

*Osher Lifelong Learning Institute, Spring 2019*  
**What Economists Know About Important  
Policy Issues**

**Lecture 4: Economic Inequality**

October 18, 2019

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National Economic Education Delegation



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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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# Syllabus

- **Lecture 1: US Economic Update**
- **Lecture 2: Government Budgets and Debt**
- **Lecture 3: Trade and Globalization**
- **Lecture 4: Economic Inequality**
- **Lecture 5: Climate Change Economics**
- **Lecture 6: Housing Policy**



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# Tariffs on Solar Panels



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## Tariffs on Solar Panels

### • Why?

- Increased imports from China had driven US companies out
- Anti-dumping duties had failed to help, as companies moved production to other non-China and non-US locations



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# Tariffs on Solar Panels

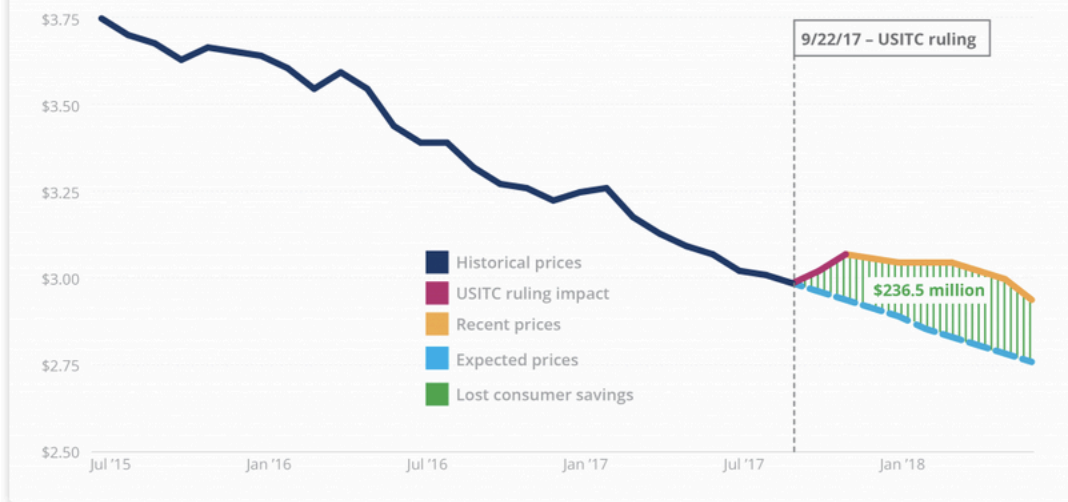
## • Who benefits?

- Who requested
  - o Suniva, Chinese owned, manufactures in Georgia and in Saginaw, MI
  - o SolarWorld, was German owned but now French,
- 14 US manufacturers

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Impact of Solar Tariff on Residential Prices (in Dollars per Watt)

energysage



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## Tariffs on Solar Panels

### • Who is hurt?

- Consumers
- Solar panel installers, led by Solar Energy Industry Association
  - They estimate that the 30% tariff “would cause the loss of 23,000 in 2018, as well as the delay or cancellation of billions of dollars of investments in solar energy.”



## Tariffs on Washing Machines



## Tariffs on Washing Machines

### • Why?

- From 2012 to 2016, imports increased dramatically from two Korean firms LG and Samsung
- Anti-dumping duties failed to stop this, as production moved to Thailand and Vietnam



## Tariffs on Washing Machines

### • Who benefits?

- Whirlpool - requested the tariffs
  - Whirlpool brands include Amana, Maytag, & more
- Other US manufacturers, such as GE, Electrolux and Frigidaire (Swedish), Equator, Speed Queen
- In 2017, Samsung and LG announced plans to build factories in South Carolina and Tennessee



# Tariffs on Washing Machines

## • Who is hurt?

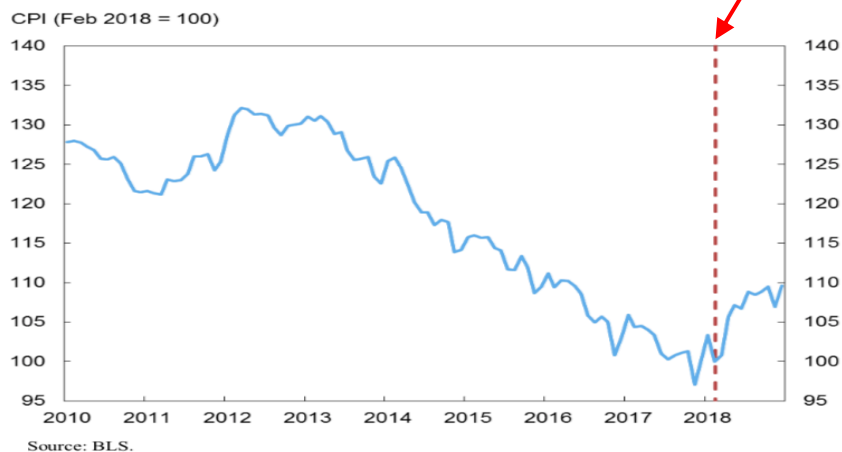
- Consumers

- Washers (and dryers!) both increased in price by about 12% (per Flaaen et al. 2019)
  - Note that the tariff was levied on washers only, not dryers]
  - "consumers bore between 125 percent and 225 percent of the costs" (NYT 4/21/19)
- US appliance prices (I don't have graph for washing machines alone) rose 8.1% over the 12 months to Nov 2018

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# Tariffs on Washing Machines

Figure 2: Major Appliance CPI



Source: BLS.

Source: Amiti, Redding, and Weinstein, "The Impact of the 2018 Trade War on U.S. Prices and Welfare," CEPR Discussion Paper DP13564, March 1, 2019.

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# Tariff on Cars and Car Parts



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## Tariff on Cars and Car Parts

### • Who would benefit?

- US car companies?
  - Most (e.g., GM) are opposed
  - I can't find objection from Ford, but others list Ford among those who object
- US auto workers?
  - UAW has spoken in favor of "target measures" with with understanding that broad tariffs or quotas "could cause harm" including "mass lay-offs for American workers."



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## Tariff on Cars and Car Parts

### • Who would be hurt?

- Most car companies, including GM
- US car buyers



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## Tariff on Cars and Car Parts

### Estimated Effects on Employment & GDP of 25% Tariff

Tariff on:	Total US Employment	US GDP
All imports	-714.7 K	-\$59.2 B
Canada & Mexico exempted	-197.2 K	-15.3B

Source: Center for Automotive Research



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## Tariff on Cars and Car Parts

- **Where we stand:**

- Commerce Dept. sent report to Trump Feb 17
  - Not public, but said to include several options for tariffs
  - Trump has 90 days to decide
- FT Jan 22: “president was leaning towards slapping tariffs on automotive imports, in the hope of forcing Brussels to further open the EU market to American farm products.”
- Summer/19: President defers making a decision.



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## Summary

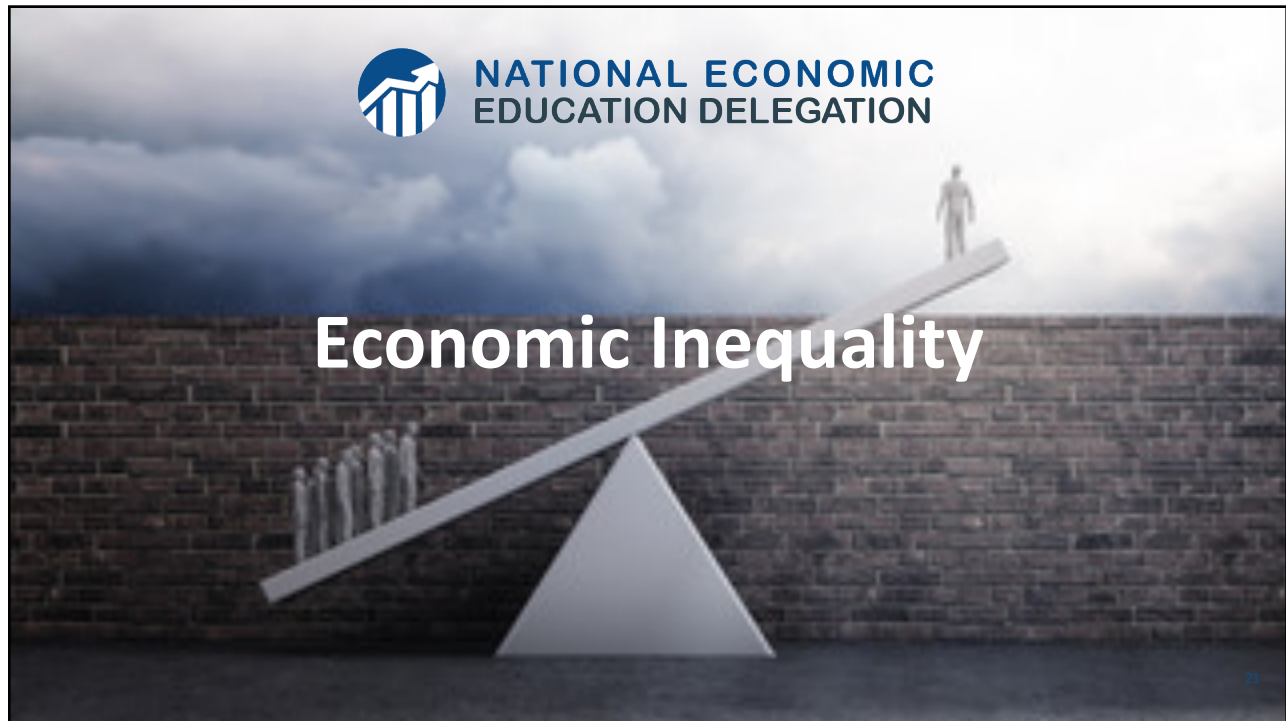
- **International trade brings significant benefits.**
  - But it comes with some costs, which are best dealt with in order to sustain the benefits.
- **International trade has the same effects as technological change.**
- **Trade deficits are not in and of themselves a problem.**
  - They result from other problems.
- **Trade wars are no way to deal with a bilateral trade deficit.**
  - There is no good way to deal with them, they are generally irrelevant.
  - They come with lots of baggage, including retaliation.
  - Permanent loss of access to foreign markets.
  - Permanent alteration of supply chains.



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  - Robert Wright, Augustana University
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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



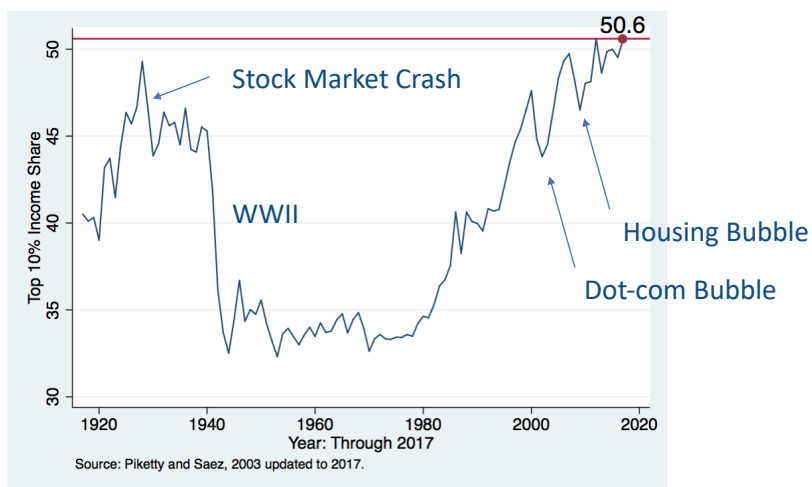
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# Different Ways of Thinking About Inequality

- **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



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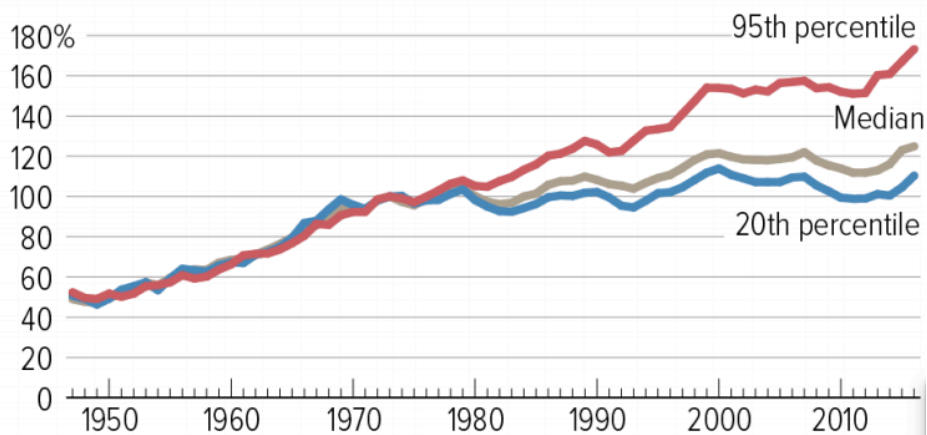
Source: Chad Stone, Danilo Trisi, Arloc Sherman, and Roderick Taylor, "A Guide to Statistics on Historical Trends in Income Inequality," Center on Budget and Policy Priorities, Policy Futures, May 15, 2018.

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## The Abrupt Increase in Inequality

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



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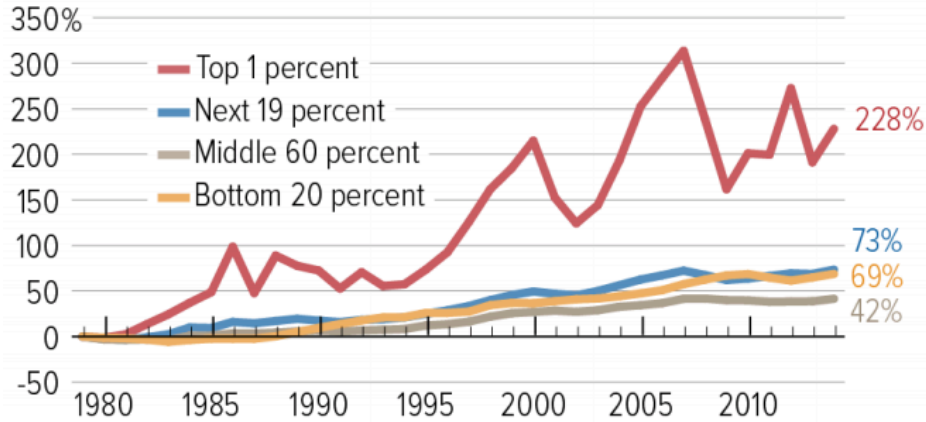
Source: Chad Stone, Danilo Trisi, Arloc Sherman, and Roderick Taylor, "A Guide to Statistics on Historical Trends in Income Inequality," Center on Budget and Policy Priorities, Policy Futures, May 15, 2018, page 10.

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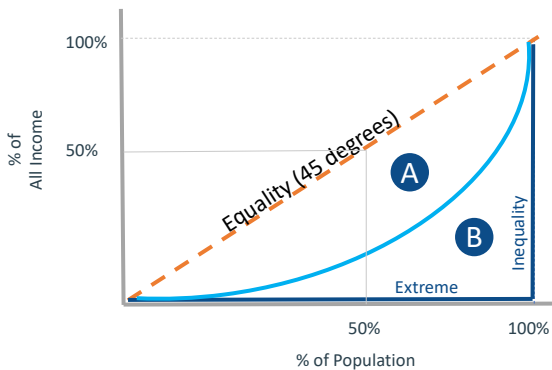
## Most of the Action Is at the Very Top

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.

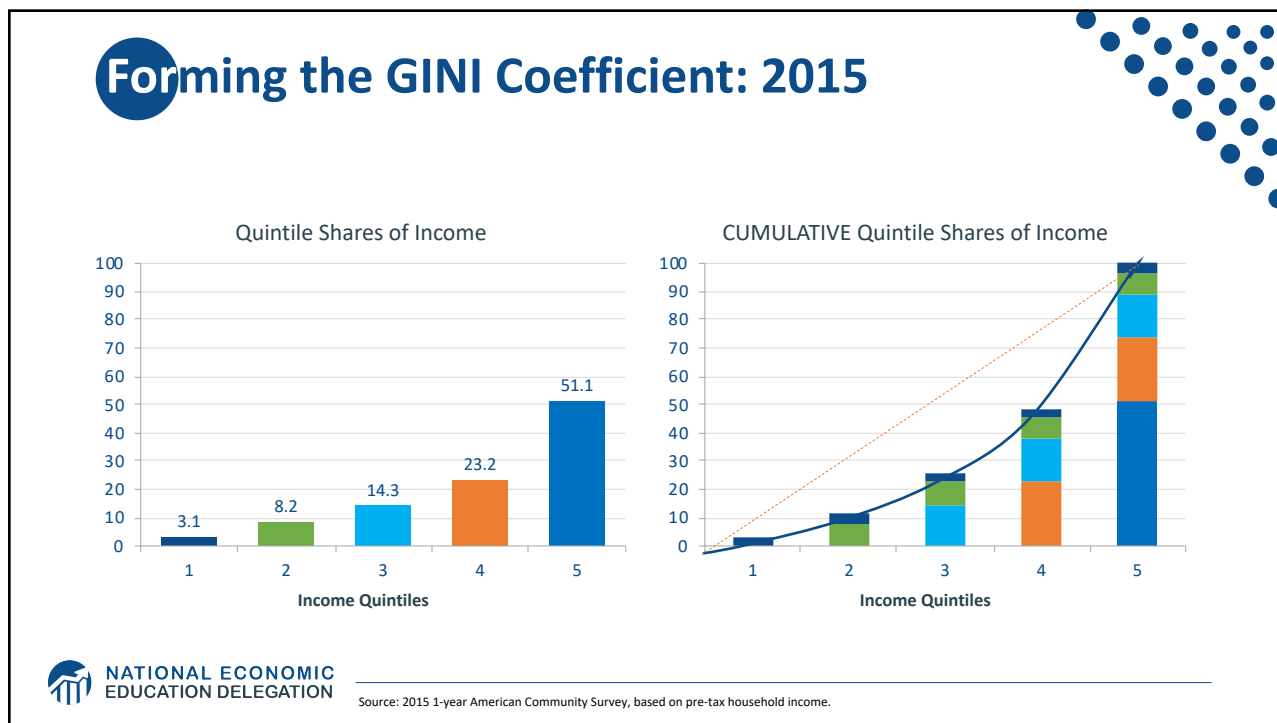
## The Gini Coefficient



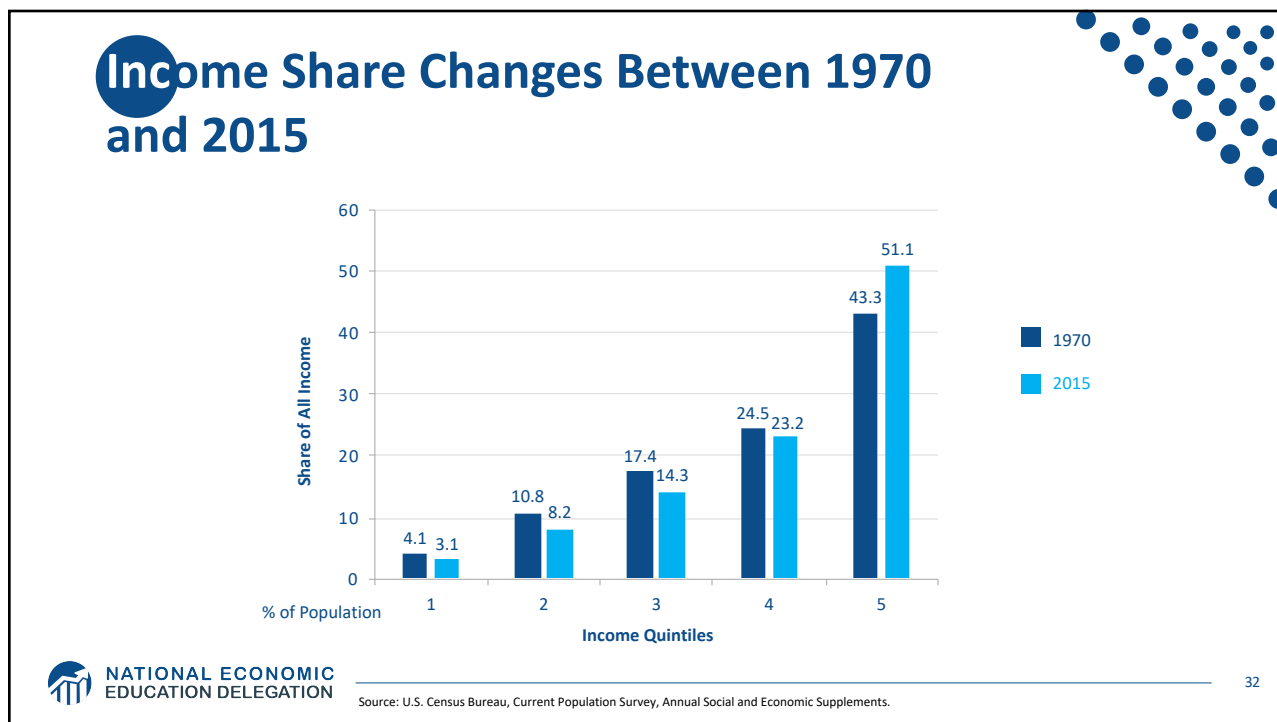
$$\text{Gini} = \frac{A}{A + B} \times 100$$

Bigger A: More inequality  
Smaller A: Less inequality





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## Income Changes from Growing Inequality

Bottom 90% of Households

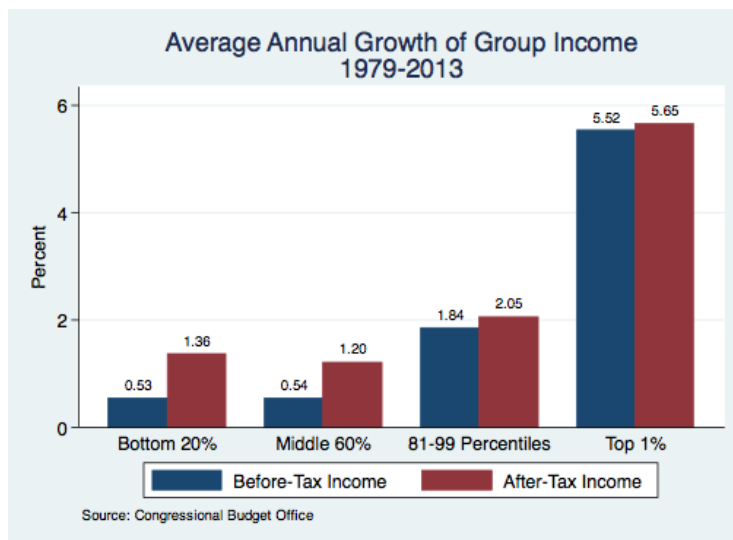
INCOME GROUP	TOTAL LOSS/GAIN IN ANNUAL INCOME*	AVERAGE LOSS/GAIN PER HOUSEHOLD PER YEAR*
<b>TOP 1%</b>	\$673 billion more	\$597,241 more
<b>96-99</b>	\$140 billion more	\$29,895 more
<b>91-95</b>	\$29 billion more	\$4,912 more
<b>81-90</b>	\$43 billion less	\$3,733 less
<b>61-80</b>	\$194 billion less	\$8,598 less
<b>41-60</b>	\$224 billion less	\$10,100 less
<b>21-40</b>	\$189 billion less	\$8,582 less
<b>BOTTOM 20%</b>	\$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



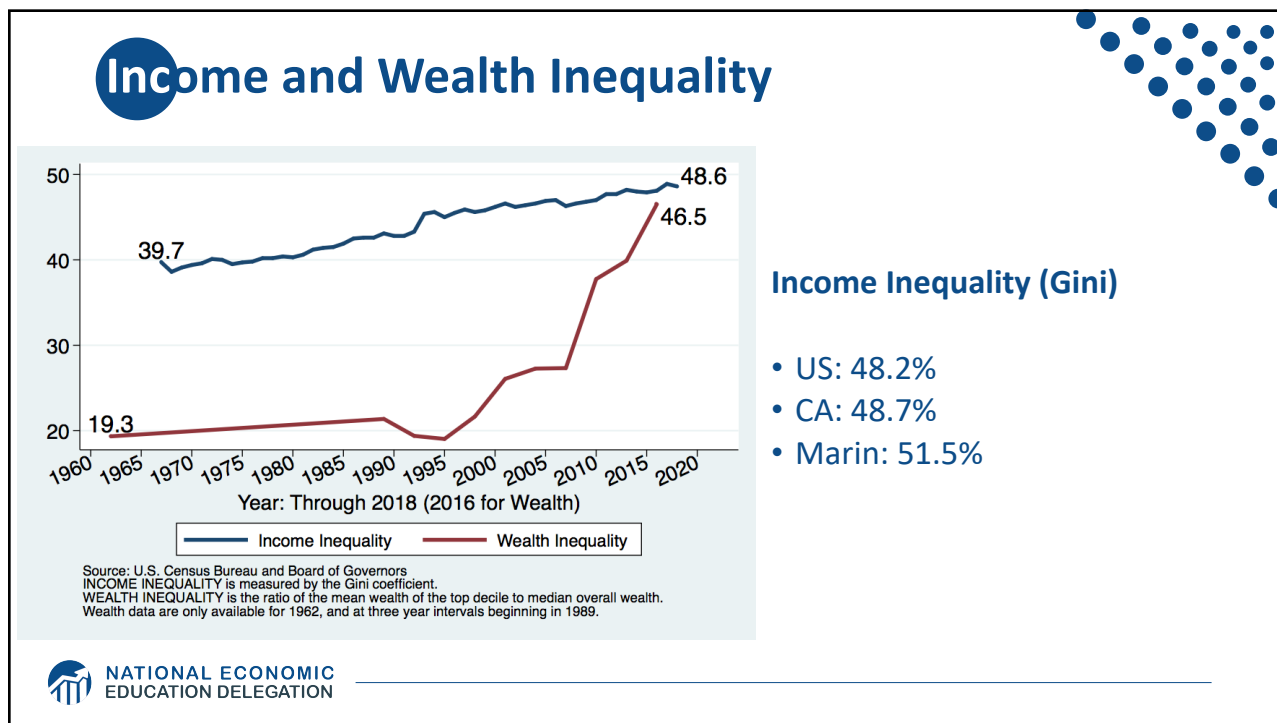
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## Growth Has Been Primarily at the Very Top

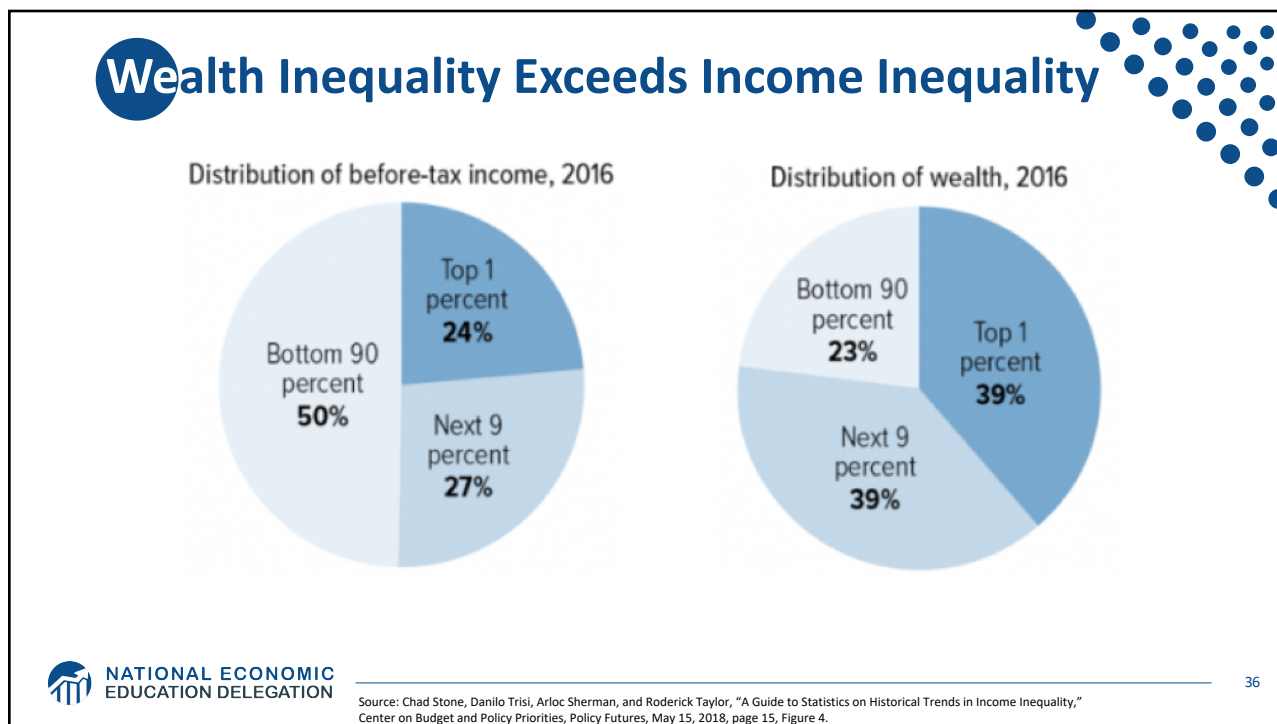


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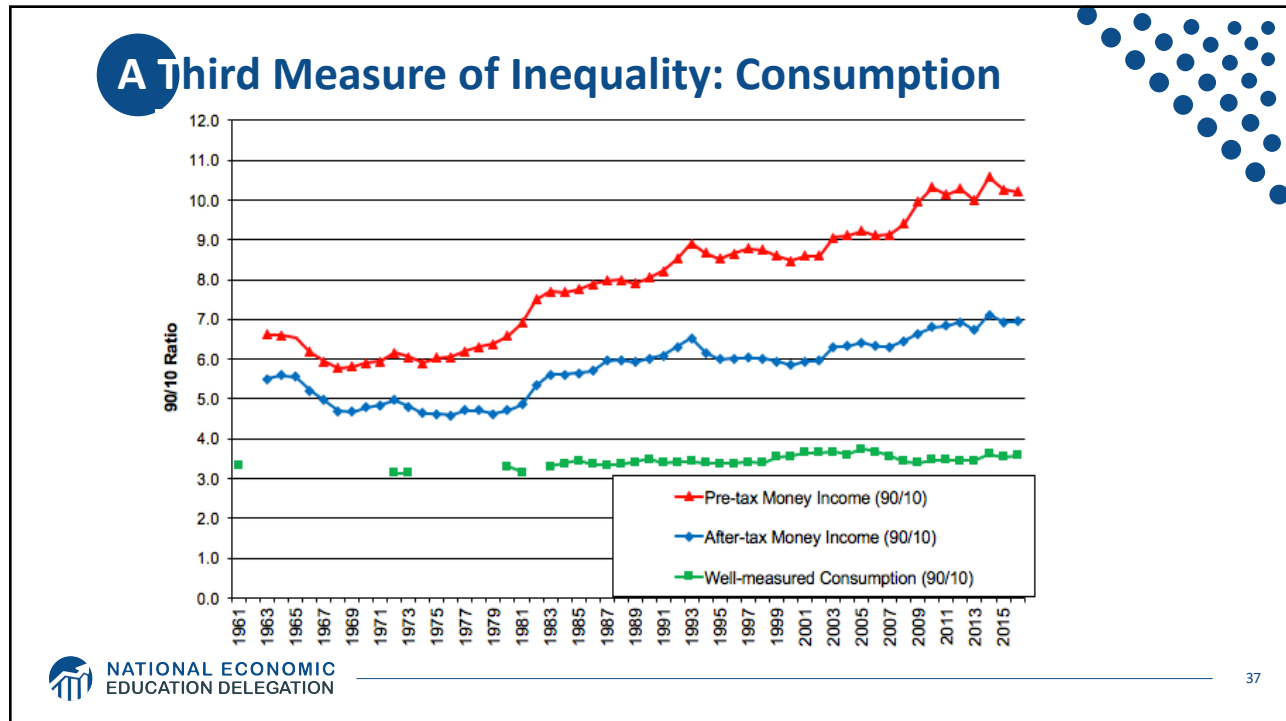
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## Consumption Inequality

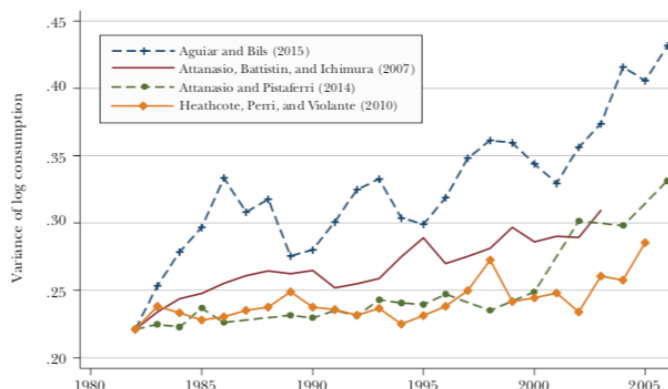
- Consumption is another important metric for judging inequality
- Arguably a better indicator of “well-being”
- Extremely difficult to measure
- Growing evidence that consumption inequality has also increased

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## Growing Evidence: Consumption Inequality

The Evolution of Consumption Inequality over Time as Measured by Different Papers



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Source: Orazio P. Attanasio and Luigi Pistaferri, "Consumption Inequality," Journal of Economic Perspectives, Volume 30, #2, Spring 2016, page 11, Figure 1.

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## Case Study: Economic Research

- **Early, controversial result is published**
- **Flurry of effort to understand the result**
- **Growing body of evidence**
- **Consensus reached**
  - Not always
  - Sometimes data continue to conflict
  - Often merely a preponderance of evidence drives understanding
- **Why has this happened with consumption inequality?**
  - Inadequacy of data and methods



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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.**



## Where Does Inequality Come From?

- **Labor Characteristics**
  - Demographics
    - Age distribution
  - Personal Choices
    - Educational attainment
    - Effort
    - Priorities
    - Household composition
  - Immigration
- **Market Forces**
  - Technology
  - Changing demand patterns
  - Competition for labor
- **Government Policy**
  - Market influence
  - Redistribution



# Government Policy and Inequality

## • Market Influence: PRE-distribution

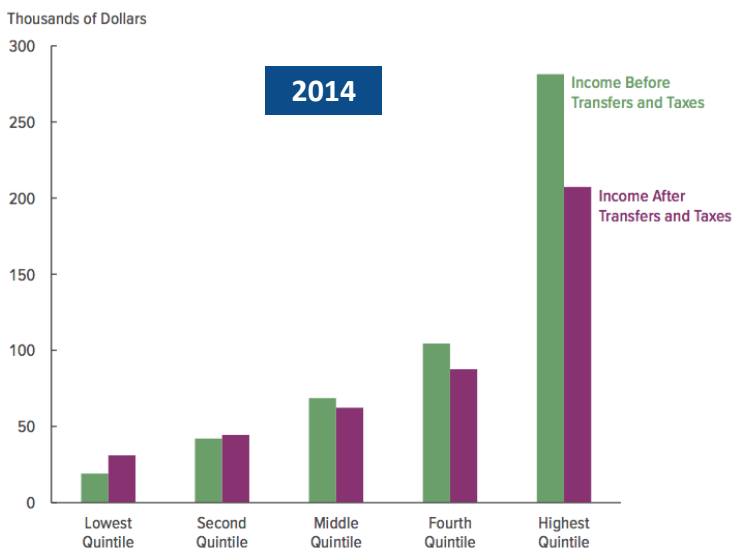
- Characteristics of labor
  - o Access to education
- Effects on labor demand
  - o Market regulation
    - Competition policy
  - o Labor regulations
    - Minimum wage, overtime, health insurance, etc.

## • RE-distribution

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

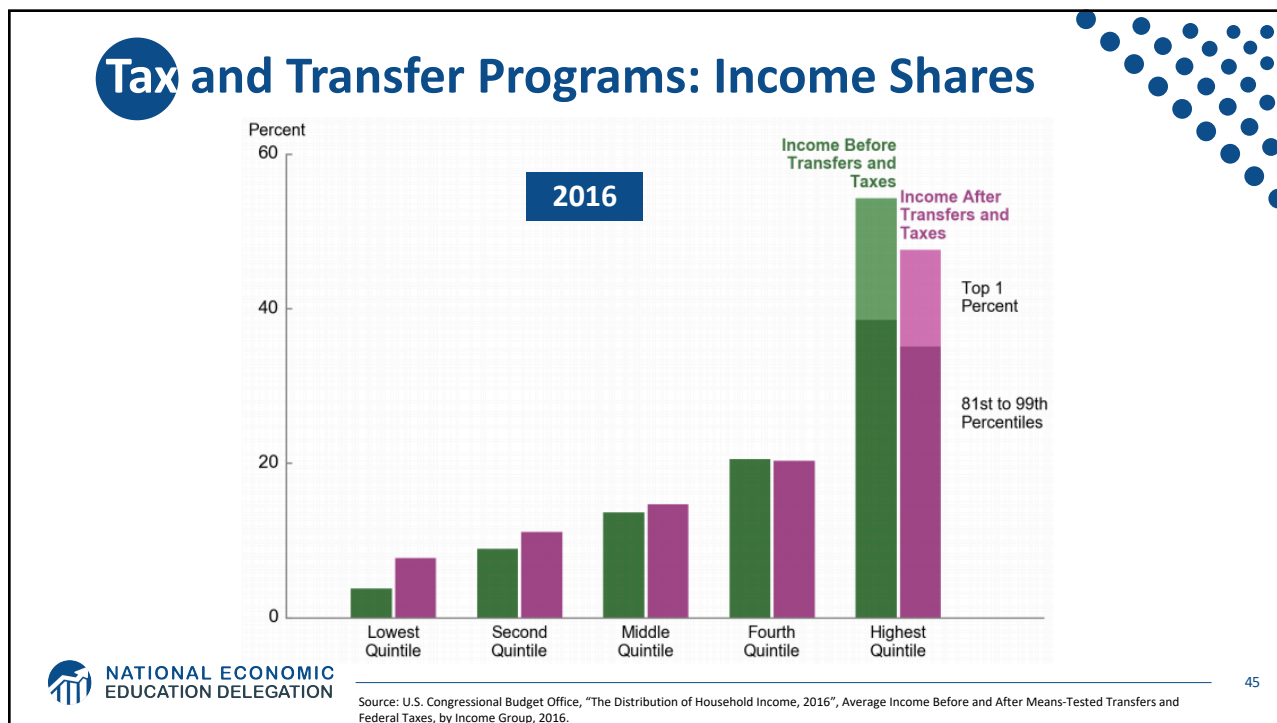
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# Tax and Transfer Programs and Inequality

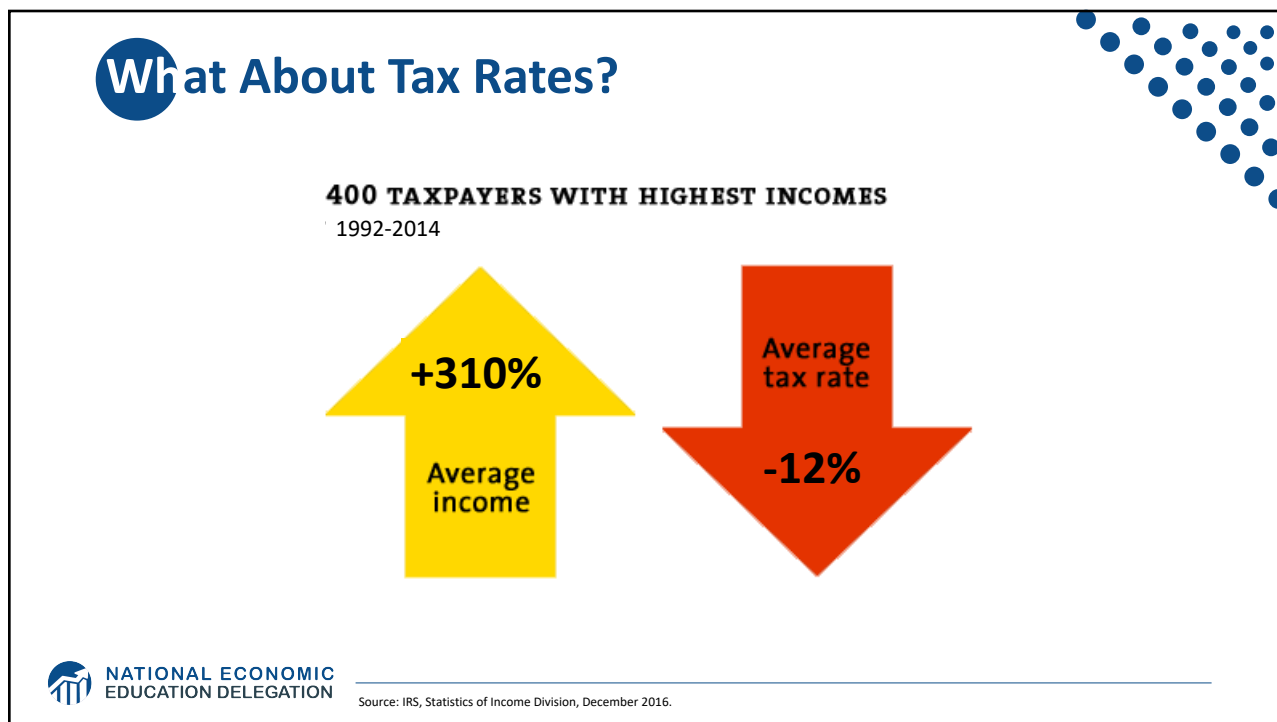


Source: U.S. Congressional Budget Office, "The Distribution of Household Income, 2014", Average Income Before and After Means-Tested Transfers and Federal Taxes, by Income Group, 2014.

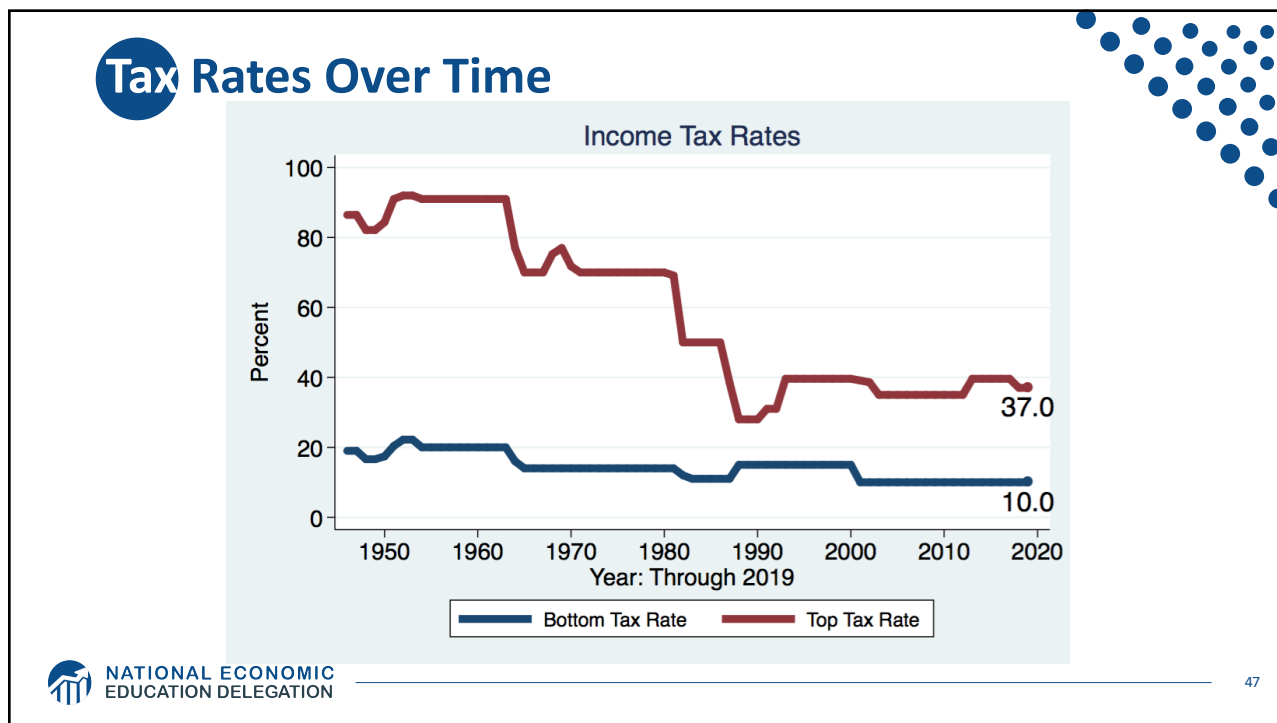
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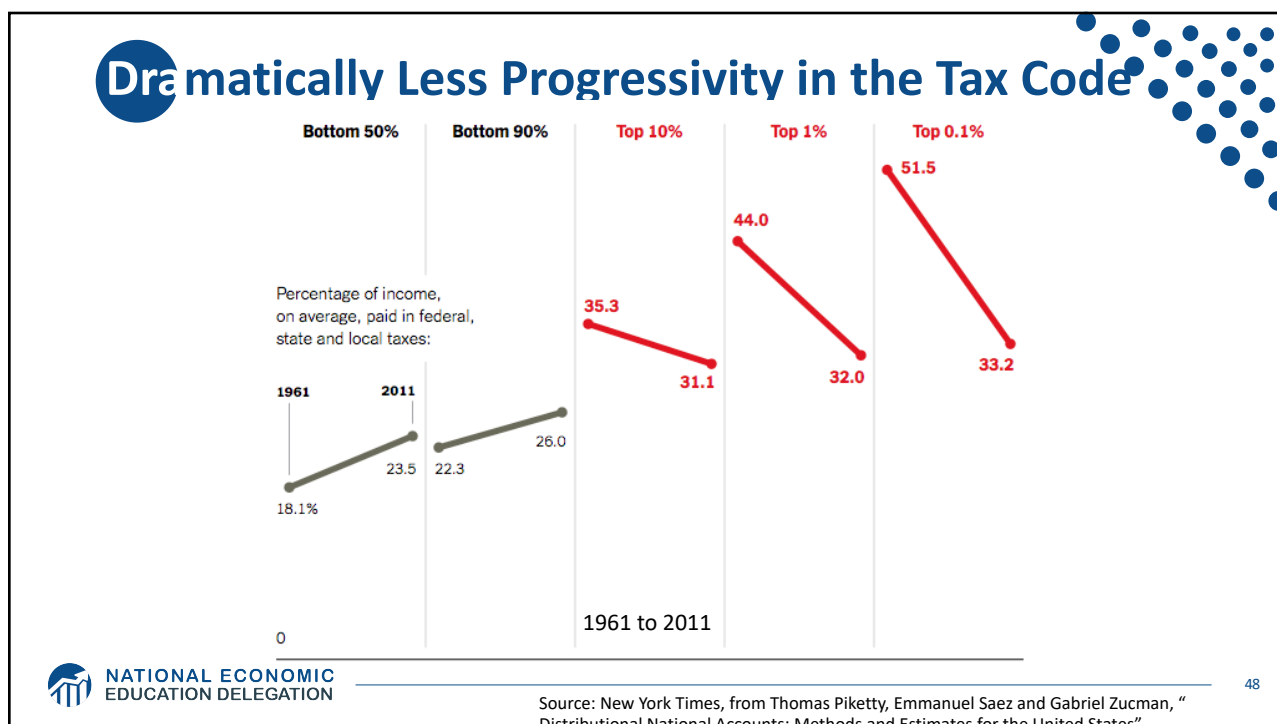
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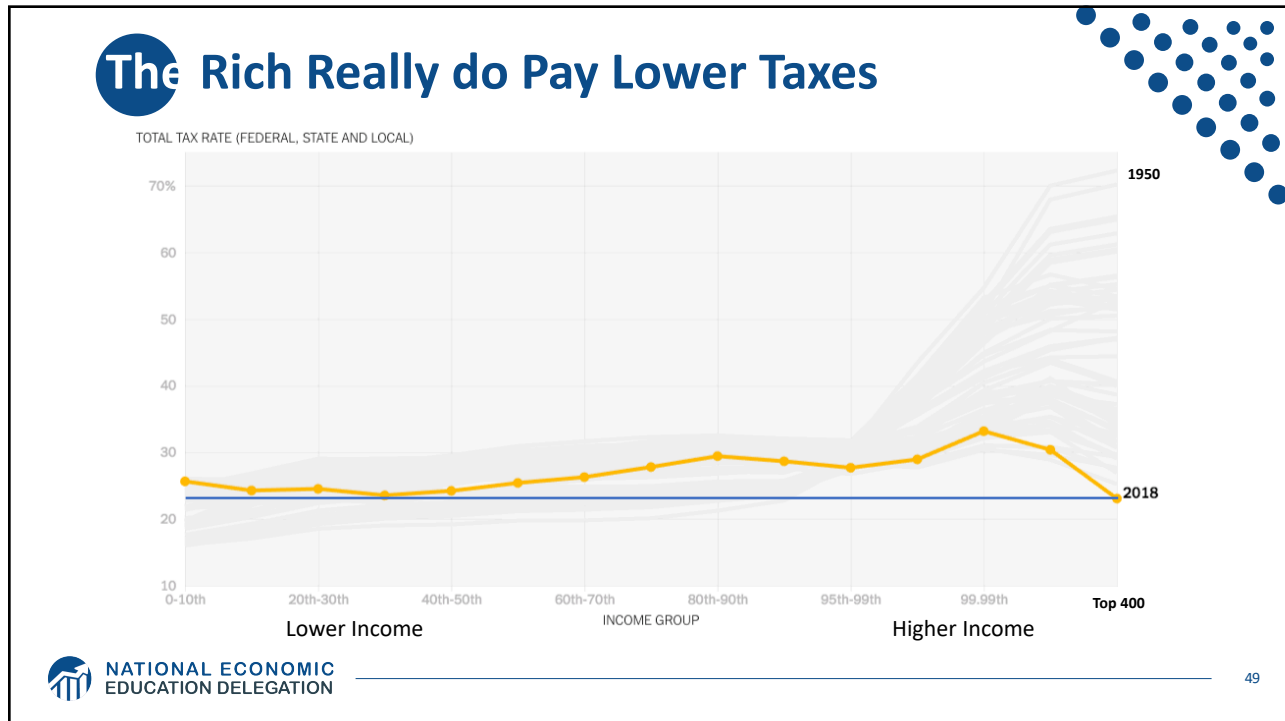
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Source: New York Times, from Thomas Piketty, Emmanuel Saez and Gabriel Zucman, "Distributional National Accounts: Methods and Estimates for the United States"

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## 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

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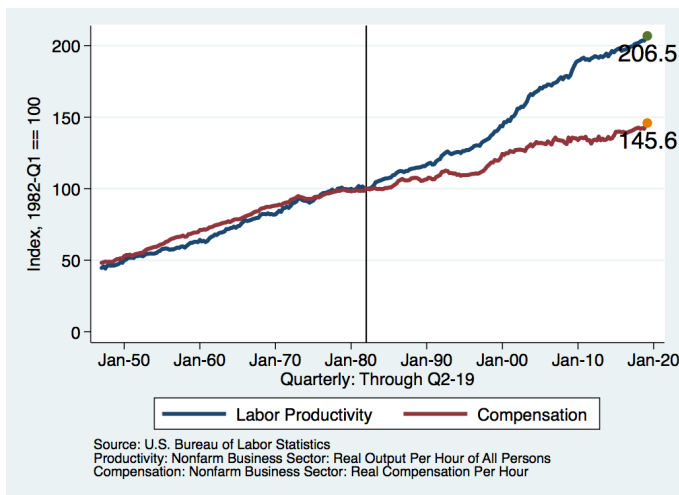
# Where Does Inequality Come From? Summary

- **Labor characteristics**
  - What do workers bring to the market?
- **Market forces**
  - How does the market value the labor characteristics?
- **Government policies**
  - PRE-distribution – affecting markets
  - Redistribution – affecting incomes



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# Labor Income is Unhinged from Productivity



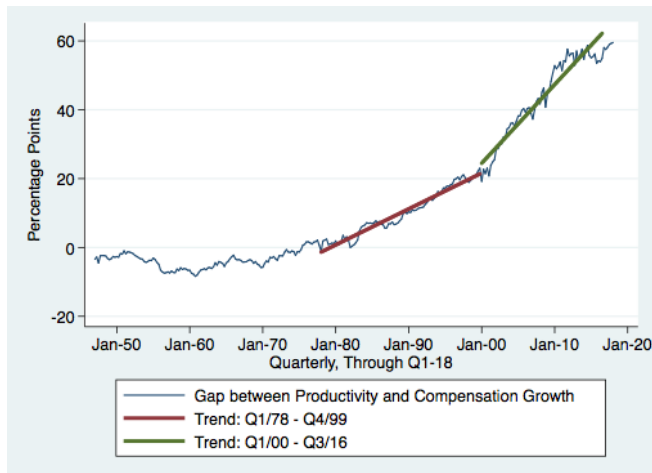
## Why?

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



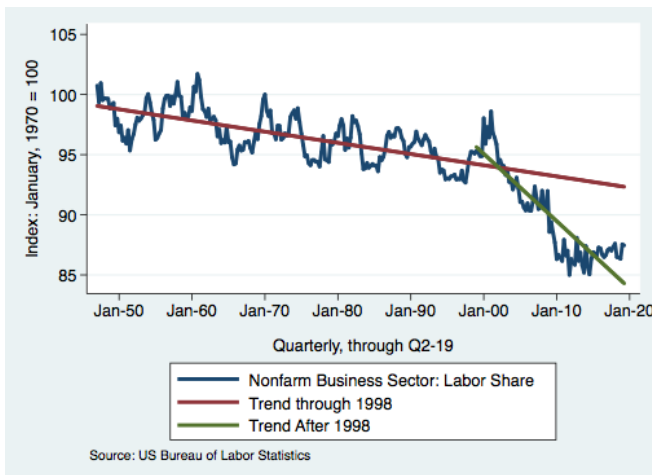
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## Labor Share Gap Acceleration

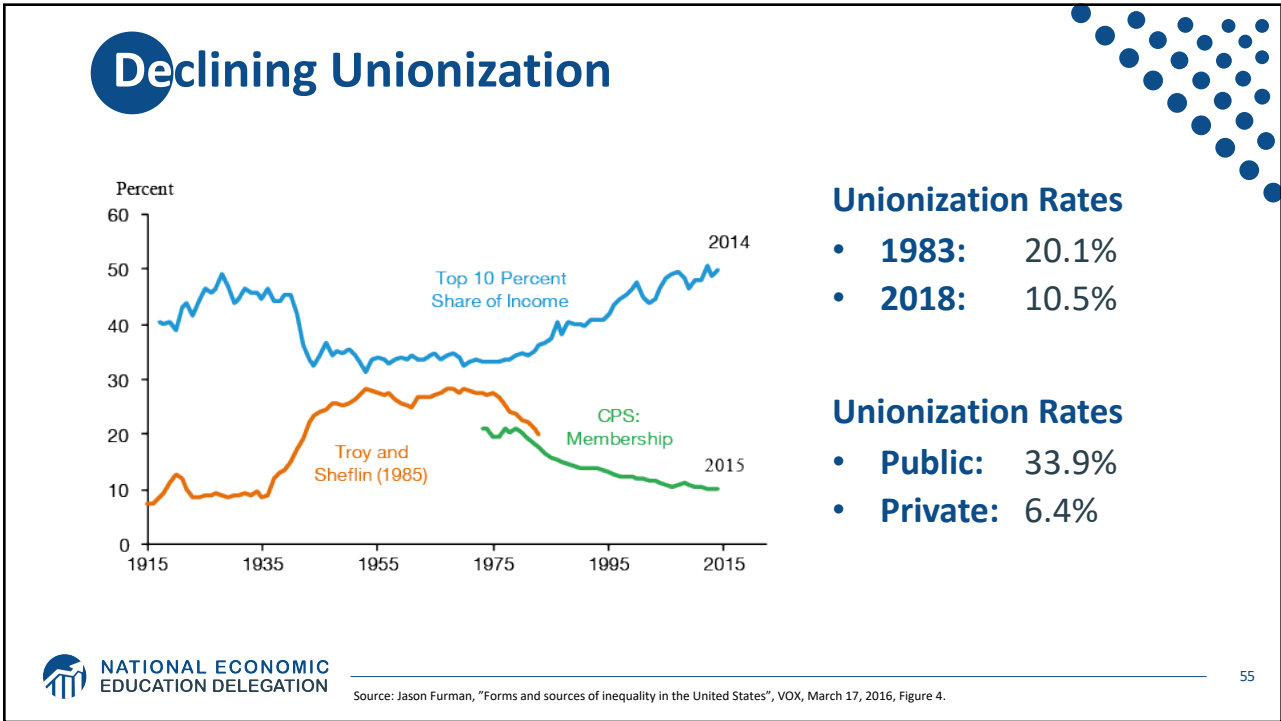


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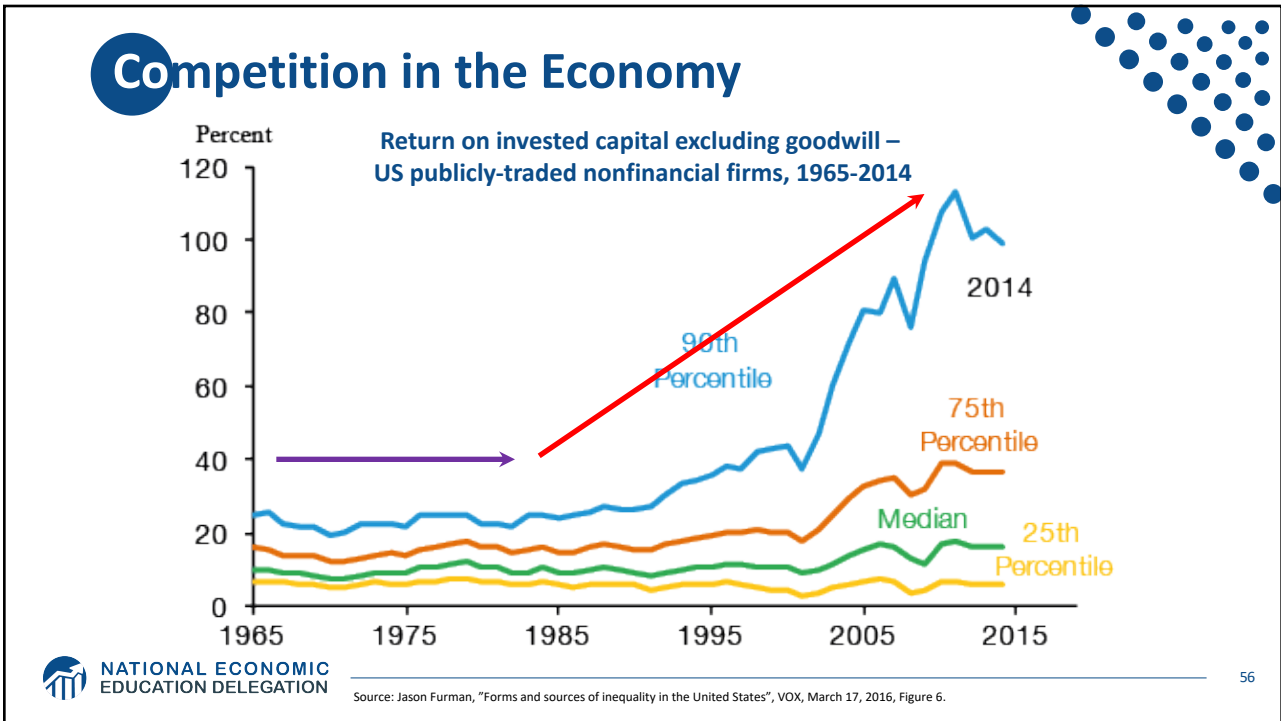
## Effects of the Unhinging?



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## Growing Revenue Concentration

Industry	Percentage Point Change in Revenue Share Earned by 50 Largest Firms, 1997-2007
Transportation and Warehousing	12.0
Retail Trade	7.6
Finance and Insurance	7.4
Real Estate Rental and Leasing	6.6
Utilities	5.6
Wholesale Trade	4.6
Educational Services	2.7
Accommodation and Food Services	2.6
Professional, Scientific and Technical Services	2.1
Administrative/Support	0.9
Other Services, Non-Public Admin	-1.5
Arts, Entertainment and Recreation	-2.3
Health Care and Social Assistance	-3.7



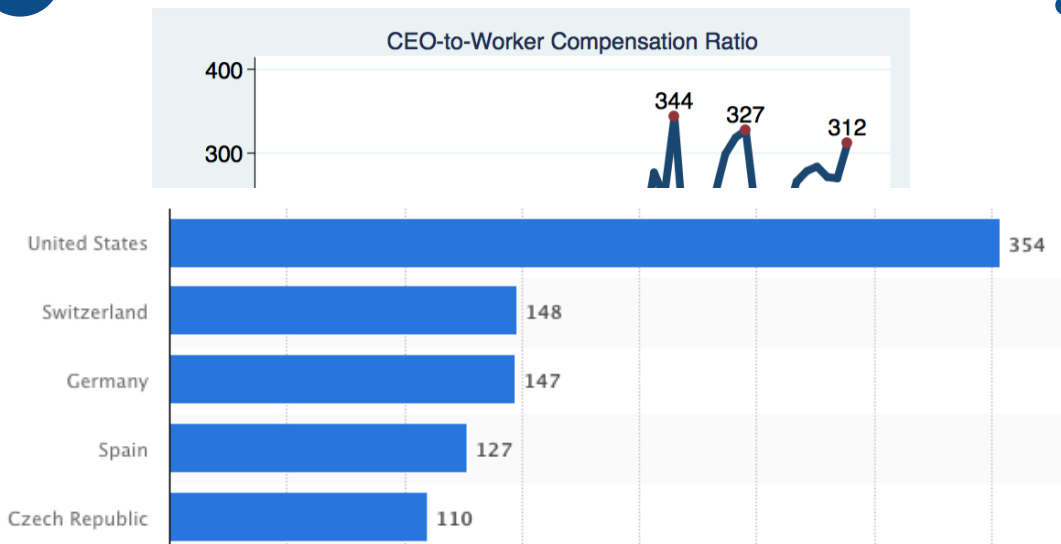
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Source: Furman and Orszag, "A Firm-Level Perspective on the Role of Rents in the Rise in Inequality", 2015.

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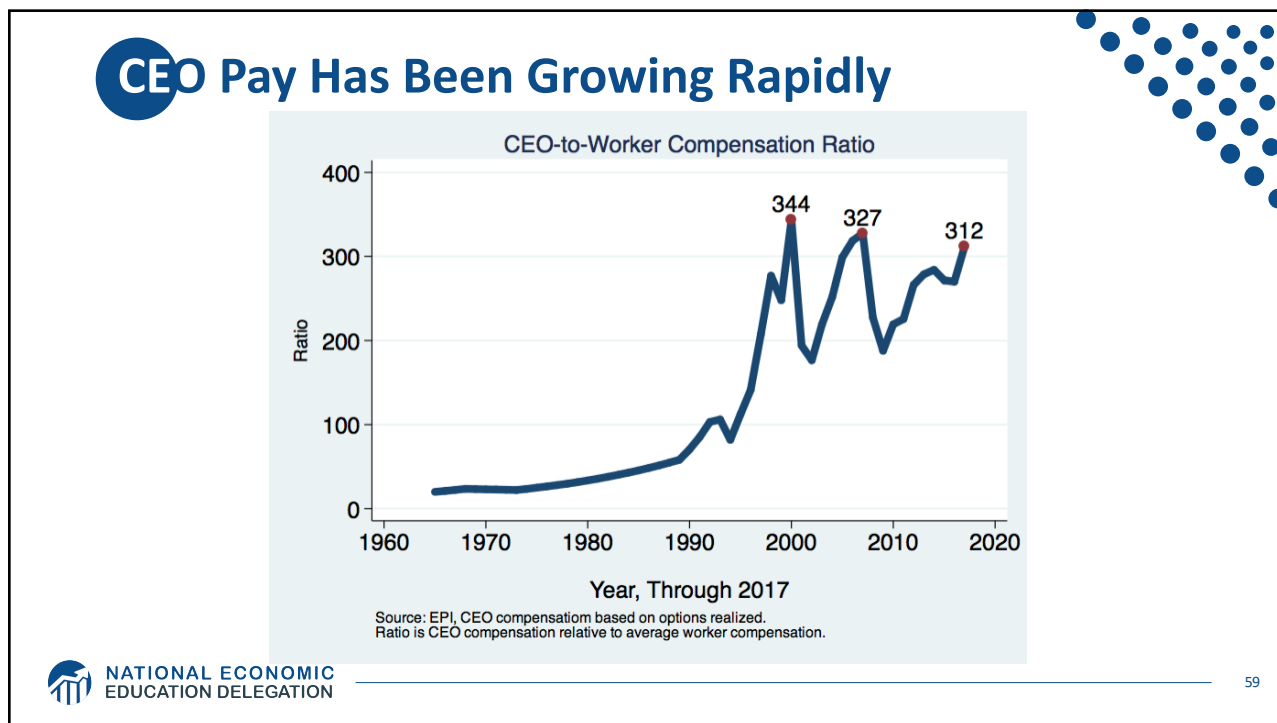
## CEO Pay Has Been Growing Rapidly



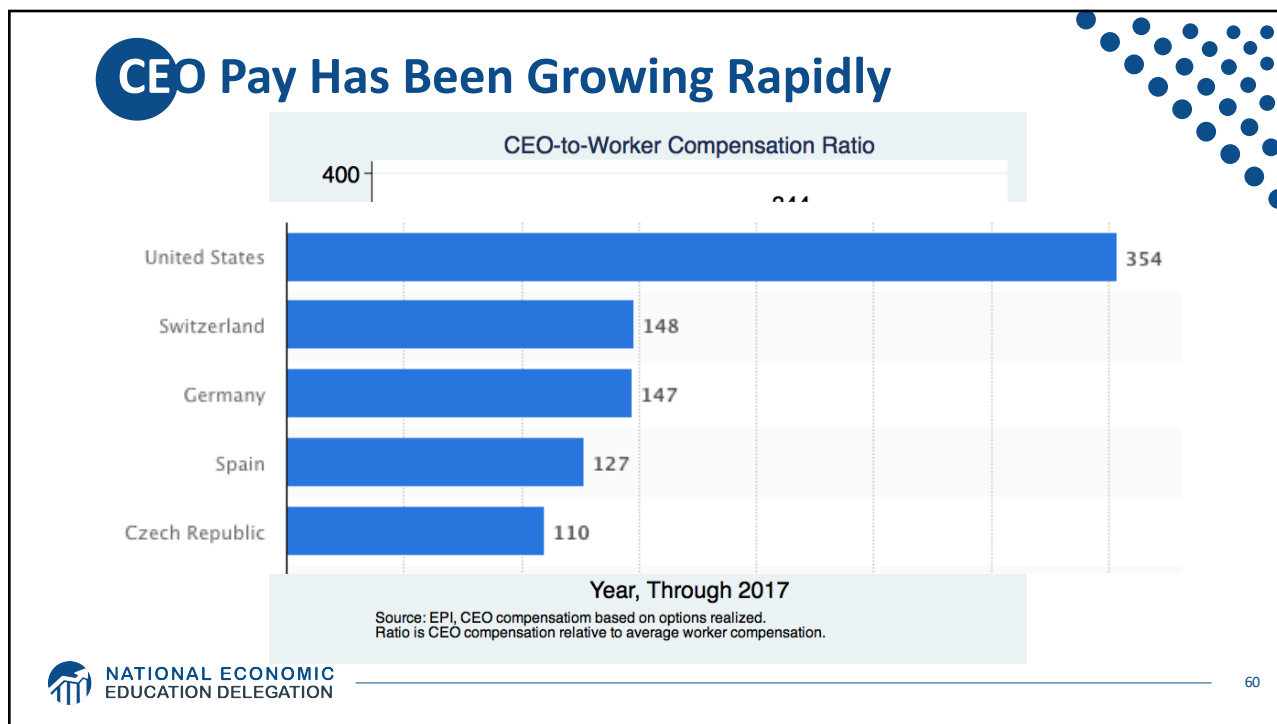
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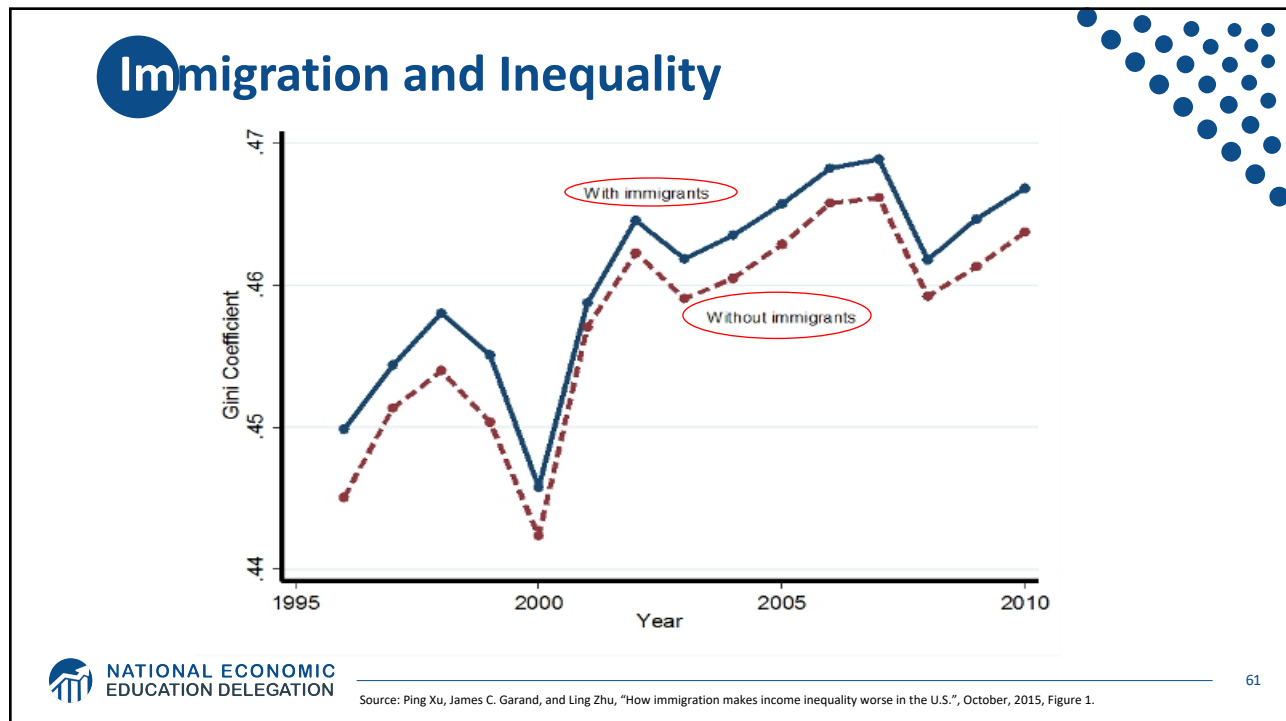
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## Immigration and Inequality- Summary

- **Beginning in about 1970, the immigrant share of the U.S. Population increased dramatically.**
  - 5% in 1970 and 14% in 2016
- **Immigration tends to happen most often among:**
  - Low-skilled low-wage workers
  - High-skilled high-wage workers
- **Immigration has likely increased income inequality.**
- **Its effect has likely been small.**
  - ~5% between 1980 and 2000
  - No reason to think it has been bigger since

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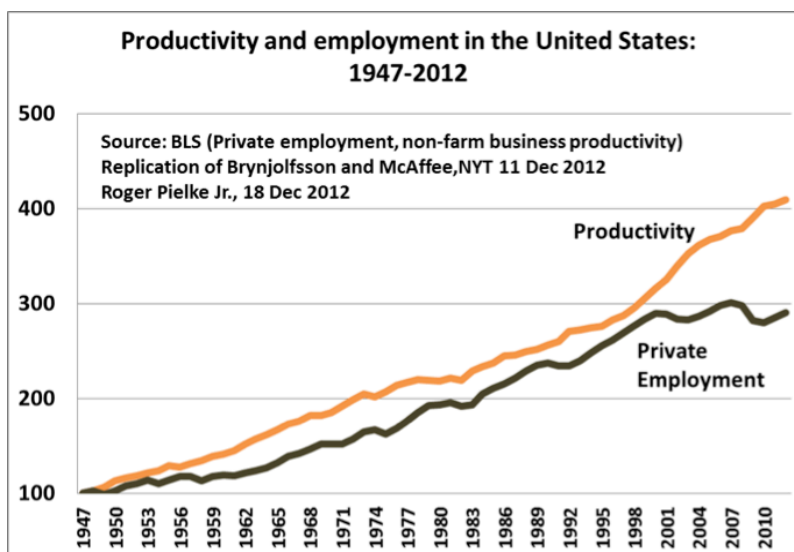
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## Technological Change and Inequality

- **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 Benefits Ownership over Labor



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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

- **Technology:**

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

- **Modern day Robber Barons?**

- Ruthlessly absorbing as much income as they can.
- Lack of regard for labor.



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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.**



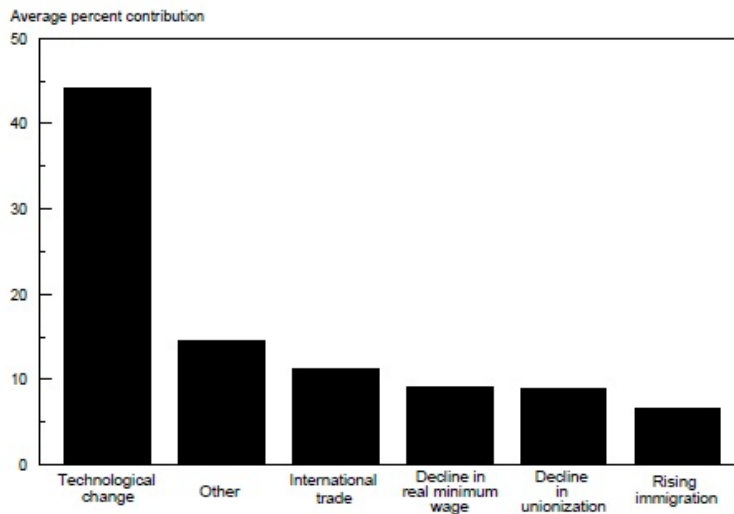
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## What is driving increasing inequality?

- **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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## Sources of Inequality Through Late 1990s



Source: Federal Reserve Bank of New York.

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# Why Does Inequality Matter?

- **Too little inequality can:**

- Reduce individual motivation
- Slow economic growth

- **Too much inequality can:**

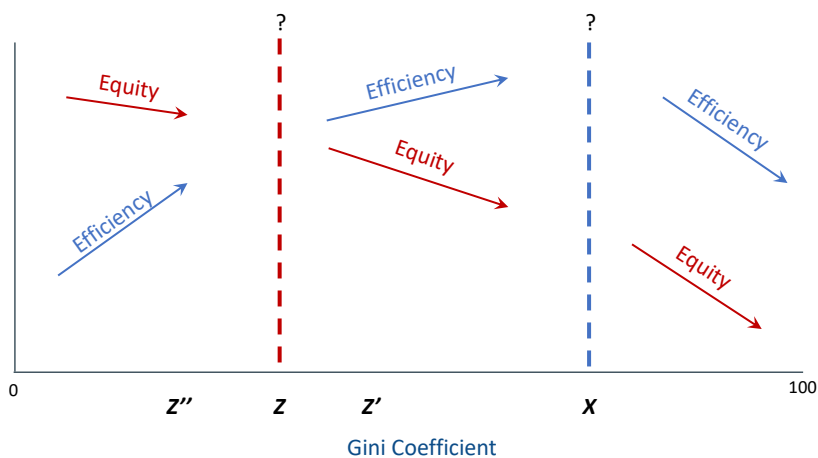
- Reduce individual motivation
- Slow economic growth

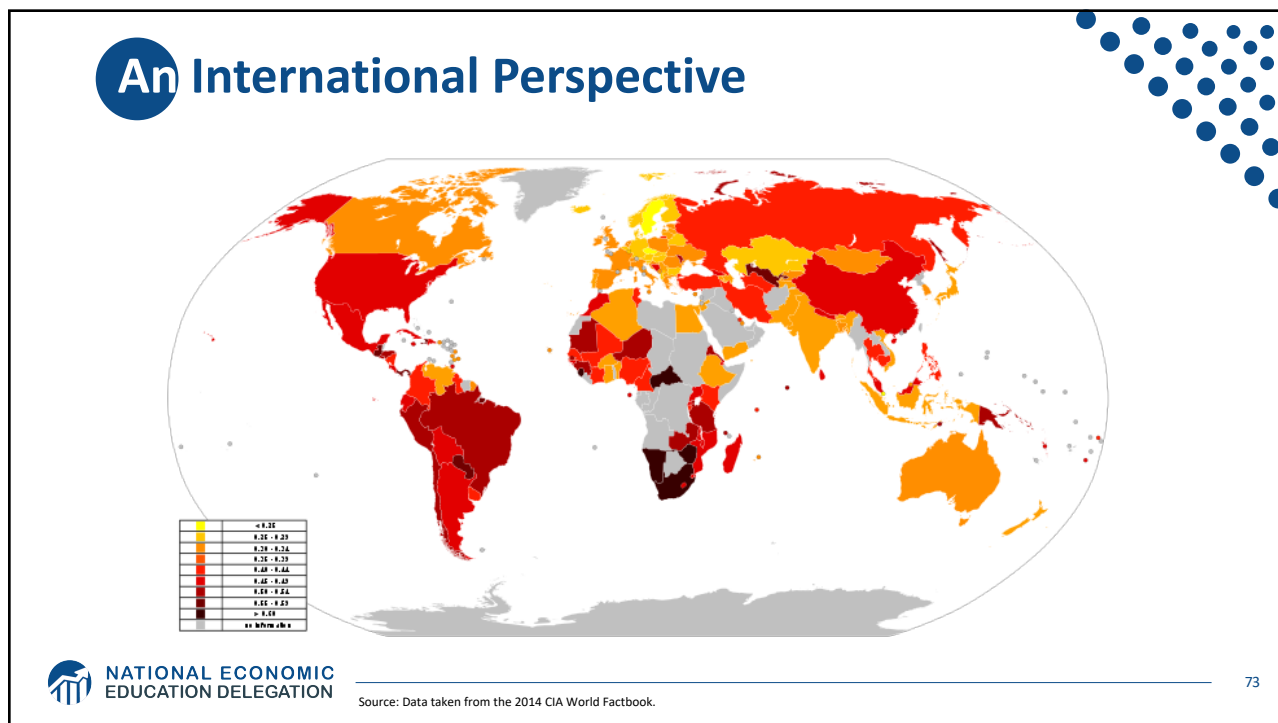
- **Too much inequality may also:**

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

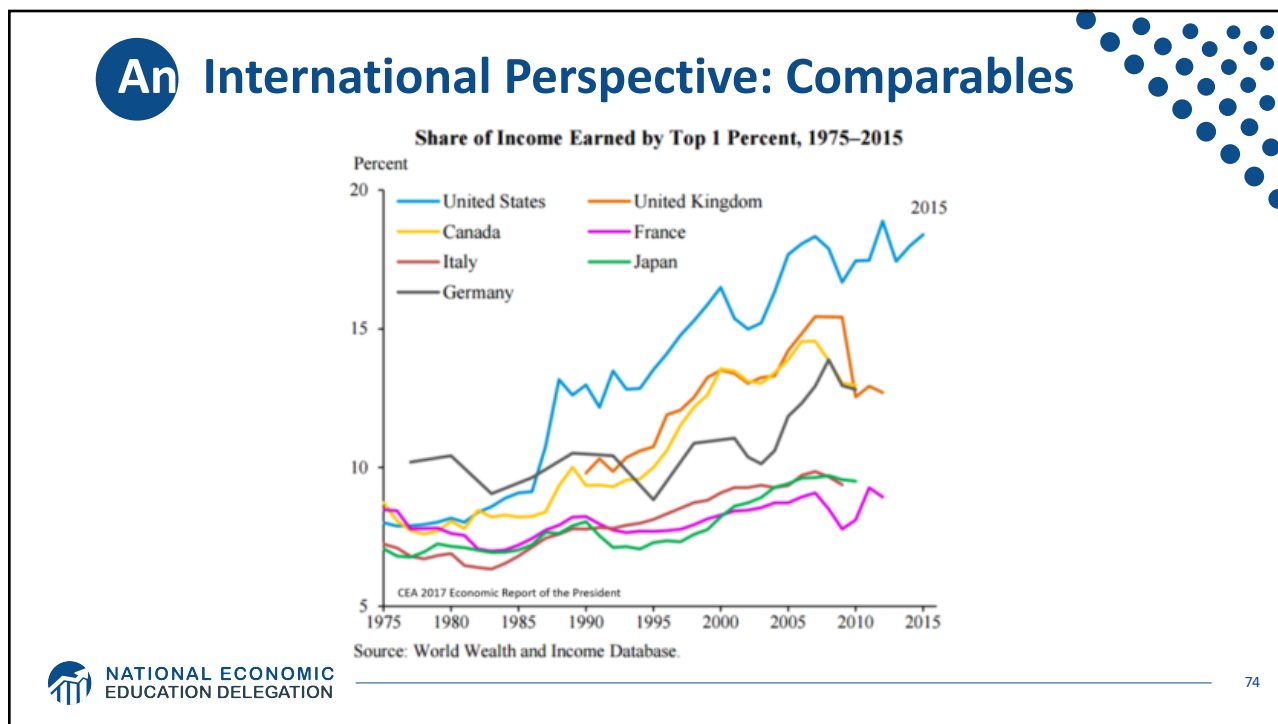


# How Much Inequality Is too Much?





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## Addressing Inequality: Is It A Problem?

- **Why it might be a problem.**

- Economic issues (*Efficiency*)
  - o There is evidence that at some level, increased inequality slows economic growth.
  - o Or, inequality concentrates resources among investors.
- Noneconomic issues (*Equity*)
  - o 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?**



## 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



## 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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## What to do About Inequality?

- **Nothing?**
- **Redistribution?**
- **PRE-distribution?**
- **Access to resources?**



## Tension in Policy Solutions

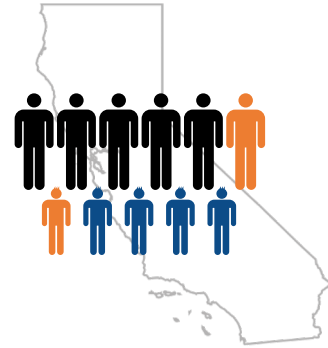
- **Is it possible to increase growth at the same time that you reduce income inequality?**
  - Common refrain among some that government intervention in the economy is always and everywhere bad for growth.
- **Possibly: expanding equality of access promotes the full utilization of resources.**
  - Expanding equality of access requires resources likely from the well-to-do.





## 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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