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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: 54 members**

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

- **Delegates: 585+ members**

- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

- **Global Partners: 44 Ph.D. Economists**

- Aid in slide deck development



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## Available NEED Topics Include:

- **Coronavirus Economics**
- **Climate Change**
- **Economic Inequality**
- **Economic Mobility**
- **US Social Policy**
- **Trade and Globalization**
- **Minimum Wages**
- **The U.S. Economy**
- **Immigration Economics**
- **Housing Policy**
- **Federal Budgets**
- **Federal Debt**
- **Black-White Wealth Gap**
- **Autonomous Vehicles**



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## Credits and Disclaimer

- **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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- **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**
- **Measurement**
- **How does it happen?**
- **Does it matter?**
- **Is it a problem?**
- **What to do about it**



## Economic Inequality: Income

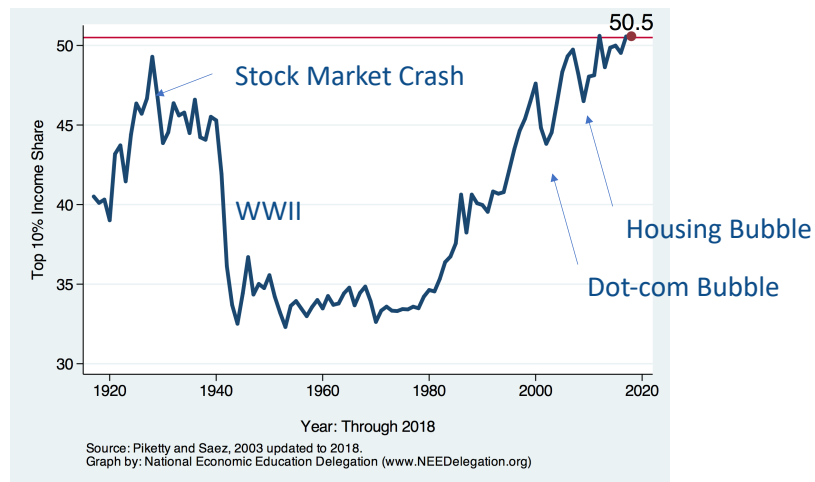
- **Definition:**

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

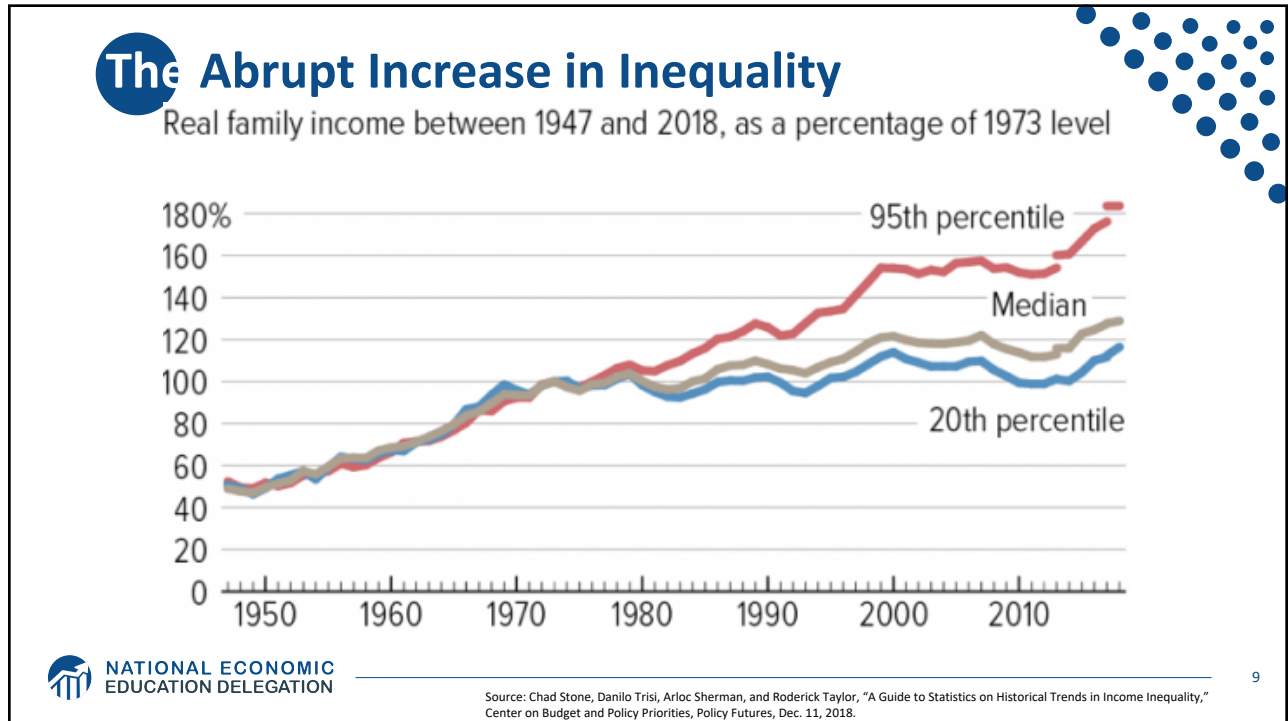


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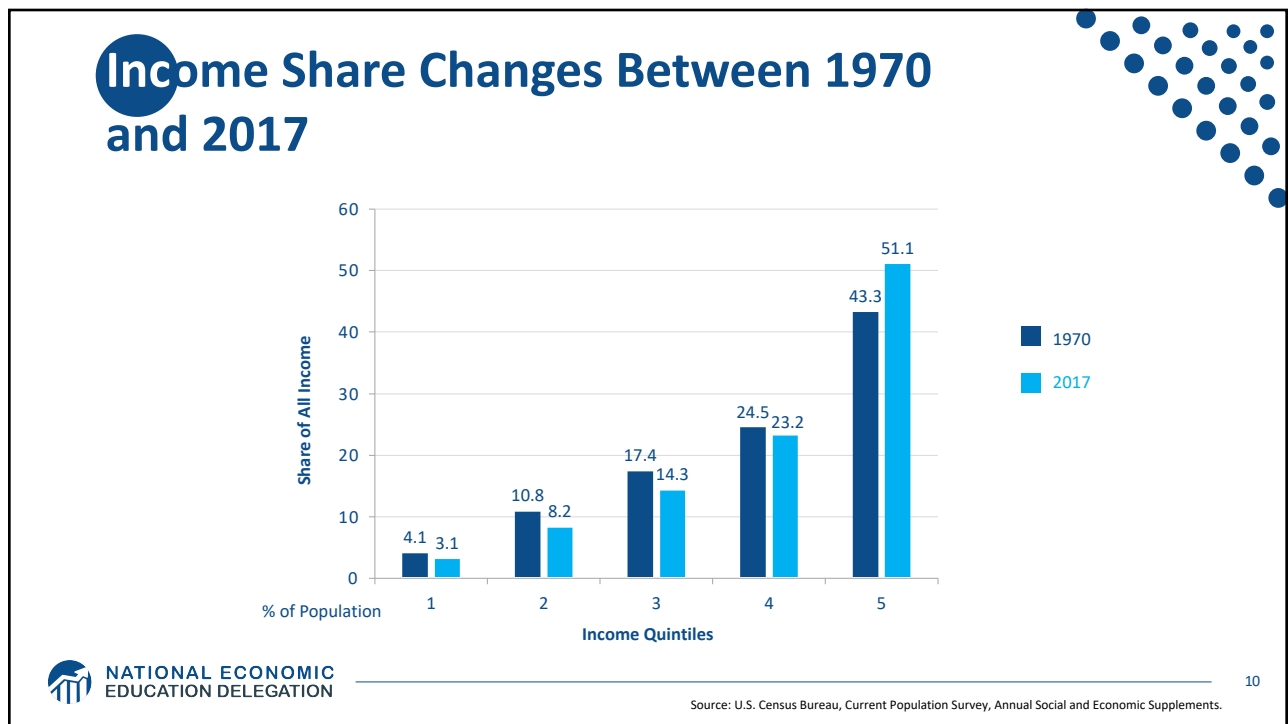
## National Income Inequality: Share of Top 10%



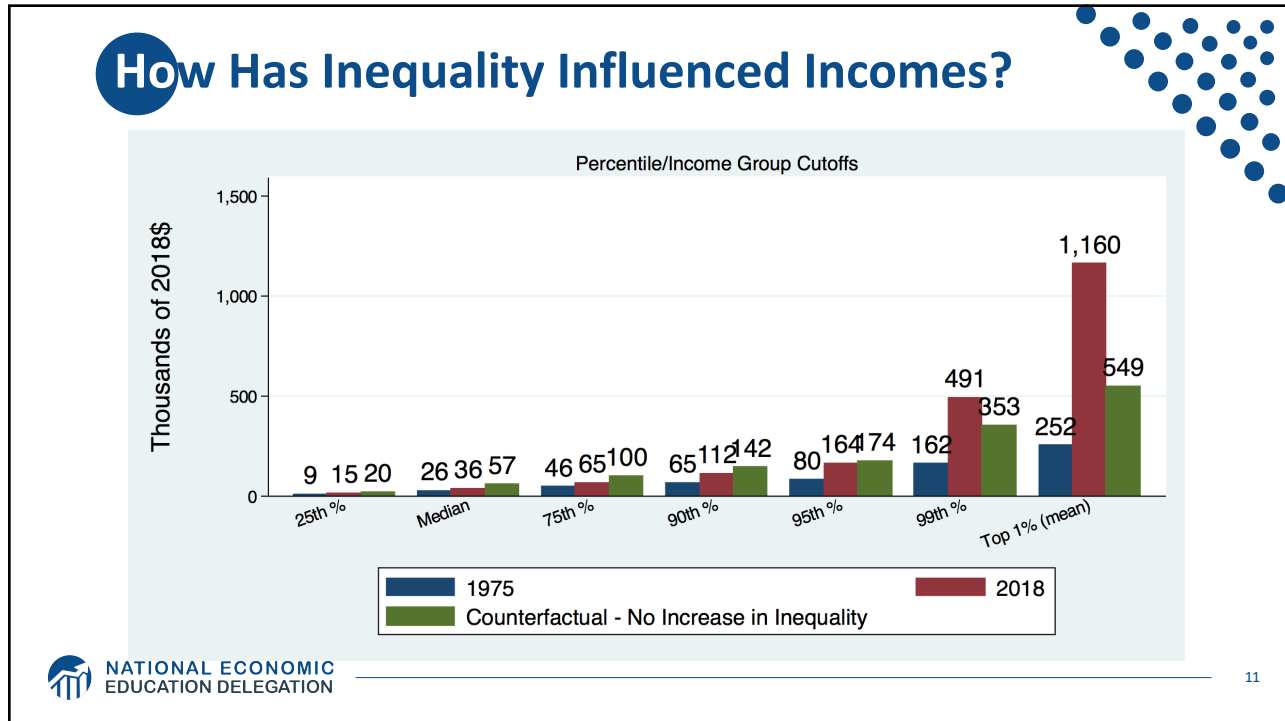
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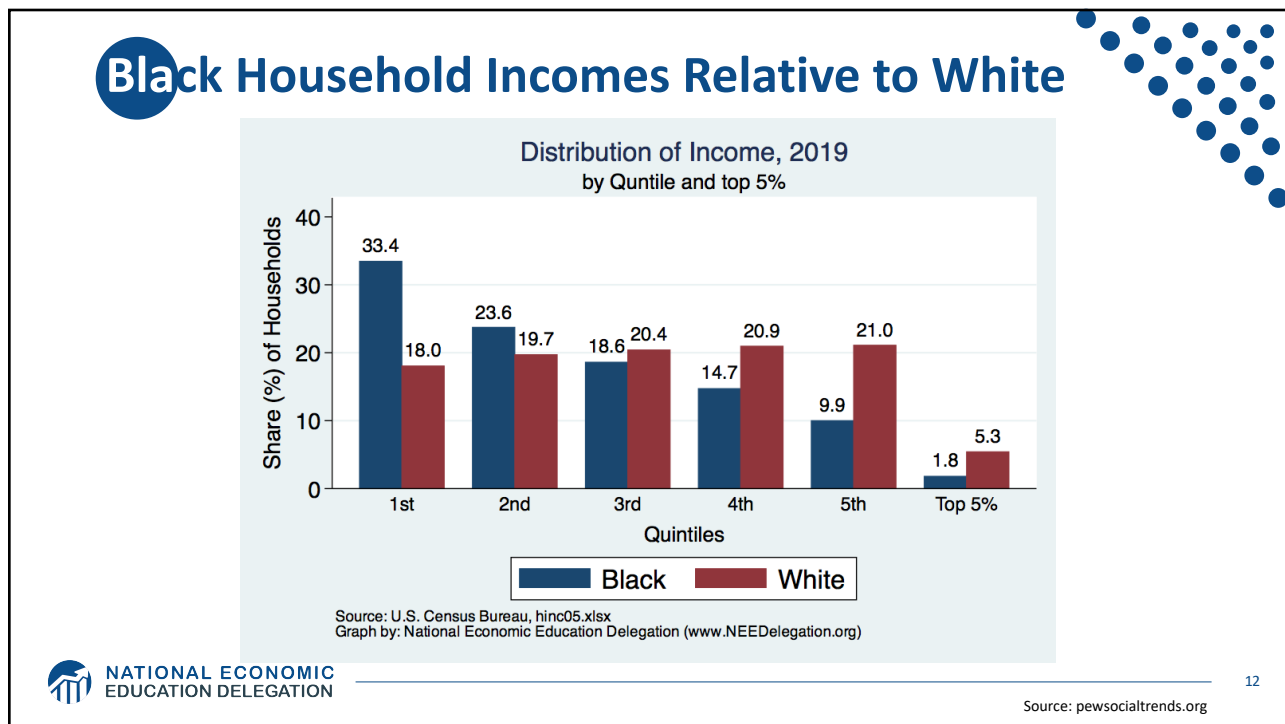
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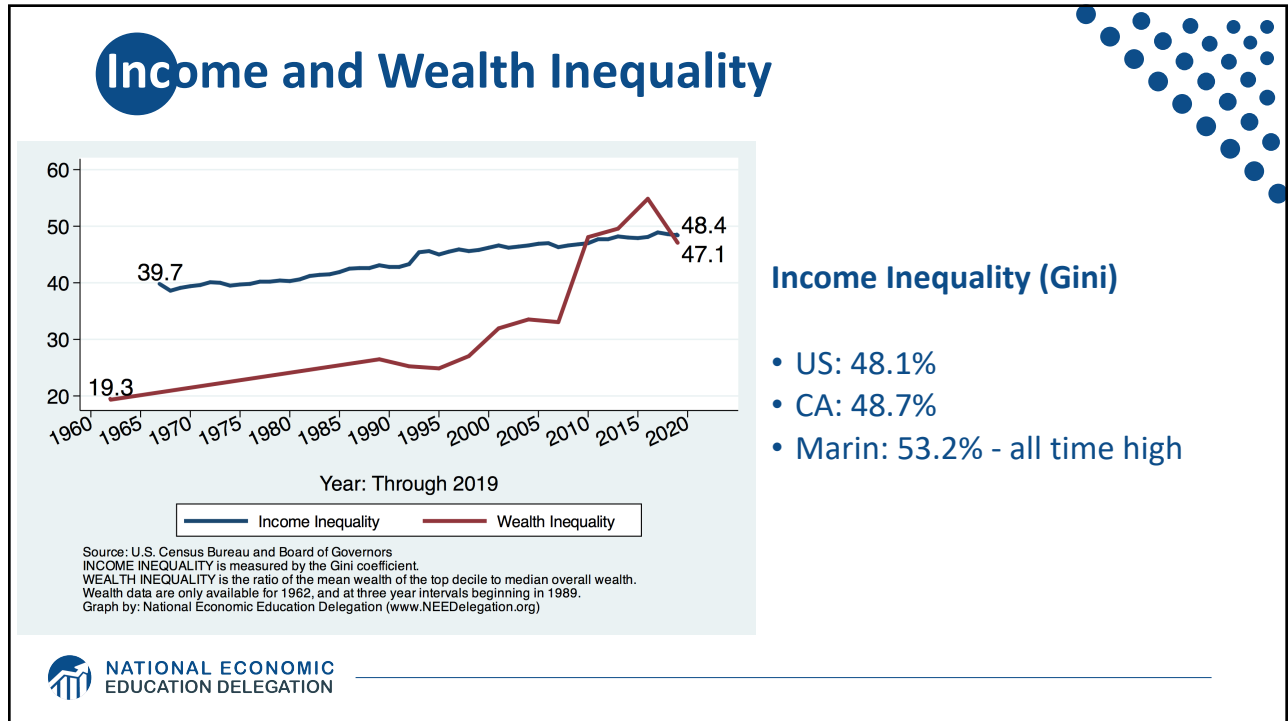
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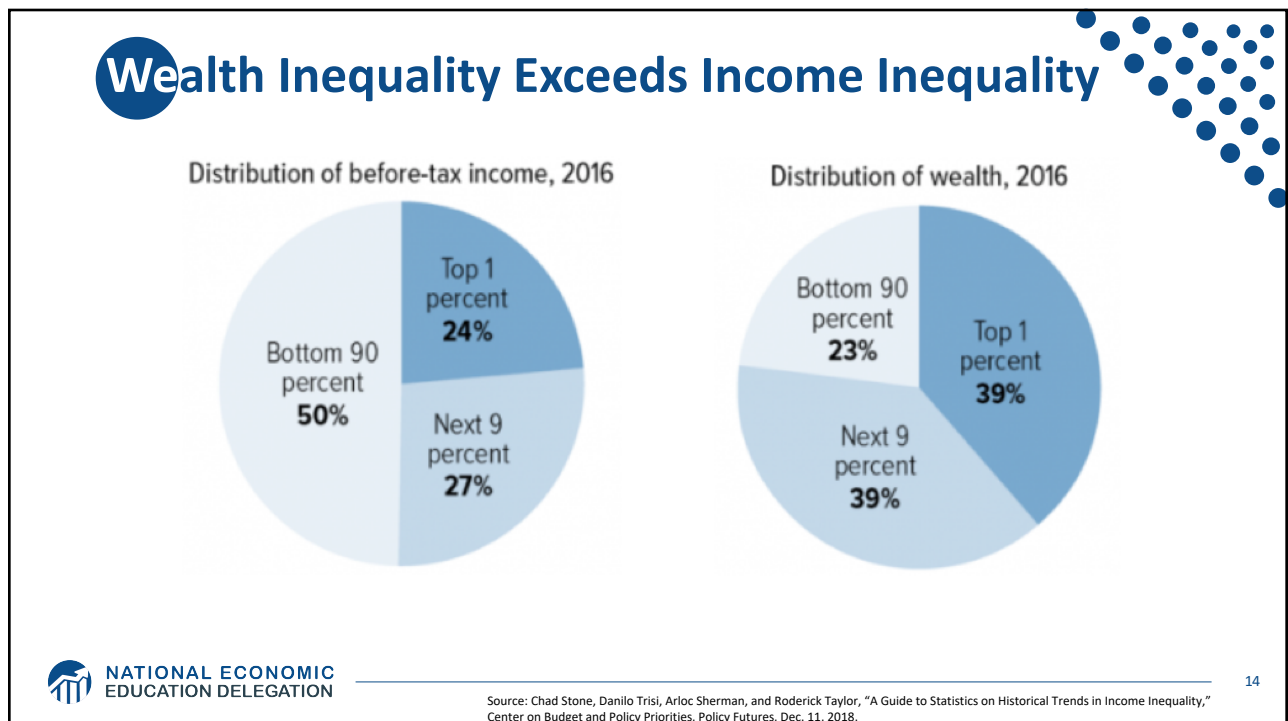
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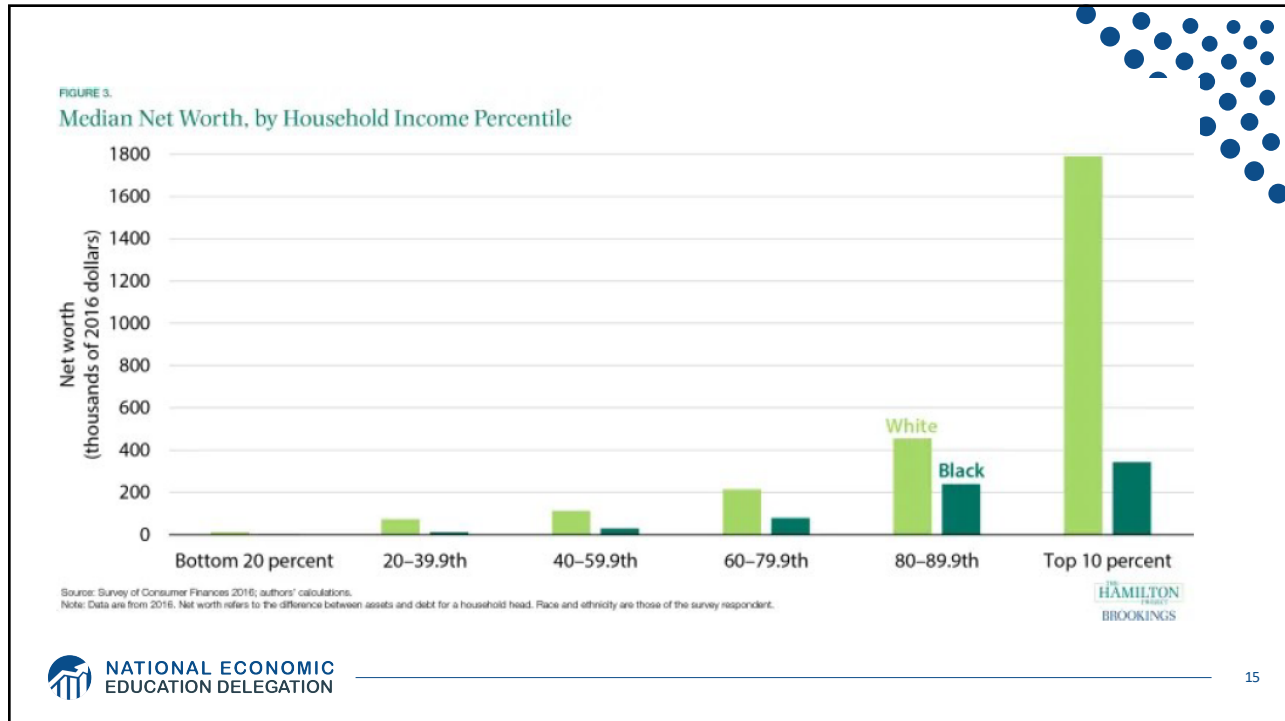
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## Where Does Inequality Come From?

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

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# Government Policy and Inequality

- **Market Influence: PRE-distribution**
  - Characteristics of labor
    - Access to education
  - Effects on labor demand
    - Market regulation
      - Competition policy
    - Labor regulations
      - Minimum wage, overtime, health insurance, etc.
- **RE-distribution**
  - Tax Rates
  - Income support
    - Direct aid
    - Food stamps

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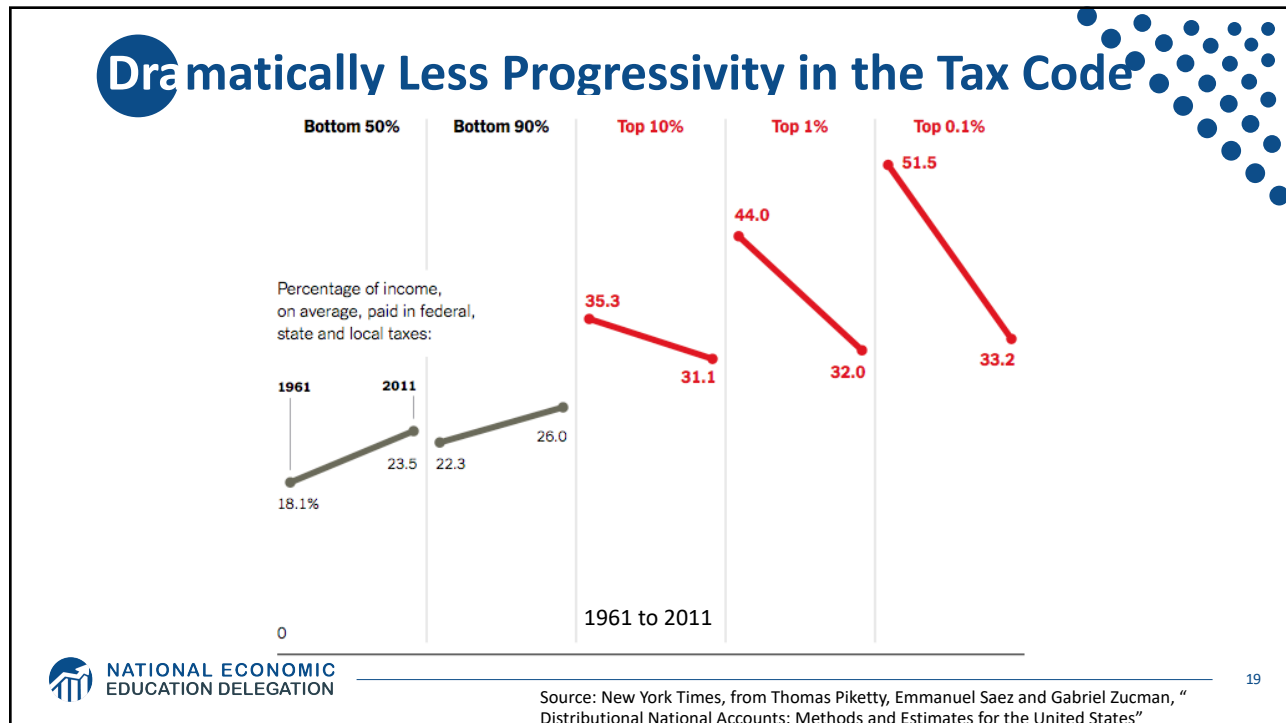
# Tax and Transfer Programs and Inequality

Income Quintile	Income Before Transfers and Taxes (Thousands of Dollars)	Income After Transfers and Taxes (Thousands of Dollars)
Lowest Quintile	~20	~30
Second Quintile	~40	~45
Middle Quintile	~65	~60
Fourth Quintile	~105	~85
Highest Quintile	~280	~210

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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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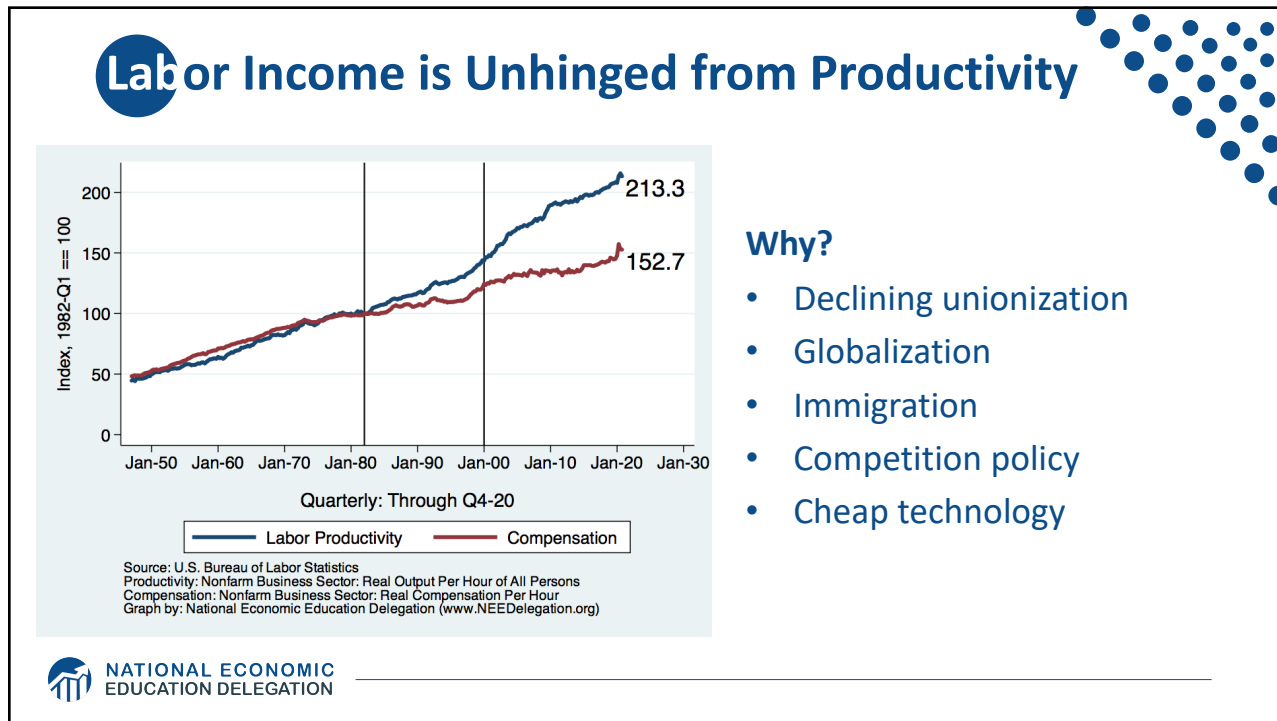
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## Market Forces and Inequality

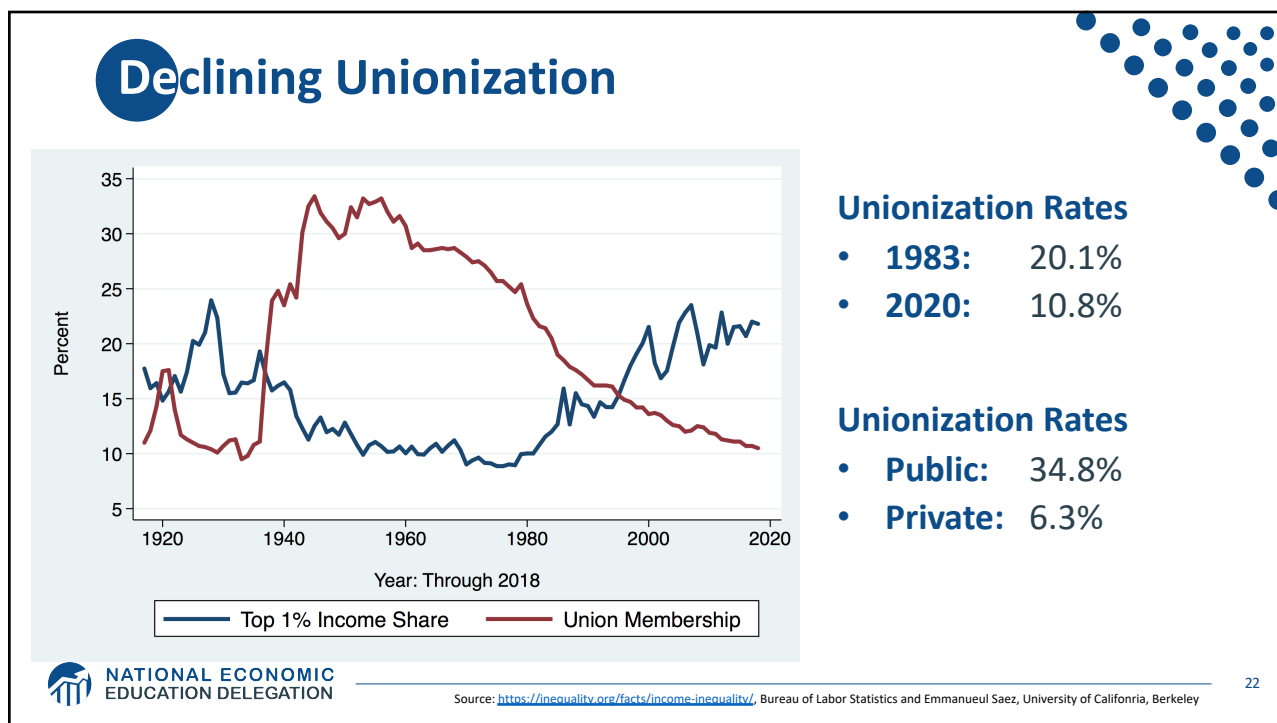
- **Changing demand patterns**
  - Technology
  - Globalization
  - Industry composition
    - PCs instead of typewriters
    - Services instead of goods
    - Professional services instead of personal services
- **Competition in labor markets**
  - Unionization
  - Market concentration

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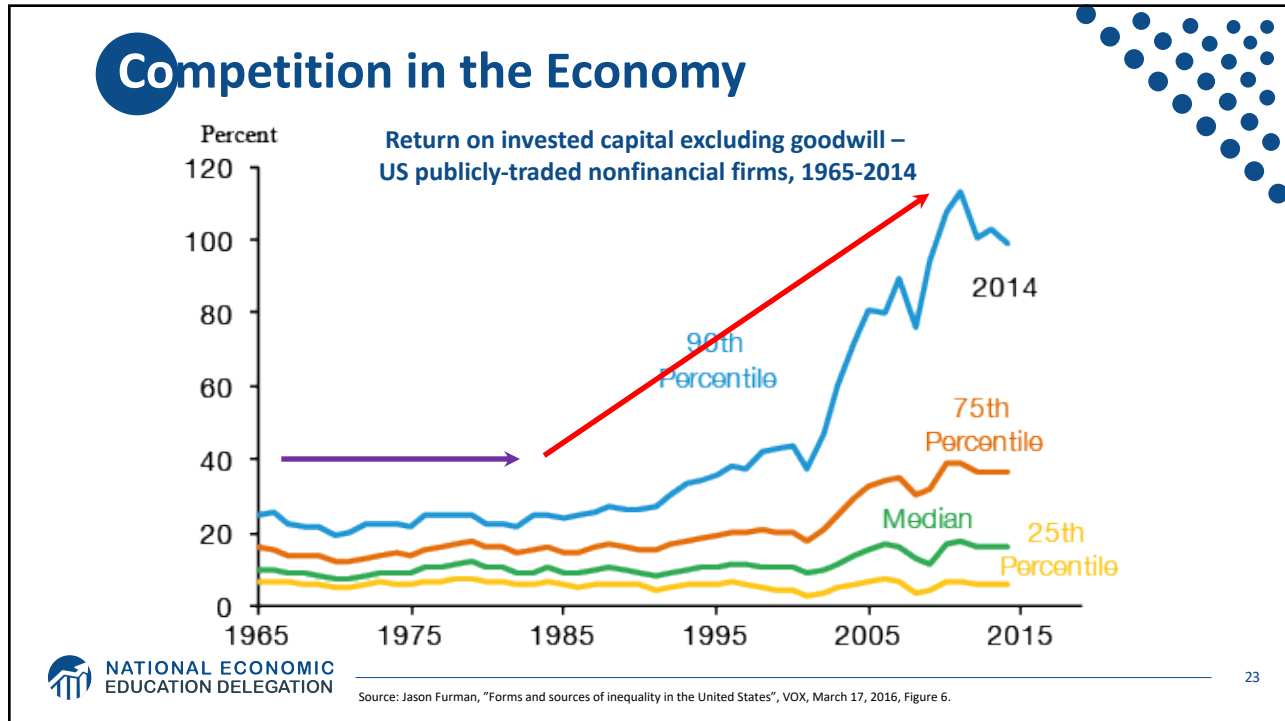
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## Technology can Hurt Low Income Workers

Early on, technology was good to low income workers

Until it was bad for them....

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## 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



## 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

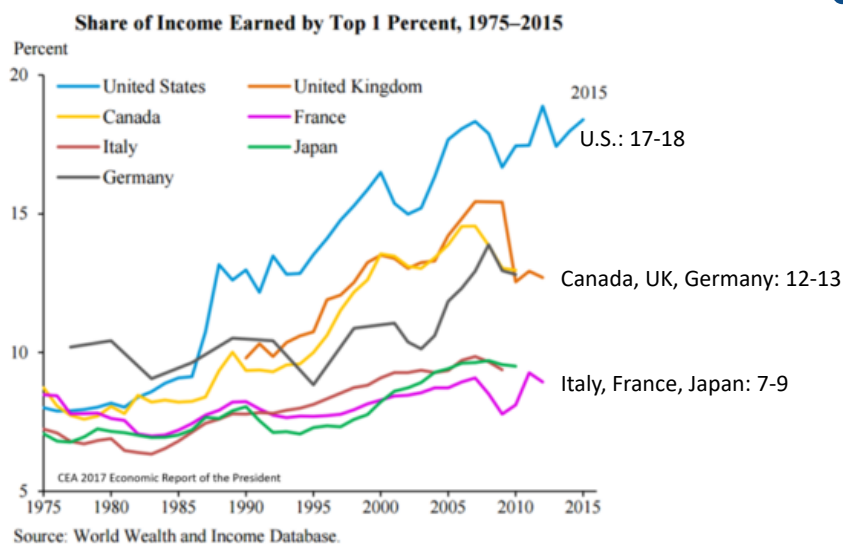


## Why Does Inequality Matter?

- **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
  - **Too much inequality may also:**
    - Reduce investments in public goods
      - Education
      - Environmental protections



## An International Perspective: Comparables





## 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
  - 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.



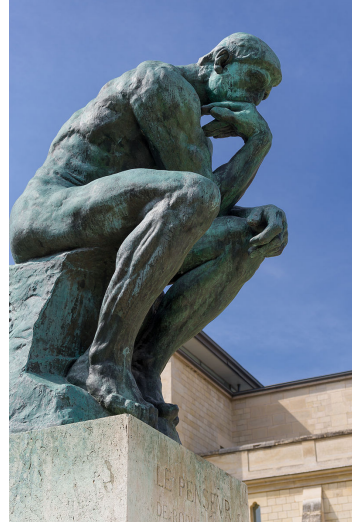
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## What to do About Inequality?

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



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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?

[www.NEEDelegation.org](http://www.NEEDelegation.org)

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