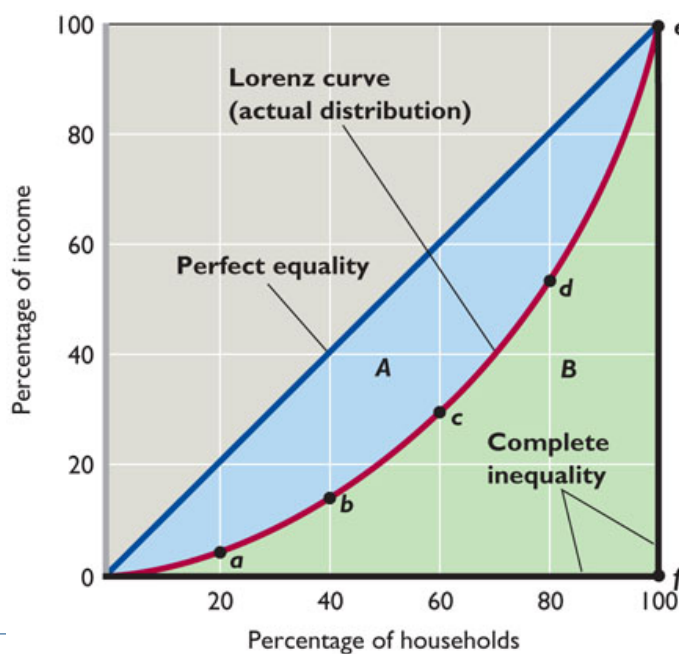
Shows the distribution of income in a region
 Ex: U.S. Income Distribution - 2008

	Quintile (2008)	% of total income	Cumulative % of total income
A	Lowest 20%	3.4	3.4
B	Second 20%	8.6	12
C	Middle 20%	14.7	26.7
D	Fourth 20%	23.3	50
E	Highest 20%	50	100



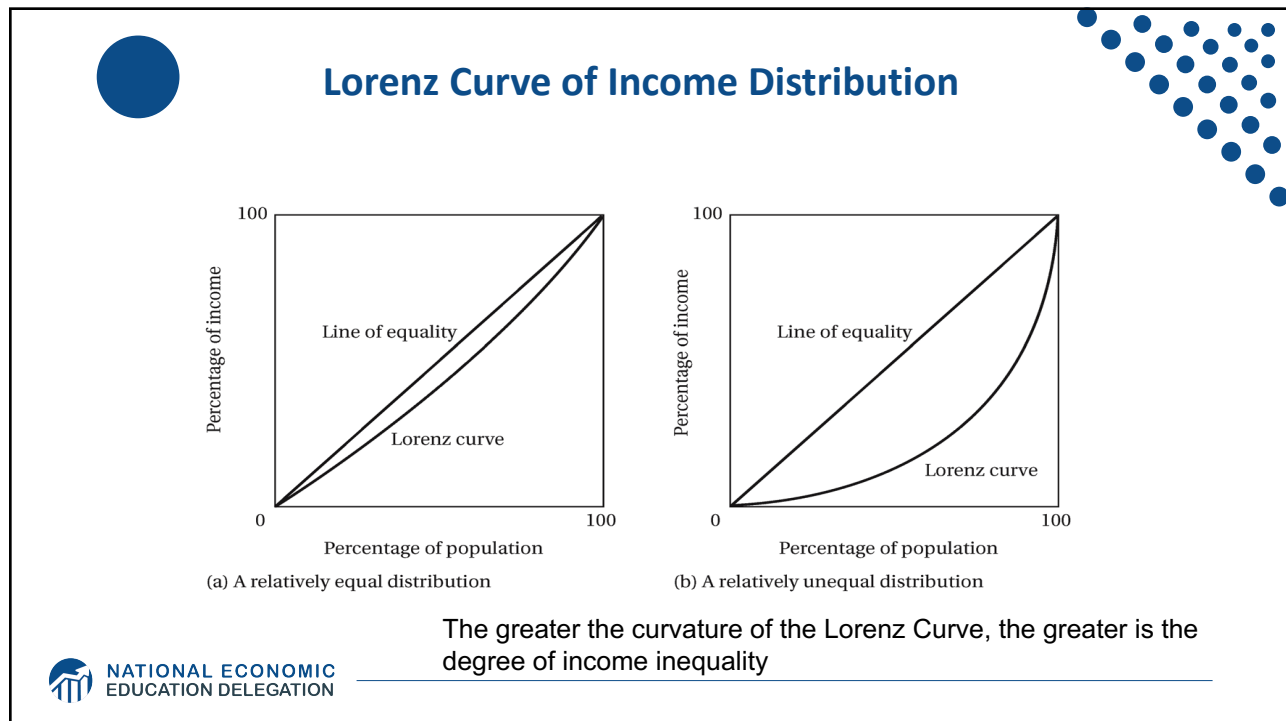
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Gini Coefficient

- **One way to describe income inequality is by using a Gini coefficient.**
- **Gini coefficient – a numerical measure of the overall dispersion of income**
 - Ranges from 0 – 1
 - 0= perfect equality – everyone has same income
 - 1=perfect inequality – one person makes all income
 - In practice:
 - 0.5 – 0.7 – highly unequal
 - 0.2 – 0.35 – relatively equal

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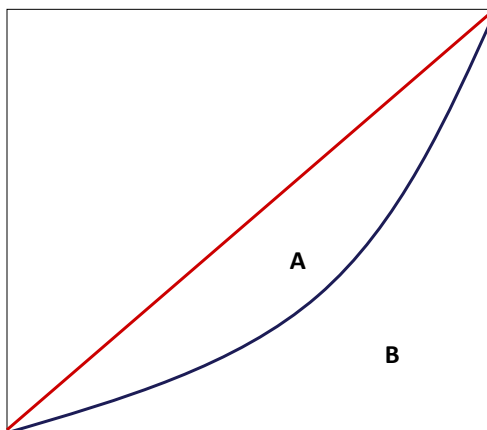
Using the Lorenz curve to calculate a Gini Coefficient

Gini coefficient =
 $A / (A + B)$

A higher Gini coefficient means greater inequality

Perfect equality:
 A=0, Gini=0

Perfect inequality:
 B=0, Gini = 1

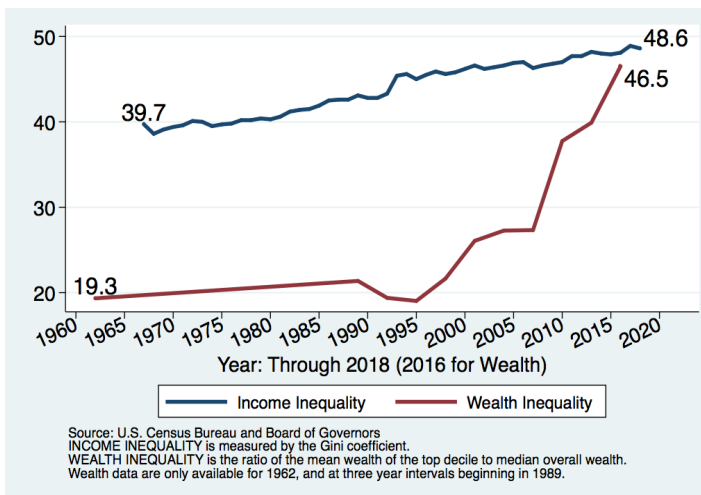


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Income and Wealth Inequality



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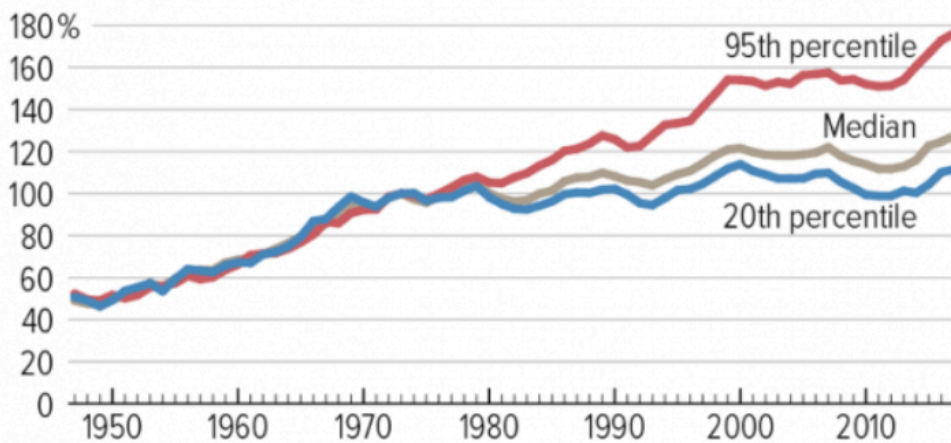
National Income Inequality: Share of Top 10%



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The Abrupt Increase in Inequality

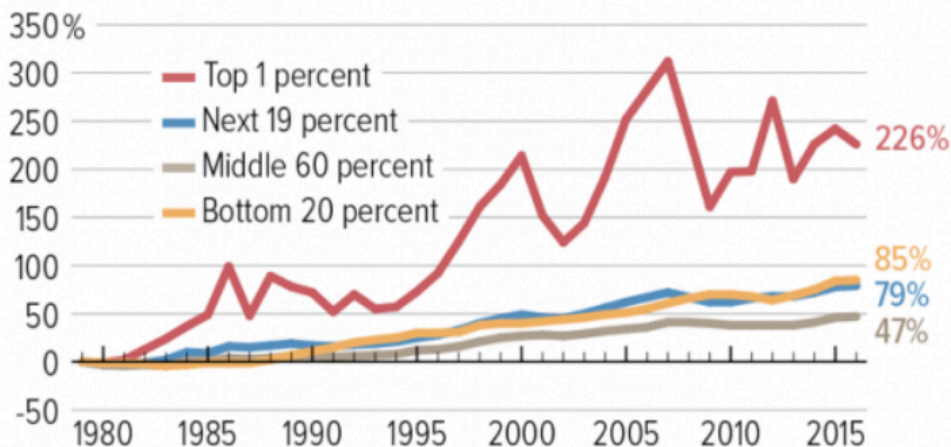
Real family income between 1947 and 2017, as a percentage of 1973 level



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Most of the Action Is at the Very Top

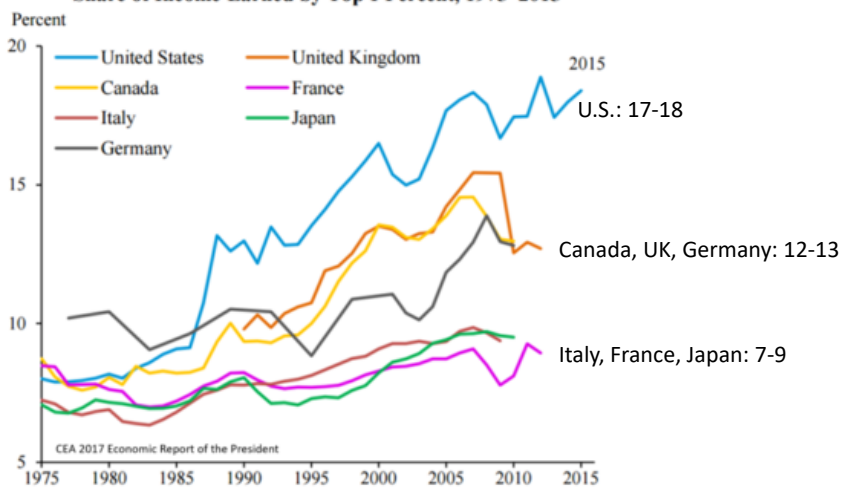
Percent change in income after transfers and taxes since 1979



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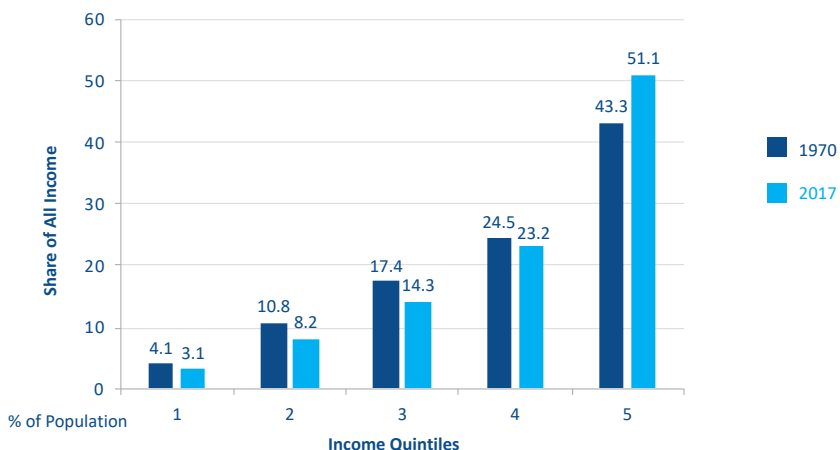
An International Perspective: Comparables

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



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Income Share Changes Between 1970 and 2017



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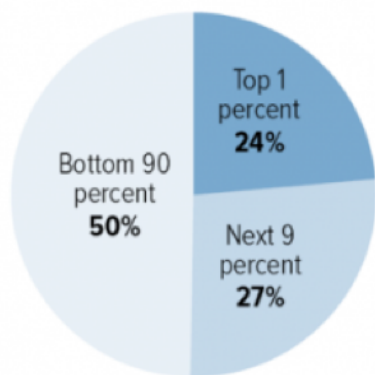
Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements.

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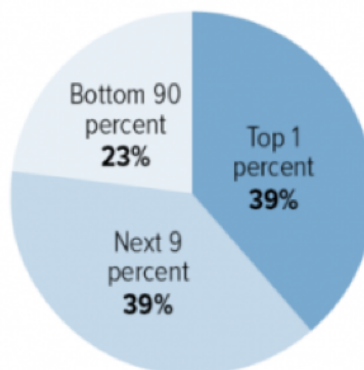
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Wealth Inequality Exceeds Income Inequality

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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Where Does Inequality Come From?

- **Labor Characteristics**

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

- **Market Forces**

- Technology
- Changing demand patterns

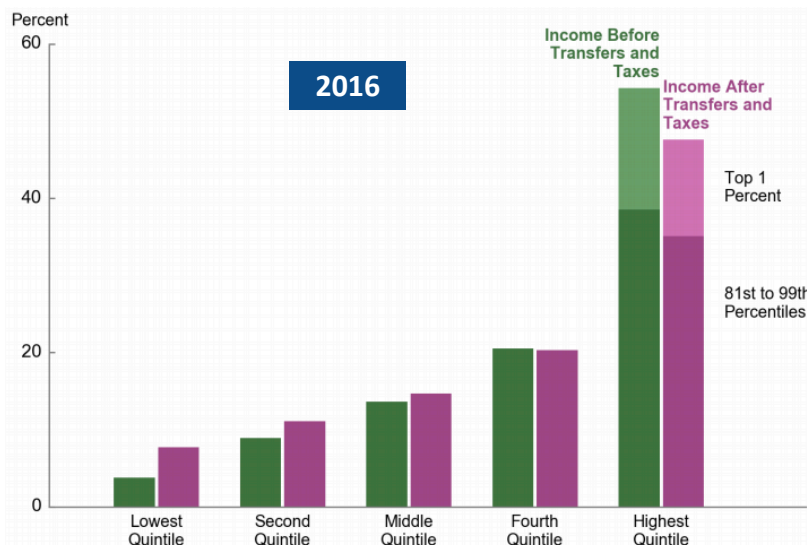
- **Government Policy**

- Market influence
- Redistribution



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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.

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What About Tax Rates?

400 TAXPAYERS WITH HIGHEST INCOMES
1992-2014

+310%
Average income

Average tax rate
-12%

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

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2018 Marginal Tax Rates & Brackets

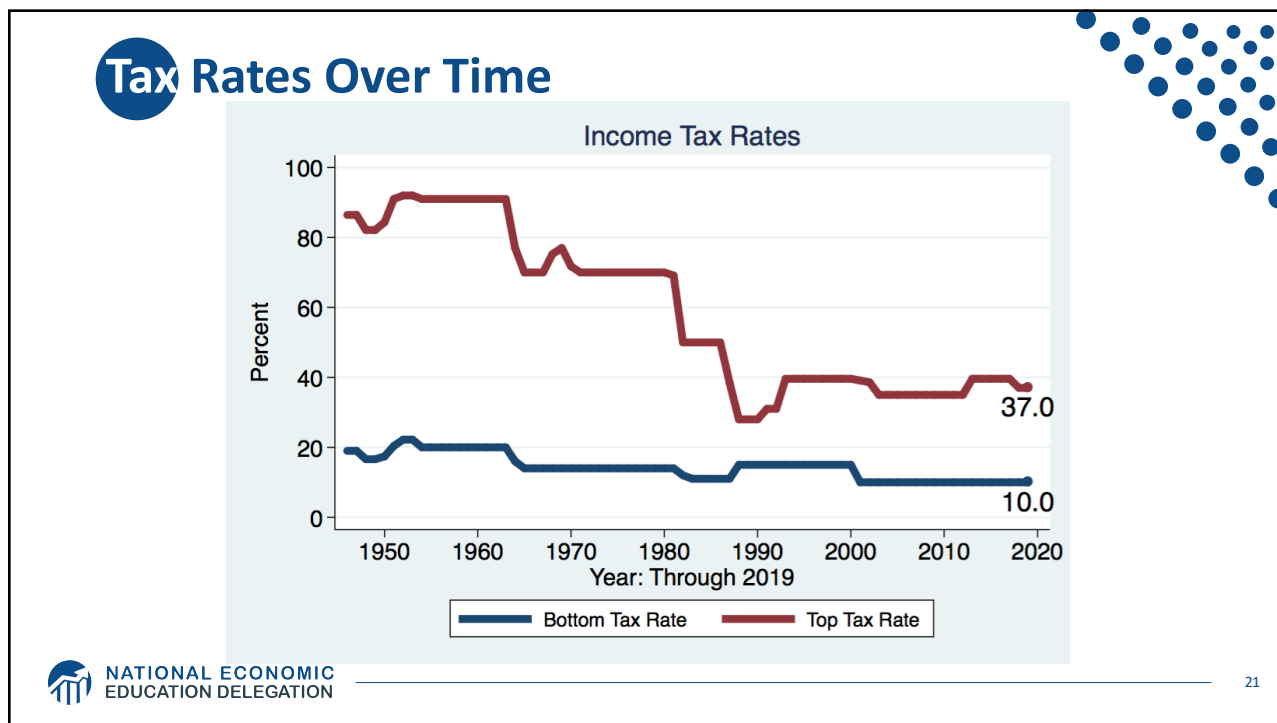
Single filers

Tax rate	Taxable income bracket	Tax owed
10%	\$0 to \$9,525	10% of taxable income
12%	\$9,526 to \$38,700	\$952.50 plus 12% of the amount over \$9,525
22%	\$38,701 to \$82,500	\$4,453.50 plus 22% of the amount over \$38,700
24%	\$82,501 to \$157,500	\$14,089.50 plus 24% of the amount over \$82,500
32%	\$157,501 to \$200,000	\$32,089.50 plus 32% of the amount over \$157,500
35%	\$200,001 to \$500,000	\$45,689.50 plus 35% of the amount over \$200,000
37%	\$500,001 or more	\$150,689.50 plus 37% of the amount over \$500,000

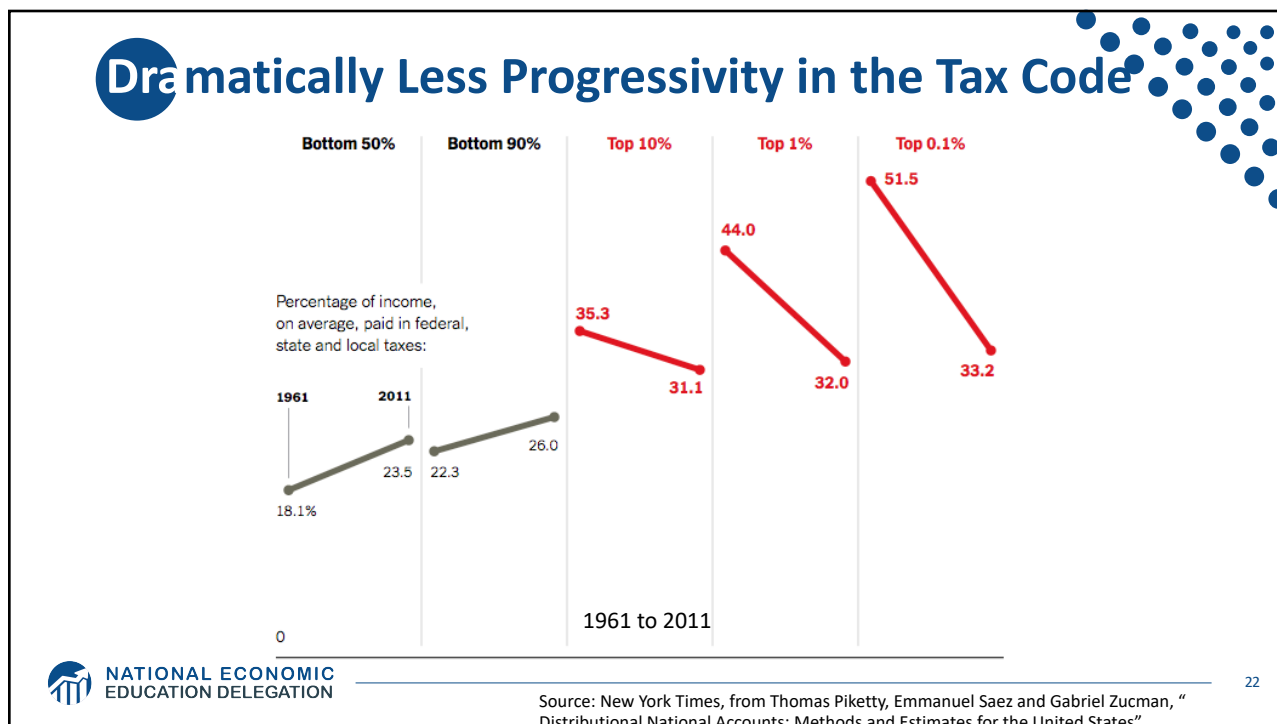
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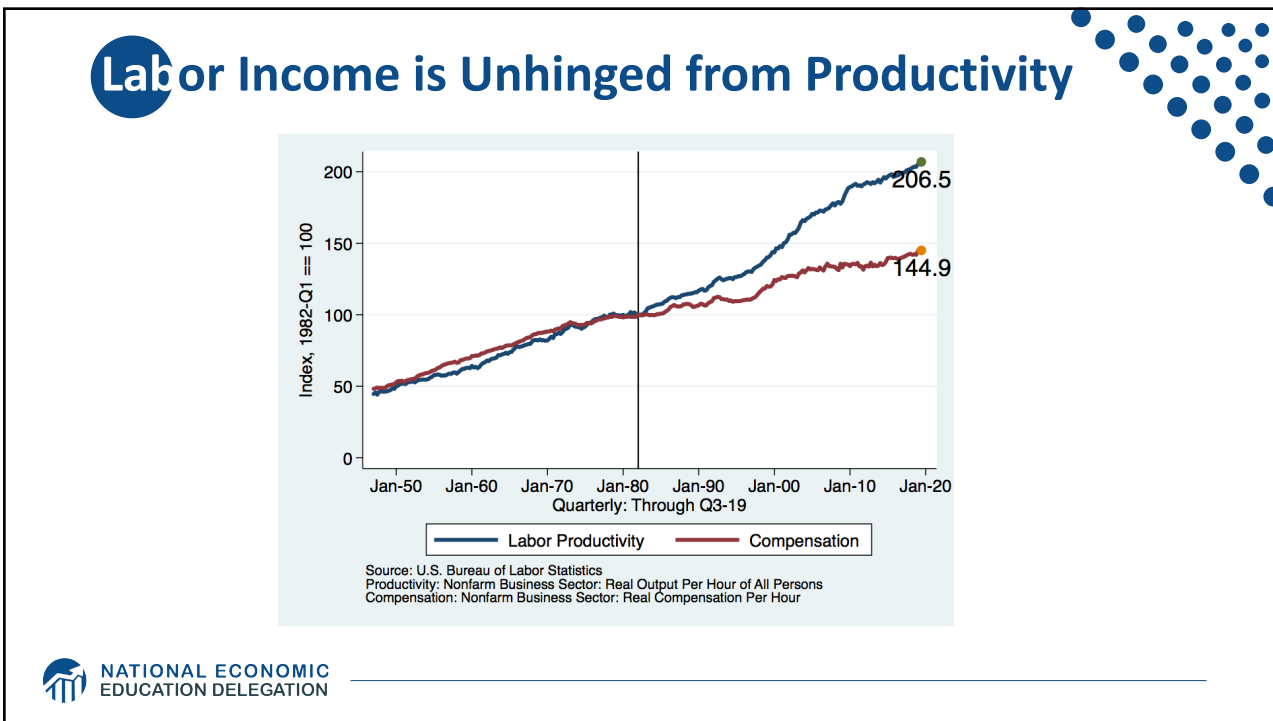


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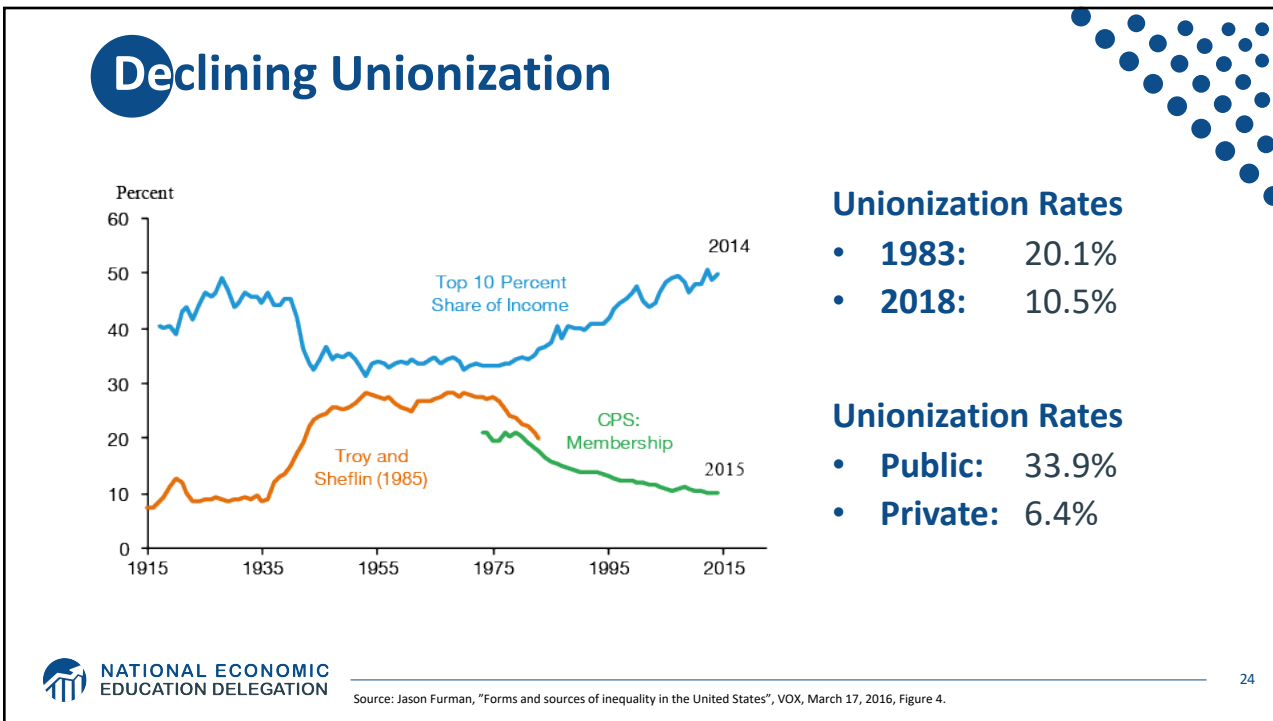


Source: New York Times, from Thomas Piketty, Emmanuel Saez and Gabriel Zucman, "Distributional National Accounts: Methods and Estimates for the United States"

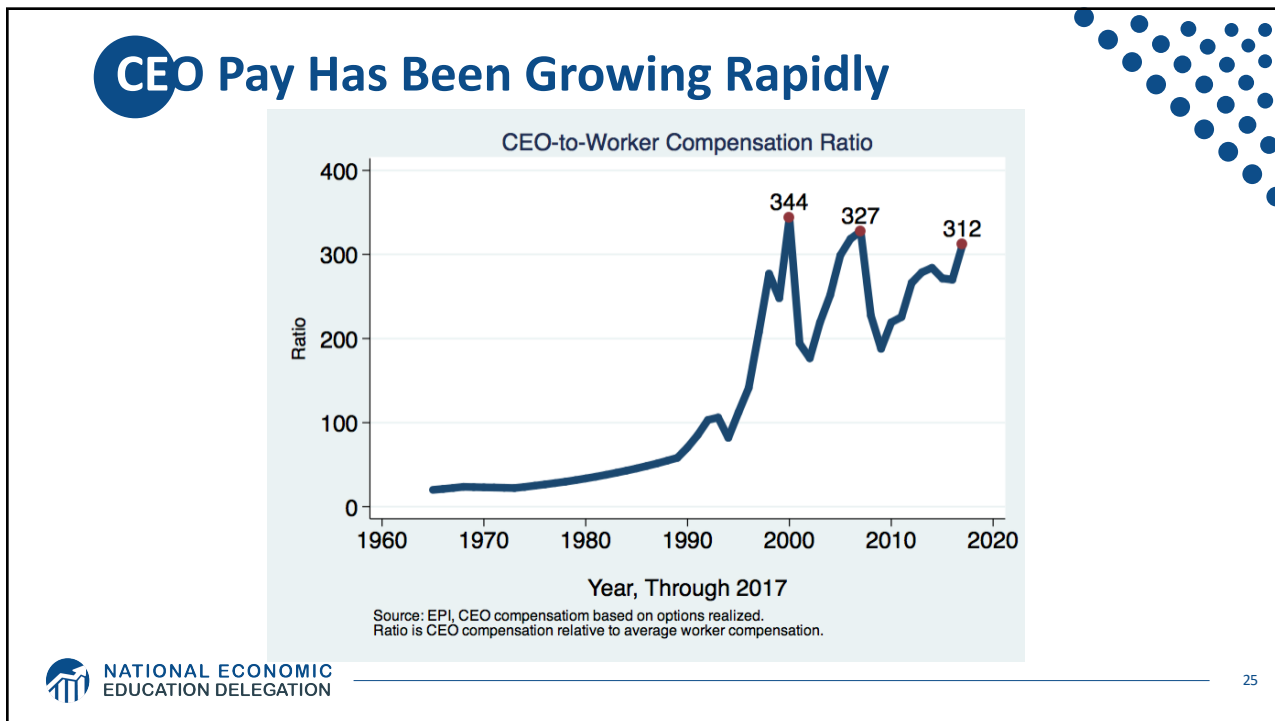
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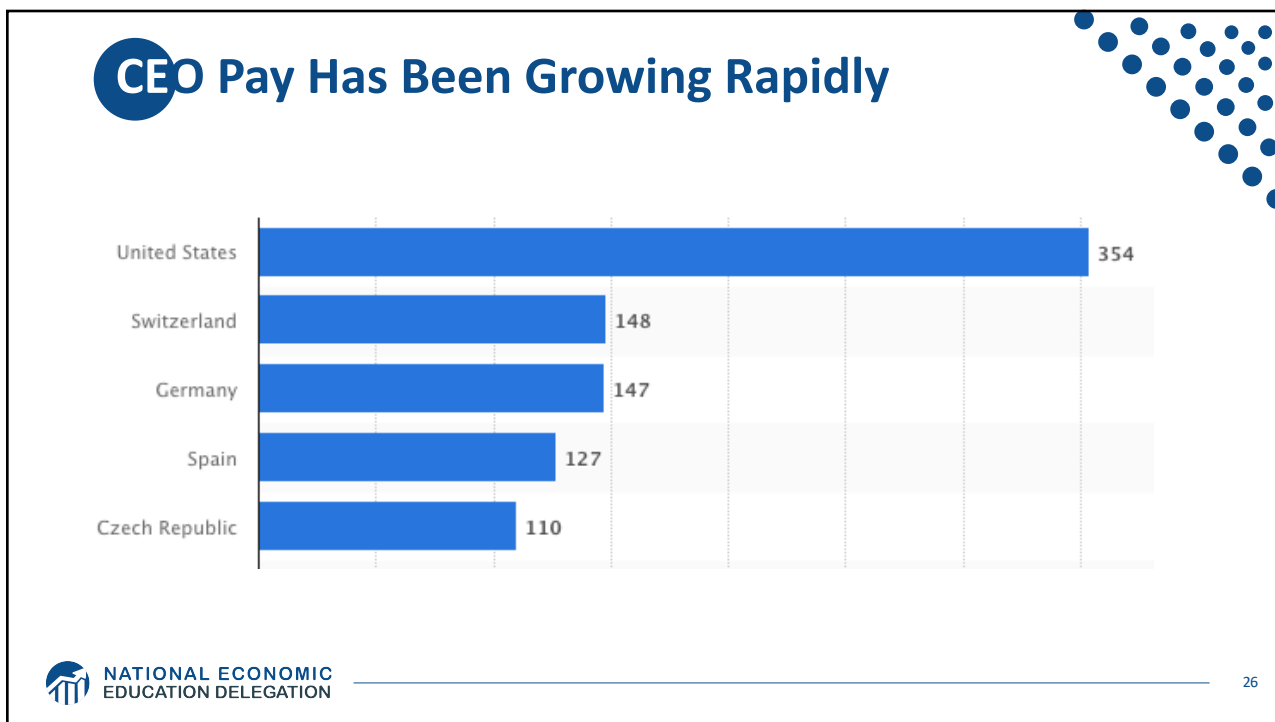
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Technology can Hurt Low Income Workers



Early on, technology was good to low income workers



Until it was bad for them....



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A Modern Example: Uber & Lyft

- **Structural Changes in the labor market**

- Facilitates market power for owners.
- Reduces bargaining power for labor.
- Shifts costs of doing business onto labor.



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Globalization

- **What is globalization?**
 - Flow of goods, services, capital, and labor across international borders
- **How does it affect inequality?**
 - 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**



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

- **RE-distribution**

- Tax and transfer programs

- **PRE-distribution**

- Strengthen labor unions
- Minimum wages
- Collective bargaining
- Other policies that favor labor over business owners



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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
 - 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

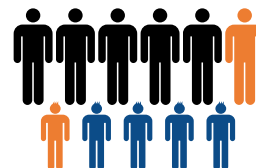


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Summary

- **Income inequality is clearly increasing.**
 - The economy is clearly favoring owners of productive resources over labor.
- **The causes appear to be largely driven by:**
 - Government policies, technology, globalization
- **Open questions are:**
 - To act or not to act?
 - If so, how?
- **The level of inequality is a policy choice.**



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