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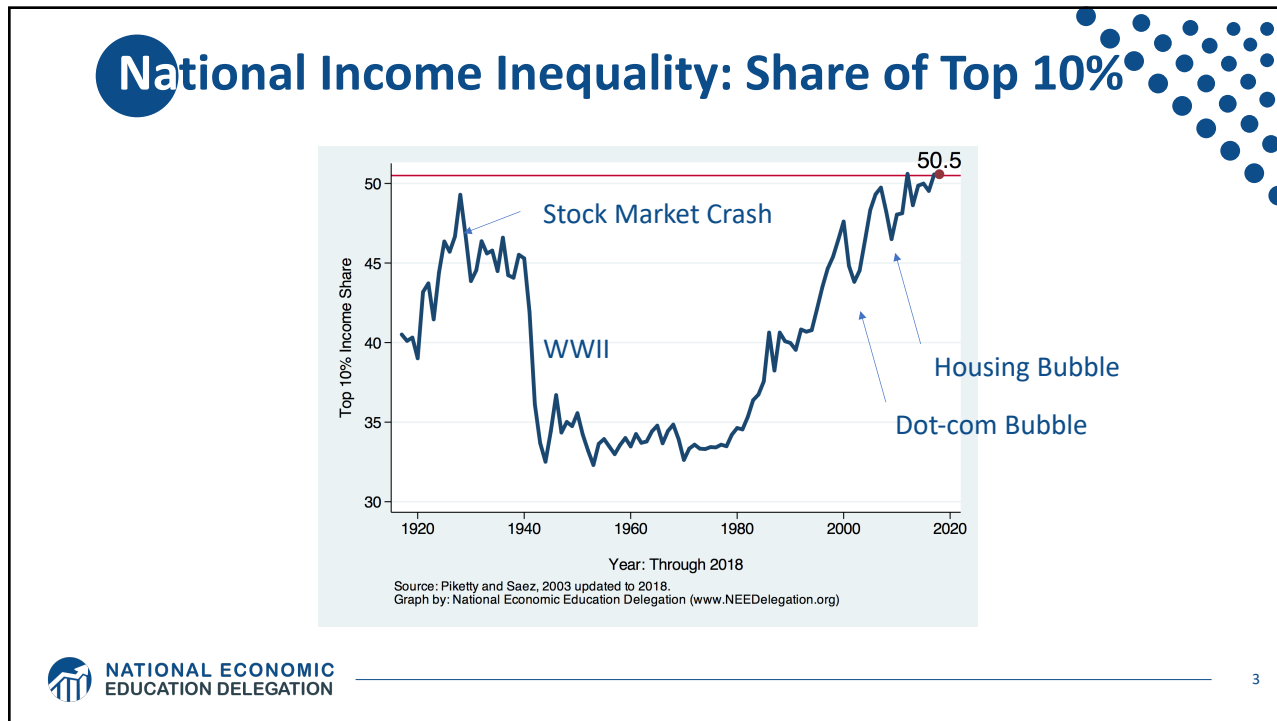
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- **This slide deck was authored by:**
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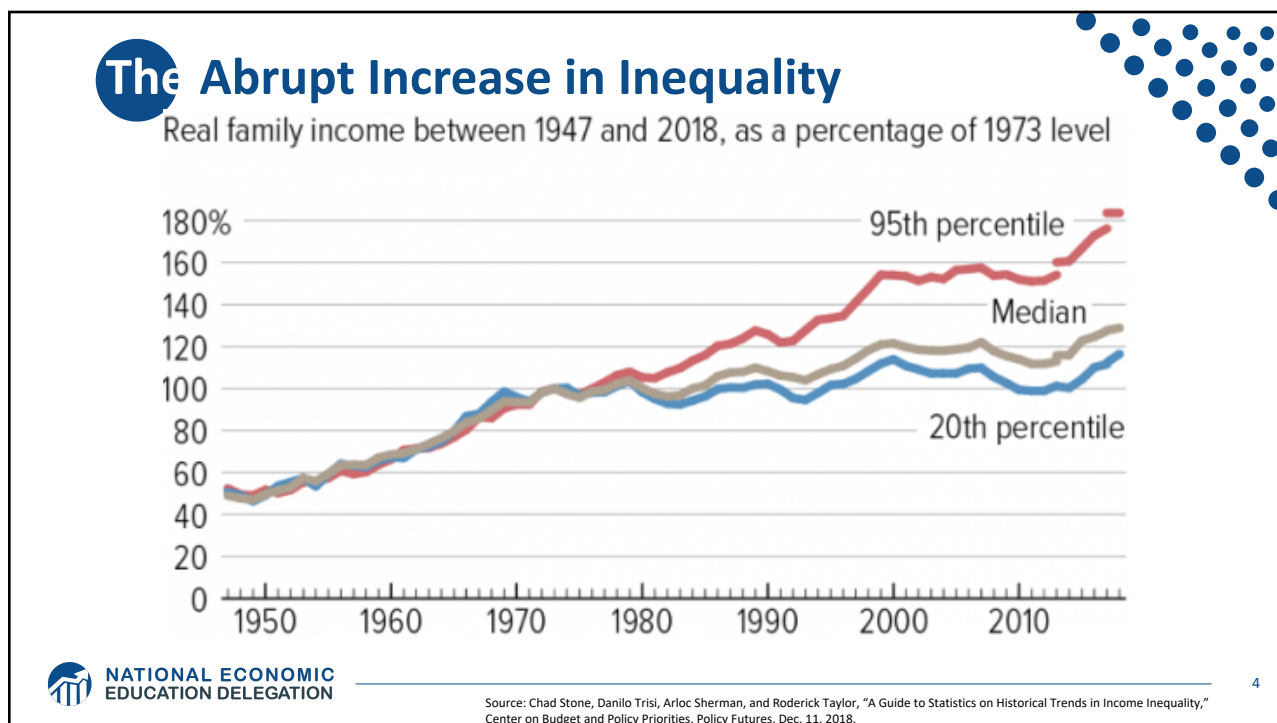
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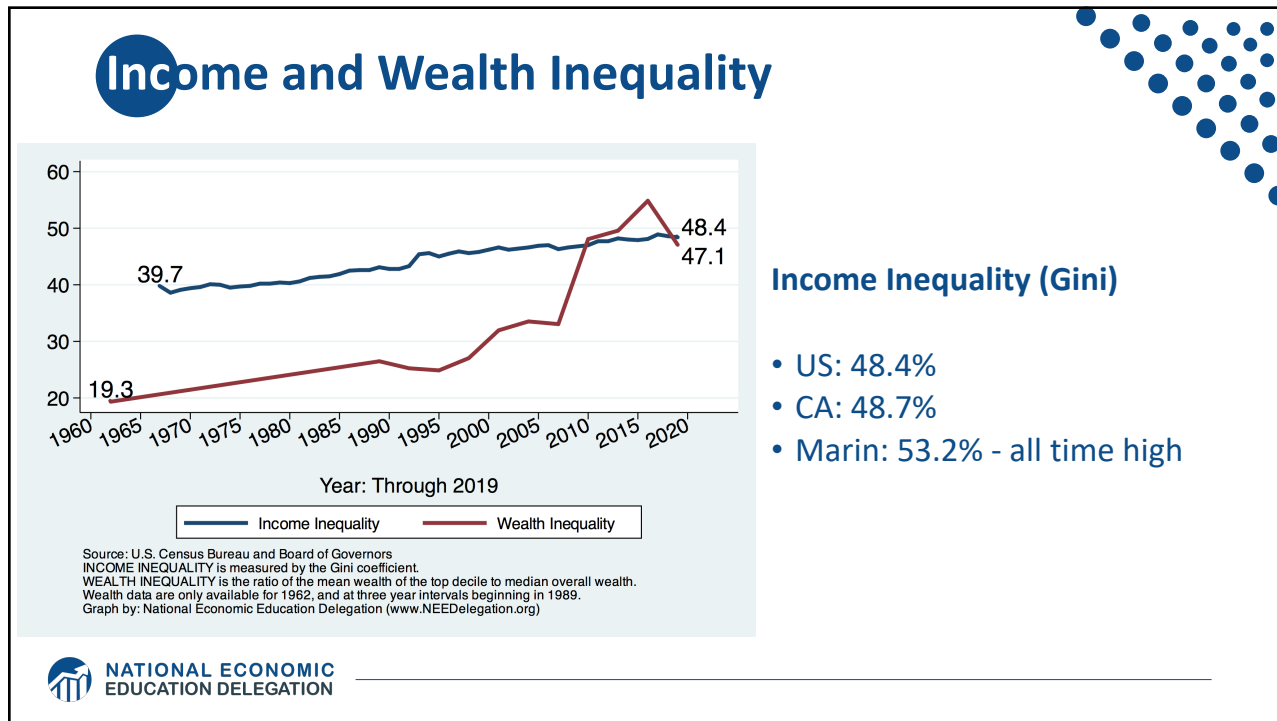
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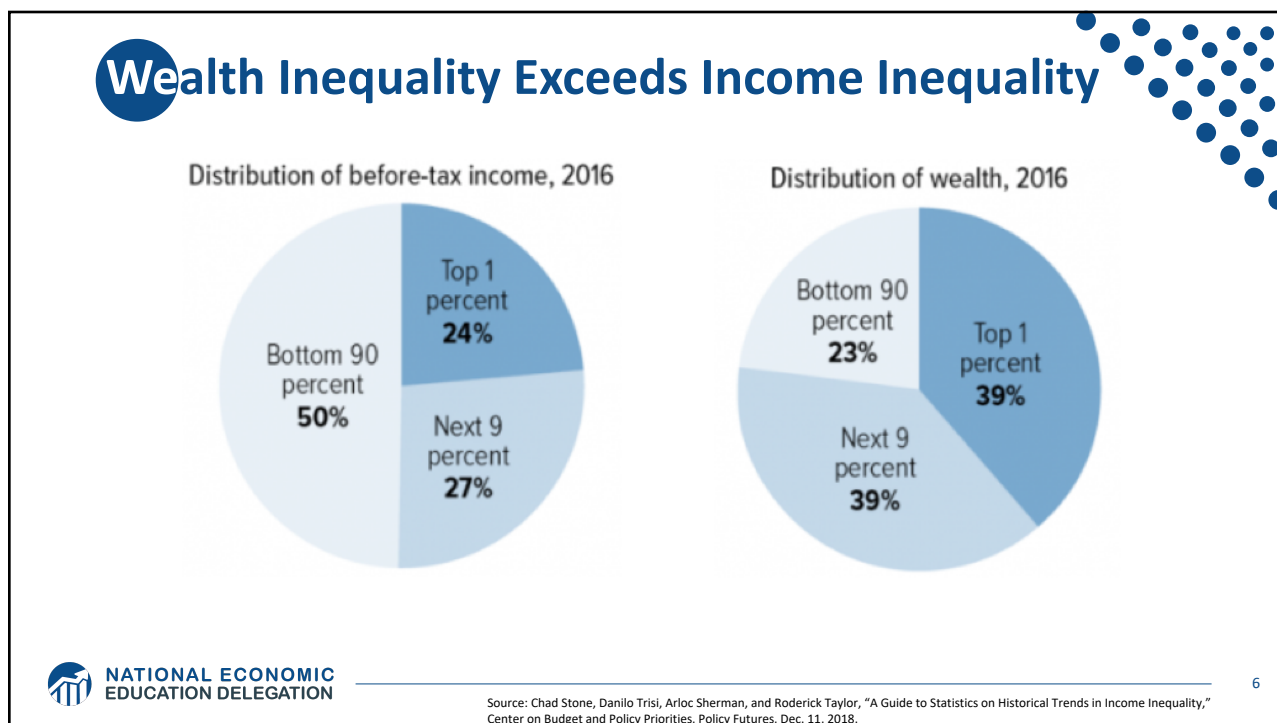
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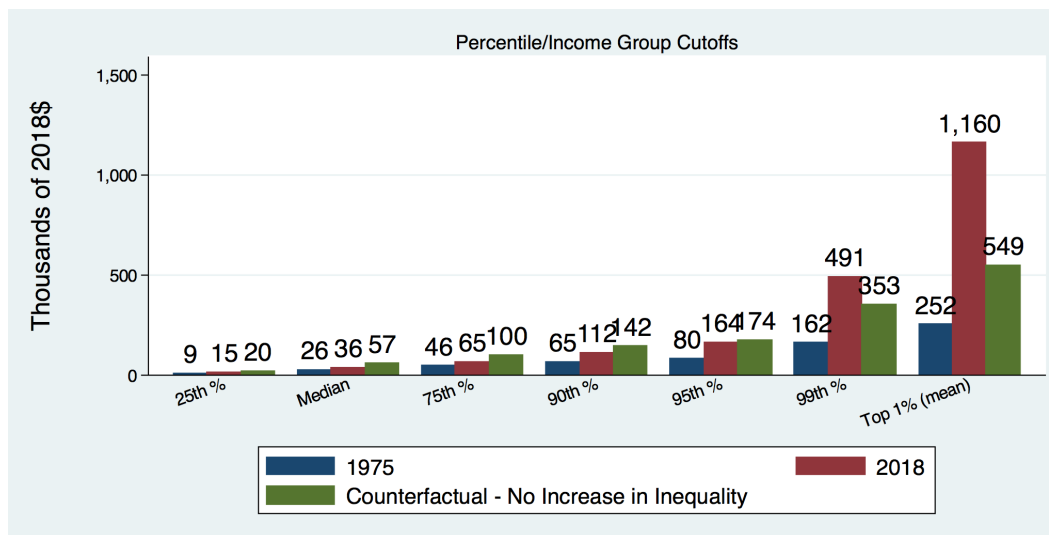


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How Has Inequality Influenced Incomes?



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Where Does Inequality Come From?

- **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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Why Does Inequality Matter?

- **Too little inequality can:**

- Reduce individual motivation
- Slow economic growth

- **Too much inequality can:**

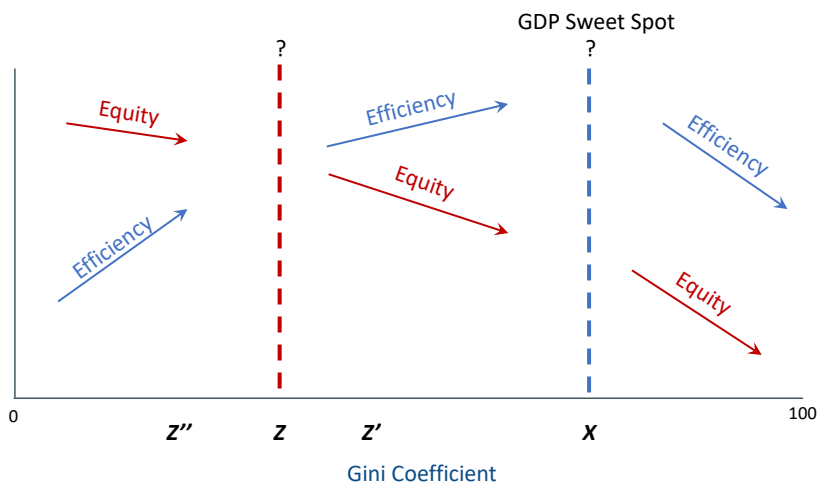
- Reduce individual motivation
- Slow economic growth

- **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?



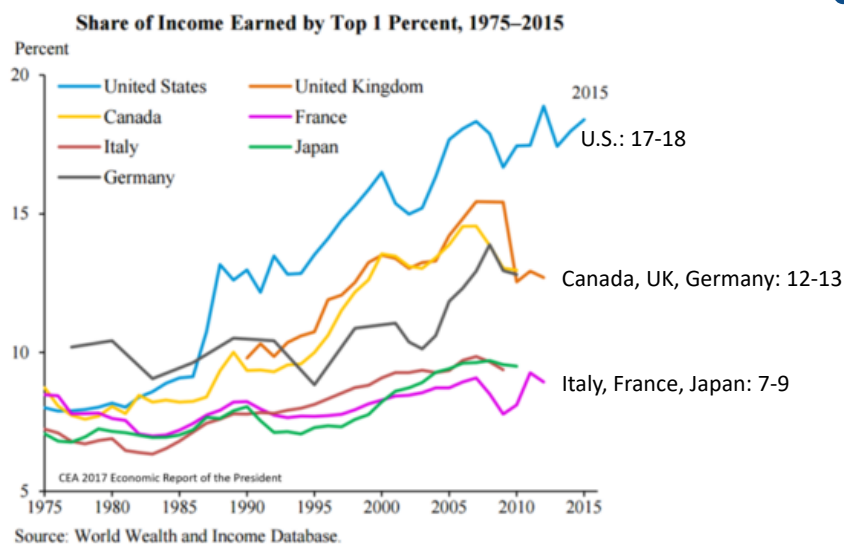
Addressing Inequality: Is It A Problem?

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

- Economic issues (*Efficiency*)
 - There is evidence that at some level, increased inequality slows economic growth.
 - Or, inequality concentrates resources among investors.
- Noneconomic issues (*Equity*)
 - 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. It can be addressed through policy.**

An International Perspective



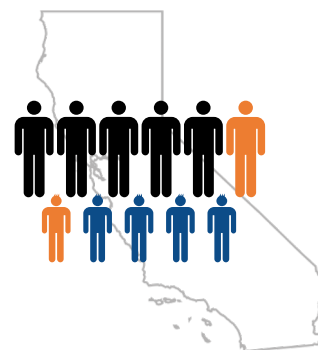
Tension in Policy Solutions

- **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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