

Inequality: What it is, why it is, why it matters, and what can be done about it

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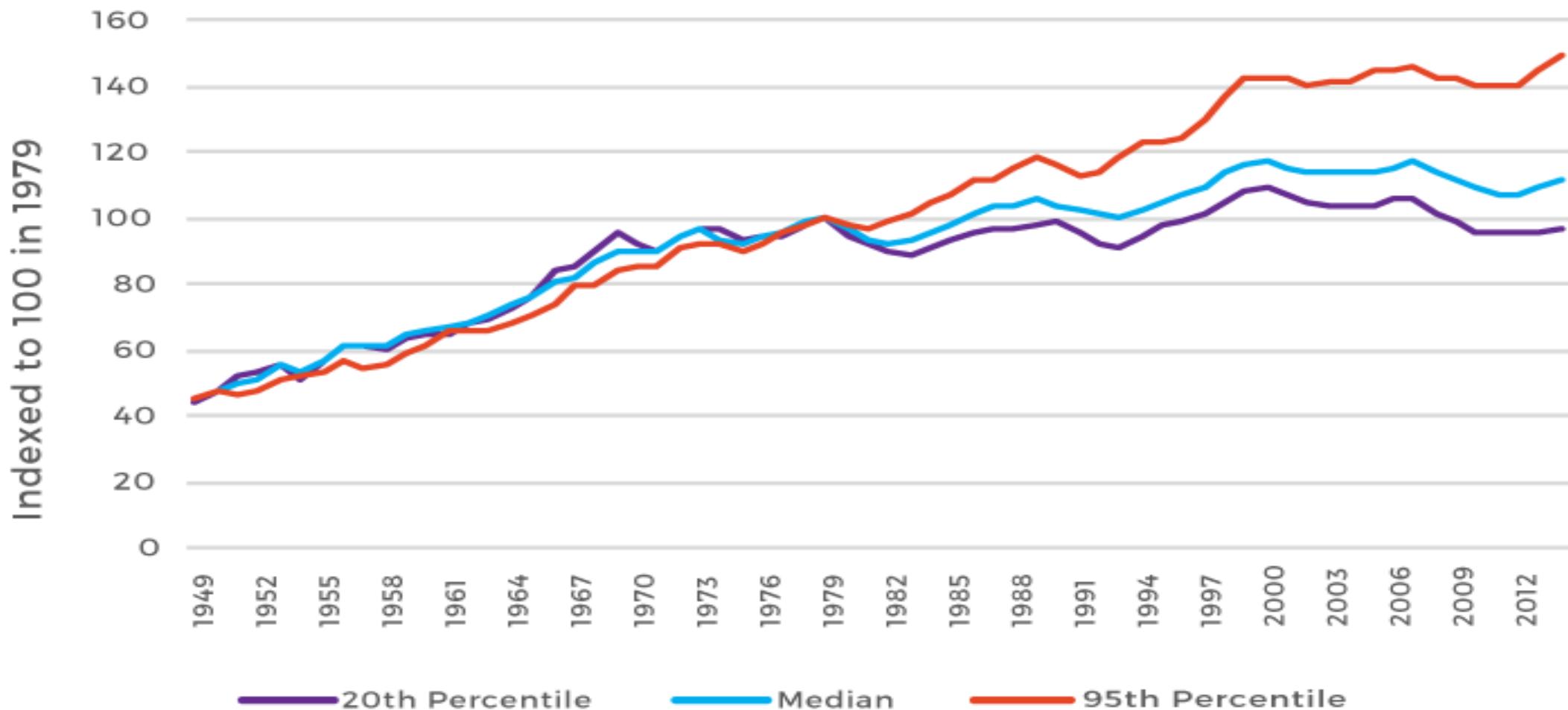
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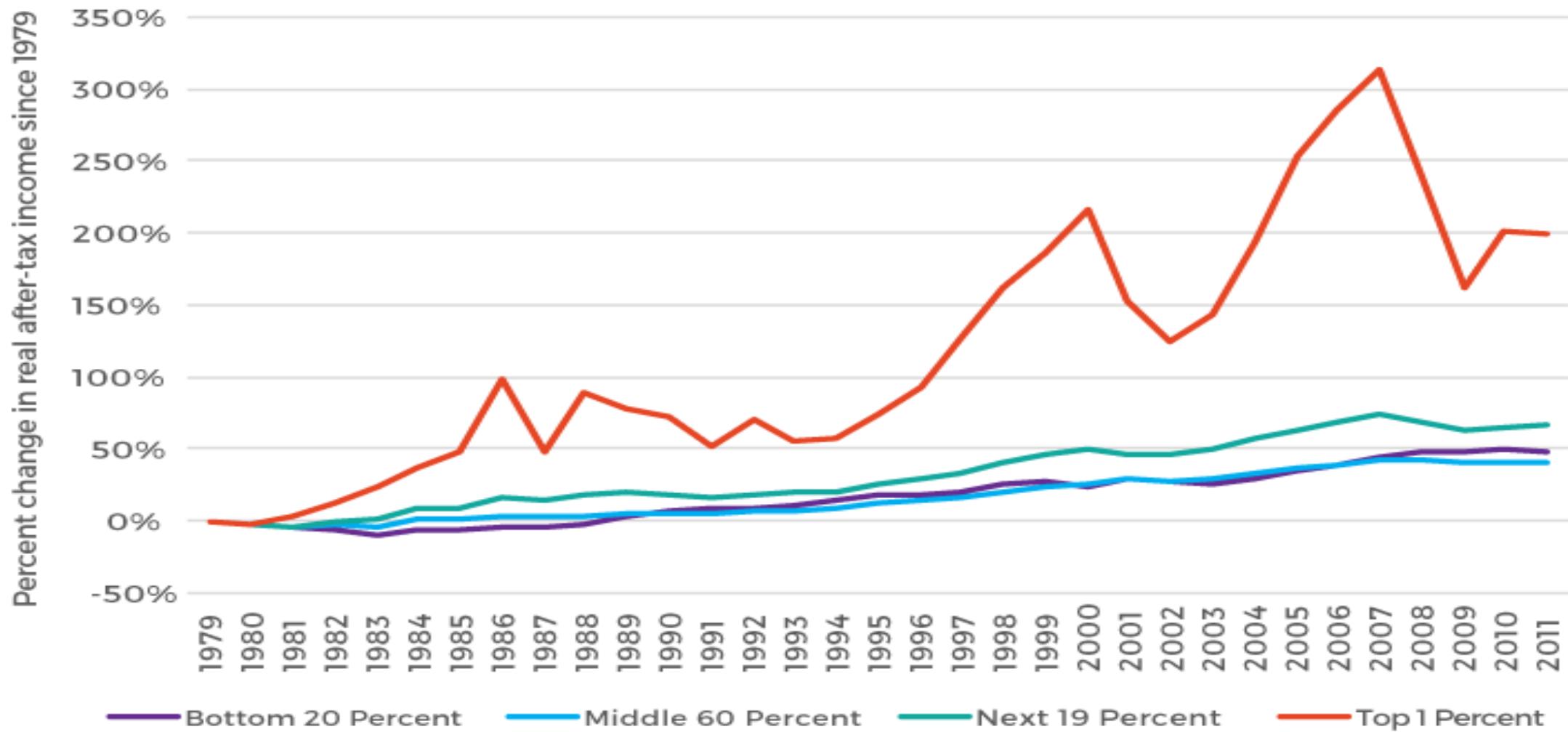
What is it?

- Since mid-1970s, dispersion in the US distributions of income, wealth, and wages has increased to historically high levels.
- This shows up across every data set I know of: Census household data, tax files, Fed's SCF, BLS wage data, national accounts (factor shares), and so on.
- Similar trends in other countries but US tends to be more unequal than other advanced economies, especially after-tax.
- That said, taxes and transfers are significantly equalizing.
- However, tax/transfers have not reversed or even significantly altered the trend toward increased inequality.

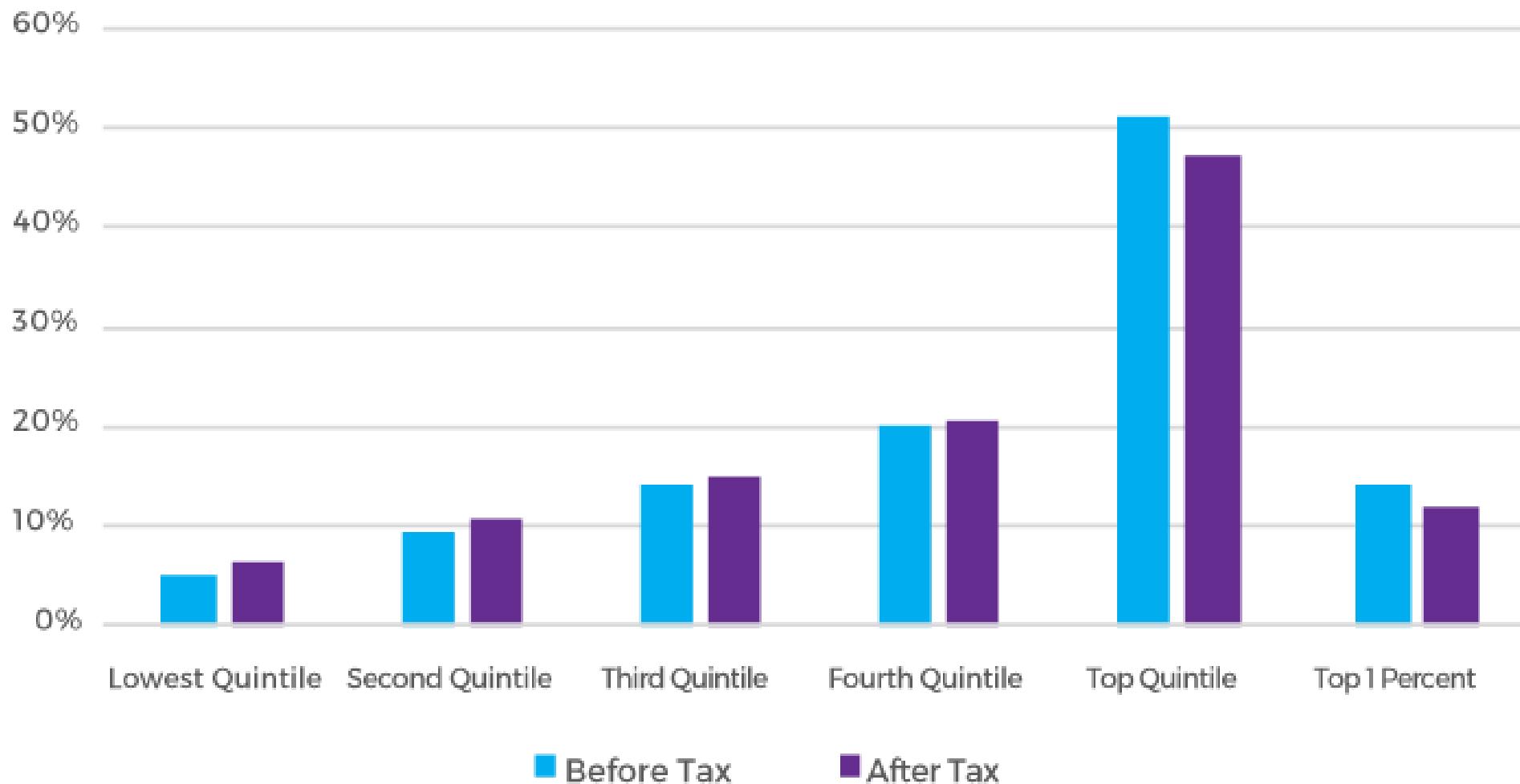
Low, middle, and high family incomes, 1940s to now (Census)



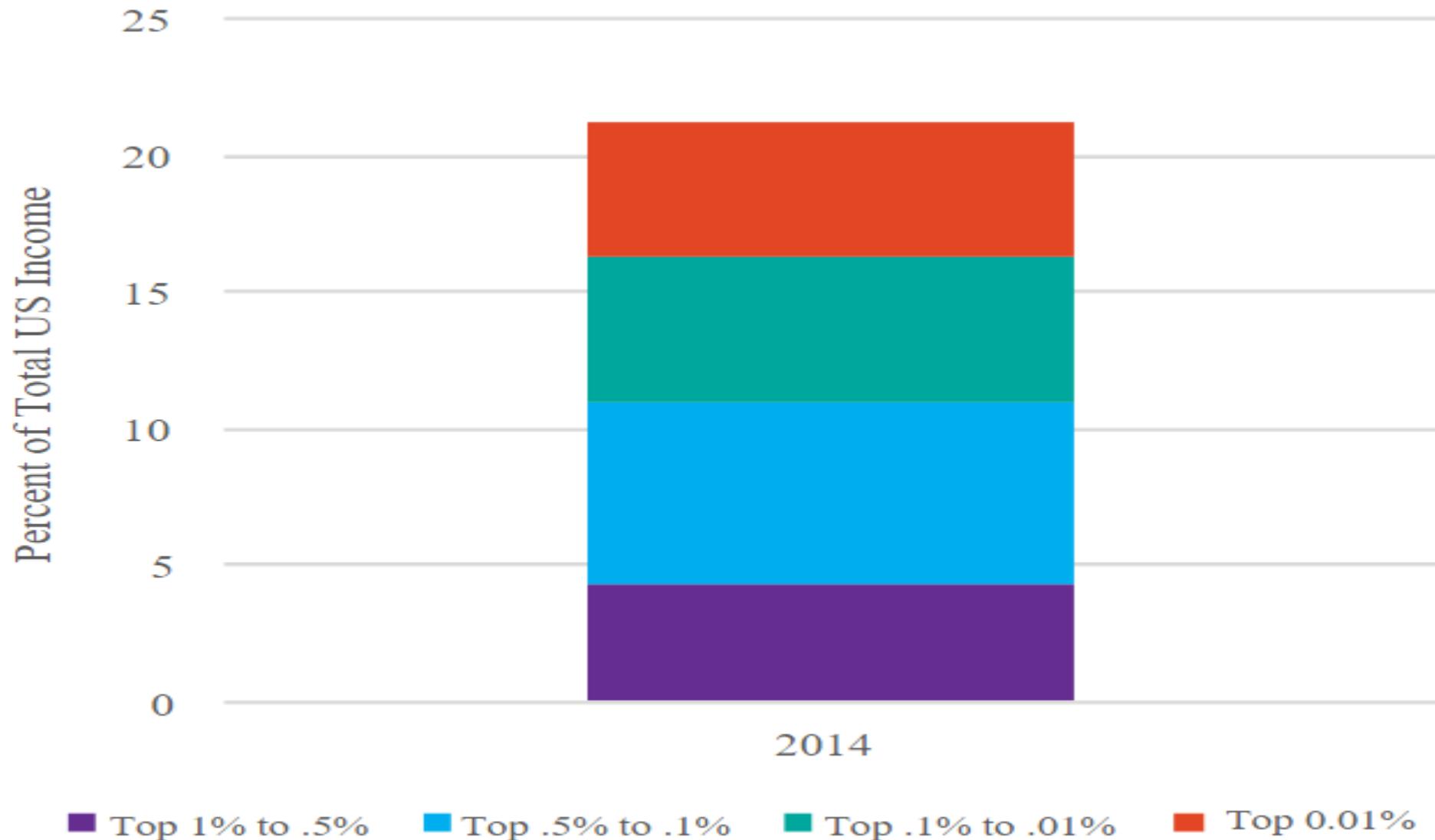
Low, middle, and high family incomes, post-tax and transfer, plus cap gains,
1979-2011 (CBO)



Pre and post-tax income shares, 2011 (CBO)

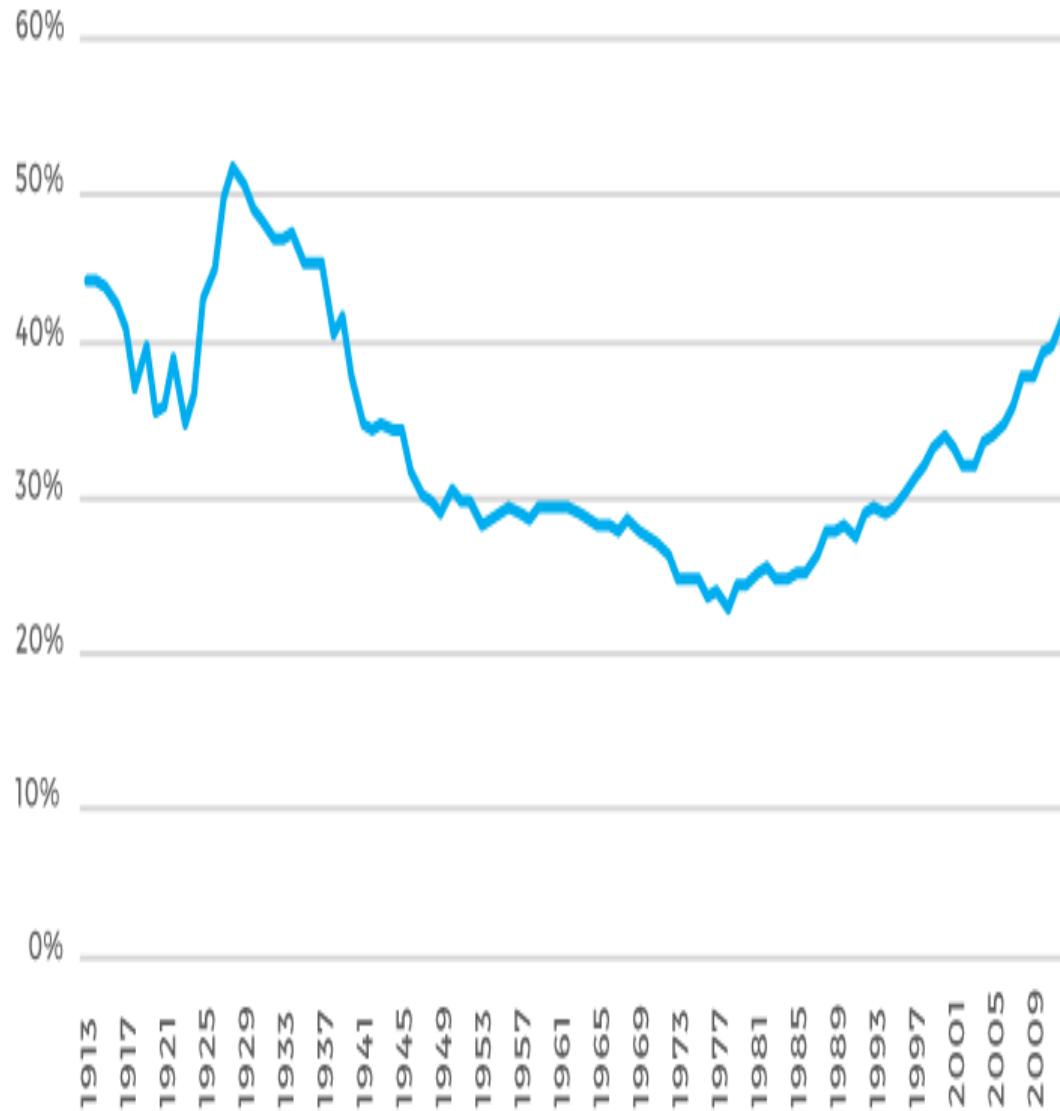


Breakdown of top 1% (Piketty, Saez)

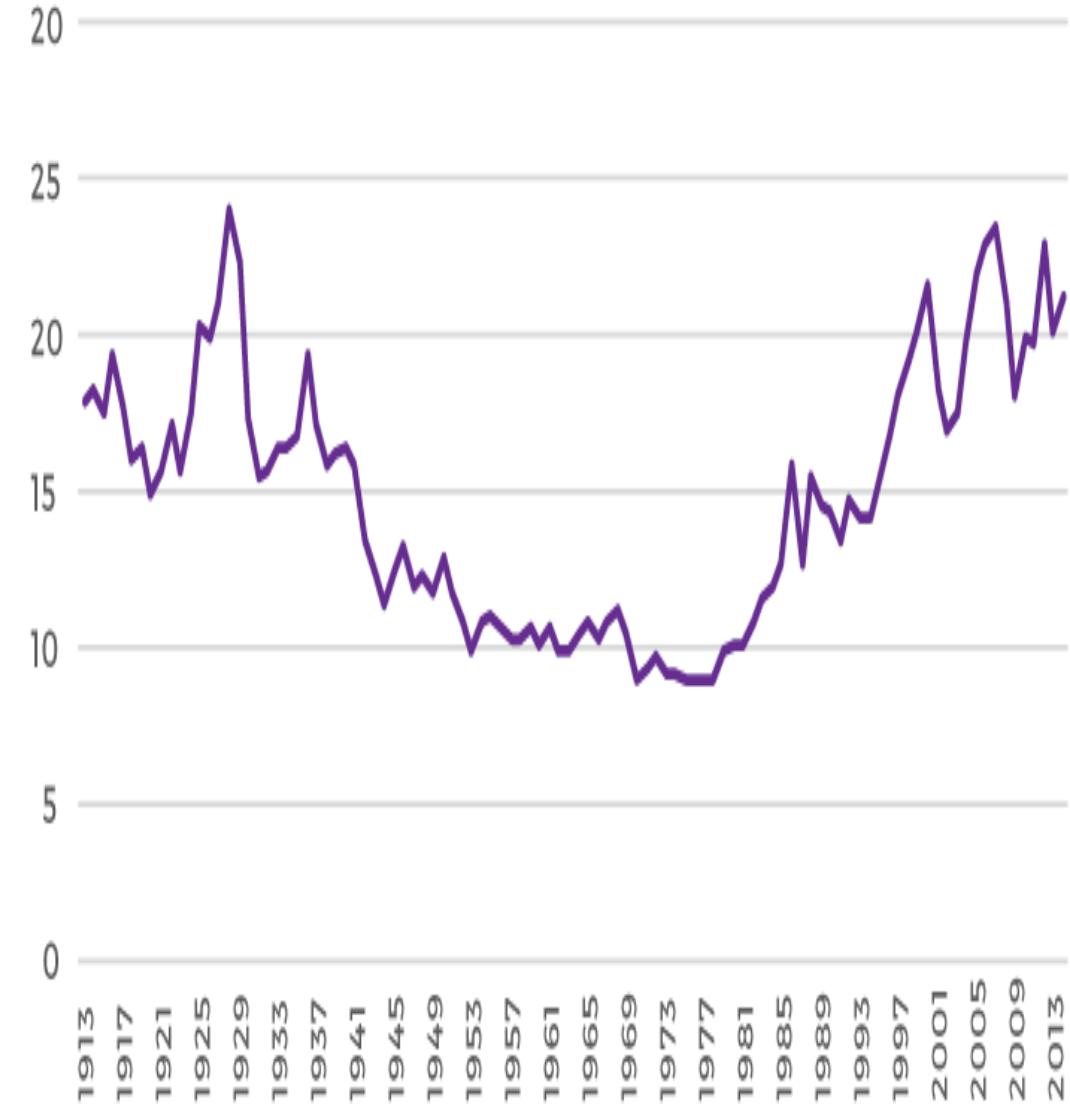


Share of income and wealth held by top 1% (Piketty, Saez, Zucman)

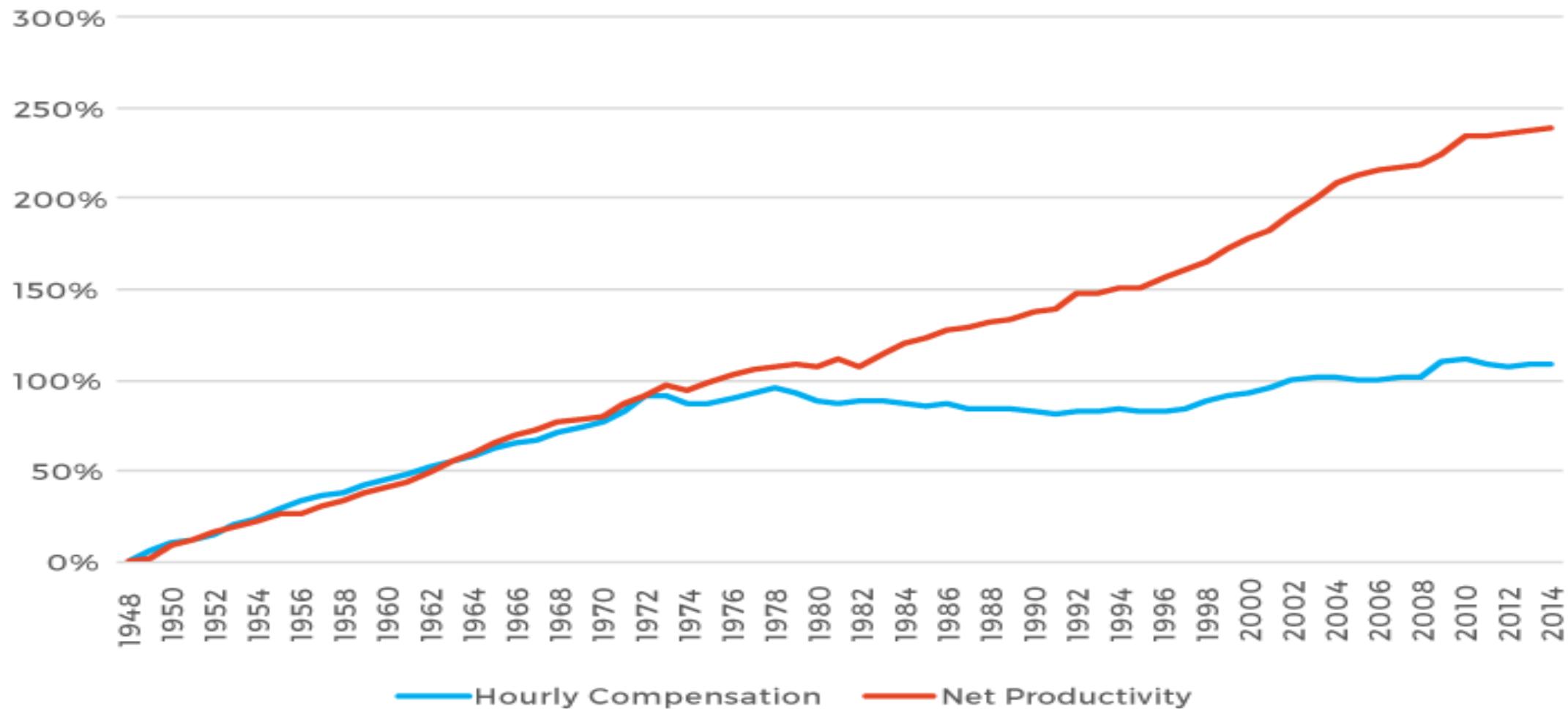
Wealth



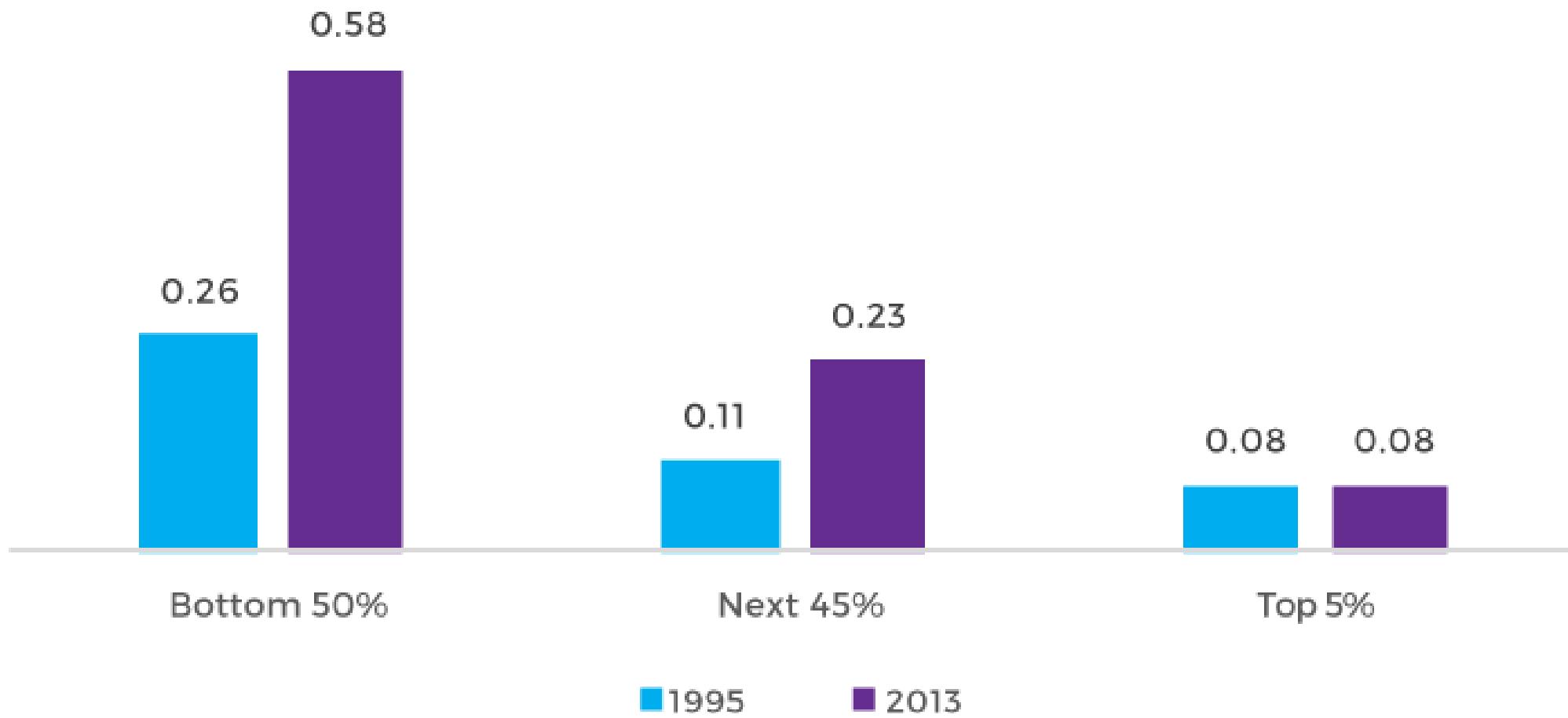
Income



Productivity and mid-wage compensation (EPI)



Ratio of Mean Education Debt to Mean Income (for families with education debt) by Net Worth (Federal Reserve)



Some important causes:

- technology, globalization
- the loss of manufacturing employment
- the absence of full employment
- the decline in unions
- the erosion of labor standards
- “financialization”
- regressive tax policy
- the interaction between high levels of wealth concentration and money in politics

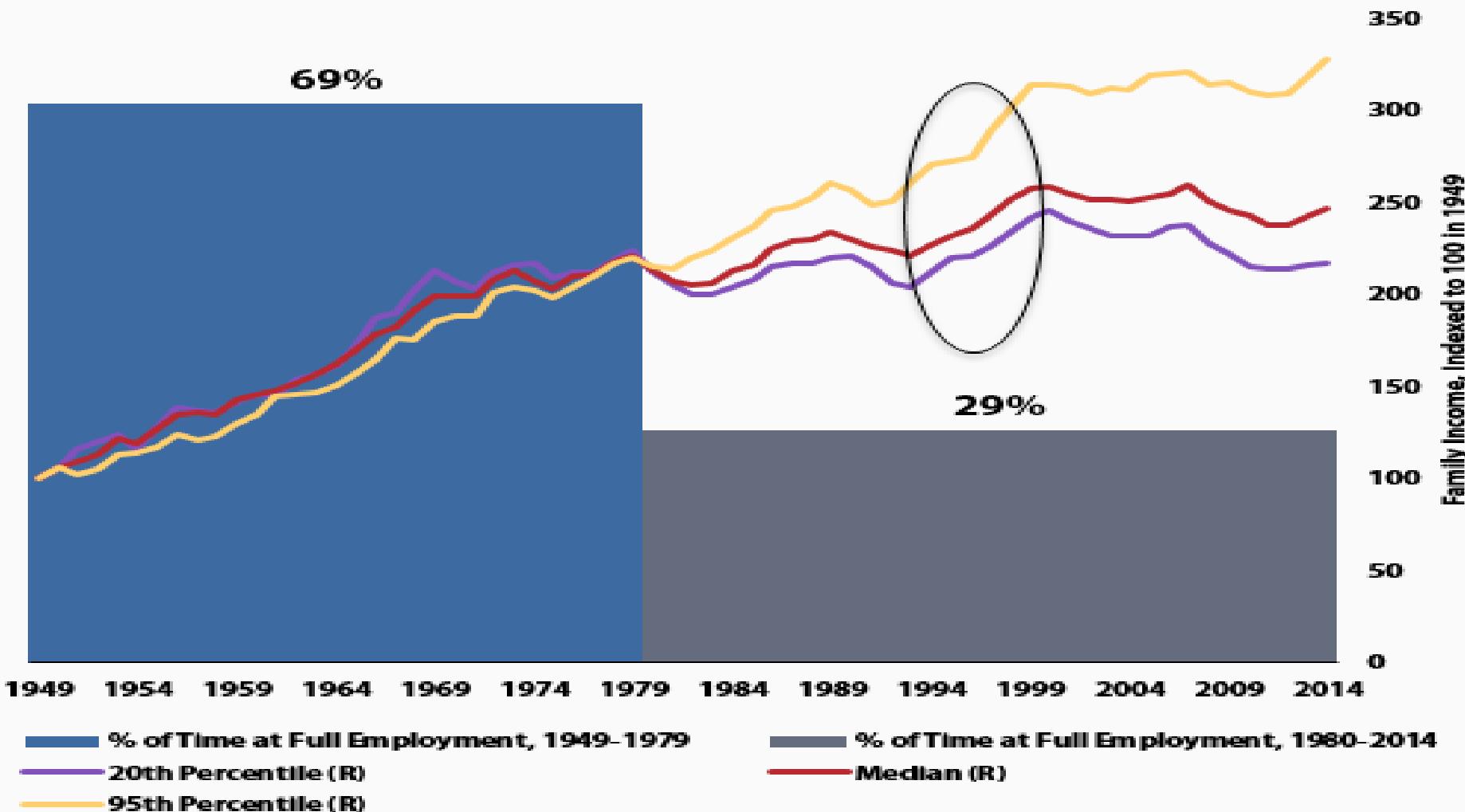
Why it matters

- Living standards
- Linkages to diminished opportunity, immobility
 - Residential segregation
 - Educational access (recall Fed chart)
 - “Direct impacts”: disinvestment in children, “toxic stress” and poverty
- Macro impacts: consumer spending (MPC), “shampoo cycle”
- Inequality and politics: who gets heard

What to do about it

- Bargaining power
- Full employment (fiscal, monetary)
- Taxes, transfers (cons vs inv)
- Anti-poverty agenda
- Reduce trade deficits
- End shampoo cycle
- Broader political representation

Growing Together, Growing Apart



Arguments to which I gave short shrift

- It's all just education (nope)
- Family structure, marriage (a factor)
- High MTR's in safety net programs (nope)
- Supply-side tax cuts (definitely nope)

