

Teaching Rising Income Inequality

Possible Research Resources (A to H)

[American Enterprise Institute for Public Policy Research](#) (Click on “Poverty Studies” or “Economics.” Alternatively, use search engine to find relevant research. For example, try searching on “income inequality.”)

[Brookings Institution, Income Inequality and Social Mobility](#) (Also, try searching on related topics: for example “workforce development” or “taxation.”)

[Cato Institute](#)

[Center on Budget and Policy Priorities, Poverty and Inequality](#) (Also, try searching on: “earned-income tax credit,” “progressive tax,” or “regressive tax.”)

[Citizens for Tax Justice, Tax Reform Options](#) (Also, click on “State Tax Issues.”)

[Commonwealth Fund](#) (Good on health care for low-income families)

[Hamilton Project, Economic Security and Poverty](#) (Also, click on “Topics” and then on “Employment and Wages” or “Tax Policy and Budget”)

[Heritage Foundation, Poverty and Inequality](#) (Also, click on “Issues” and then on “Welfare and Welfare Spending”)

Possible Research Resources (I to W)

[Institute for Research on Poverty](#)

[Institute for Women's Policy Research](#)

[Kaiser Family Foundation](#)

[National Poverty Center](#)

[The Stanford Center for the Study of Poverty and Inequality](#)

[Urban Institute](#)

[U.S. Census Bureau, Income & Poverty](#)

[Washington Center for Equitable Growth](#)

[W.E. Upjohn Institute for Employment Research](#)

[World Wealth and Incomes Database](#)

Good Readings for Beginners

Income inequality over time: causes & consequences

Candela Open Courses, "[Income Inequality: Measurement and Causes](#)," 2014

-Quintile shares, household composition, supply and demand for high skill labor

Steven J. Markovich, "[The Income Inequality Debate](#)," Council on Foreign Relations
Backgrounder, February 3, 2014

-The top 1%, globalization, de-unionization, education and technological change

Brad Plummer, "[Is inequality bad for economic growth?](#)", *The Washington Post*,
December 5, 2013

-Investing too little in education & the financial crisis and the demand for cheap credit

Research Questions for Students

Measurement

How does correcting for changes in family size affect the rise in inequality?

How does correcting for changes in the tax system affect the rise in inequality?

How does correcting for changes in the transfer system affect the rise in inequality?

Causes

How do health inequalities contribute to income inequality?

How much has increasing international trade contributed to rising income inequality?

Consequences

How much do rises in income inequality reduce mobility between generations?

Does rising inequality slow economic growth or speed it up?

Does rising inequality increase or decrease average happiness?

Research Questions for Students, Continued

Responses

How can we make US vocational education more effective?

How can we most effectively increase the education levels achieved by children from low-income families?

How can we improve college graduation rates for first-generation students and students from low-income families?

How can we most effectively reduce labor market discrimination? (for example, against women or African Americans)

Is a rise in the minimum wage an effective response to income inequality? If it is, how high should it go?

If we were to make transfers to low-income families more generous, what would be the most effective way to do that?

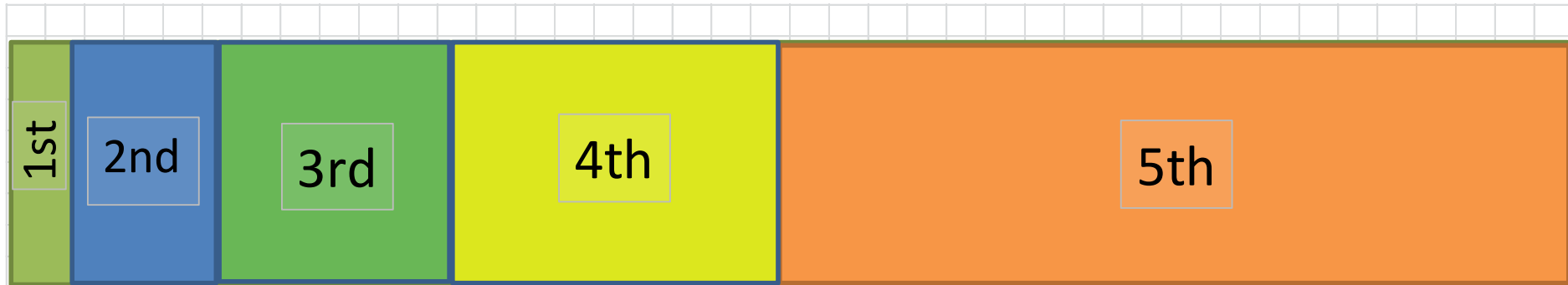
What would be the most effective way to increase the proportion of children in two-parent families?

Understanding Quintiles

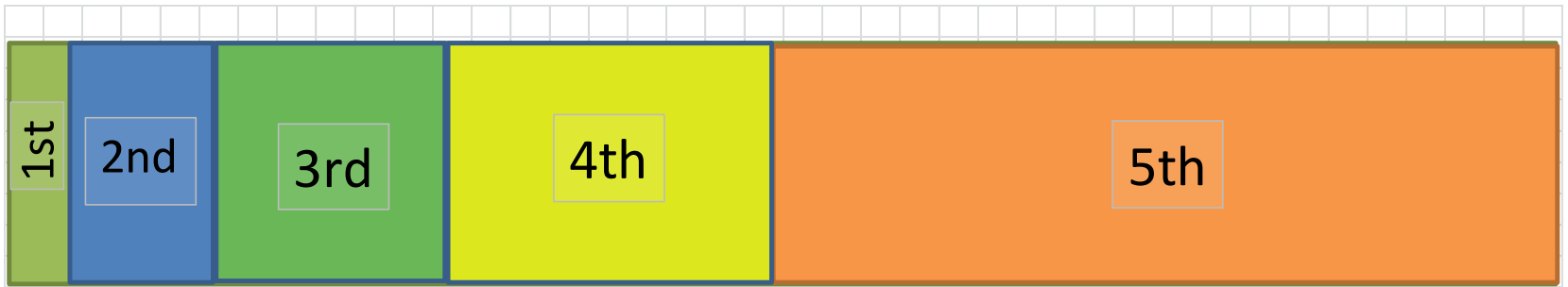
Number of Households in Each Quintile



Quintile Income Shares



Quintile Income Shares



First	Second	Third	Fourth	Fifth	Total
3.2	8.3	14.4	23.0	51.0	100.0

Upper Quintile Boundaries

First	Second	Third	Fourth
\$20,599	\$39,764	\$64,582	\$104,096

An Exercise to Help Students Understand 2012 Quintiles & their Boundaries

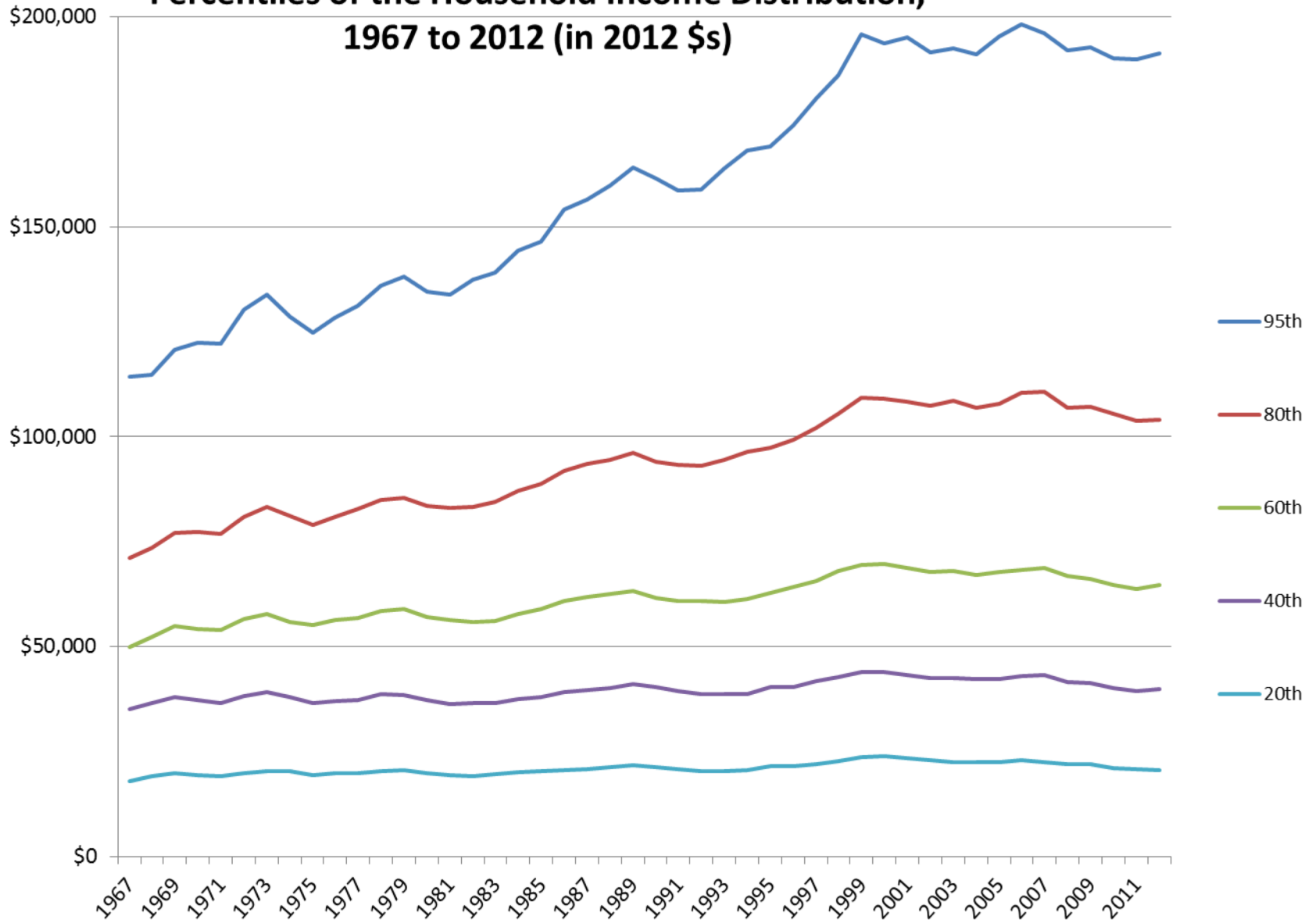
10 Students
Represent the
Household Income
Distribution

Quintile	Student Incomes	Total Q Inc	Q Share
	\$5,500		
1	\$21,300	\$26,800	3.2%
	\$28,000		
2	\$41,000	69000	8.3%
	\$51,200		
3	\$66,700	117900	14.3%
	\$82,100		
4	\$107,500	189600	22.9%
	\$181,900		
5	\$242,000	423900	51.2%
	\$827,200		

Percentiles of the US Household Income Distribution in 2012

Percentiles				
20th	40th	60th	80th	95th
\$20,599	\$39,764	\$64,582	\$104,096	\$191,156

Percentiles of the Household Income Distribution, 1967 to 2012 (in 2012 \$s)



Measuring the Change in Inequality from 1968 to 2012, Part I

Percentiles				Percentile Ratios			
Year	95th	80th	20th	Year	95th/20th	80th/20th	
1968	\$114,810	\$73,386	\$19,220	1968	6.0	3.8	
2012	\$191,156	\$104,096	\$20,599	2012	9.3	5.1	

Measuring the Change in Inequality from 1968 to 2012, Part II

Percentiles				Percentile Ratios		
Year	95th	80th	20th	Year	95th/20th	80th/20th
1968	\$114,810	\$73,386	\$19,220	1968	6.0	3.8
2012	\$191,156	\$104,096	\$20,599	2012	9.3	5.1

Percentile Ratios			
Year	95th/20th	80th/20th	
1968	6.0	3.8	
2012	9.3	5.1	
	55%	32%	Rise in inequality

Changes in Quintile Income Shares

1968 to 2015

Year	1st	2nd	3rd	4th	5th	Top_5%
1968	4.2	11.1	17.6	24.5	42.6	16.3
2015	3.1	8.2	14.3	23.2	51.1	22.1

Growth in Income Share of Top Quintile and Top 5%

Year	5th	Top_5%	
1968	42.6	16.3	
2015	51.1	22.1	
	20%	36%	Growth in share

Causes of Rising Income Inequality Among US Households

1) Changes in household composition

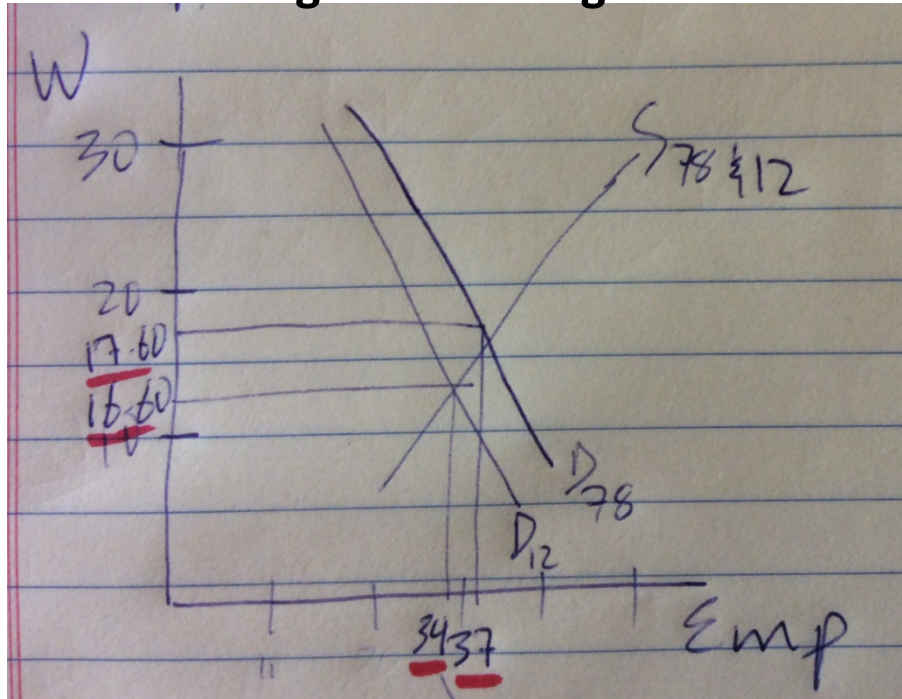
- For example, think about how changes in the fifth quintile and changes in the first quintile, might have contributed to the rise:
 - An increasing share of households in the **fifth** quintile are two-earner households, which raises their income relative to households in the first quintile.
 - An increasing share of households in the **first** quintile are one-parent households, most of them headed by women. Such households tend to be low income because they have only one earner, because that earner needs a job with flexible hours (if her/his children are young), and because of labor-market discrimination (if the household head is a woman).

2) Technological change and rising demand for skill

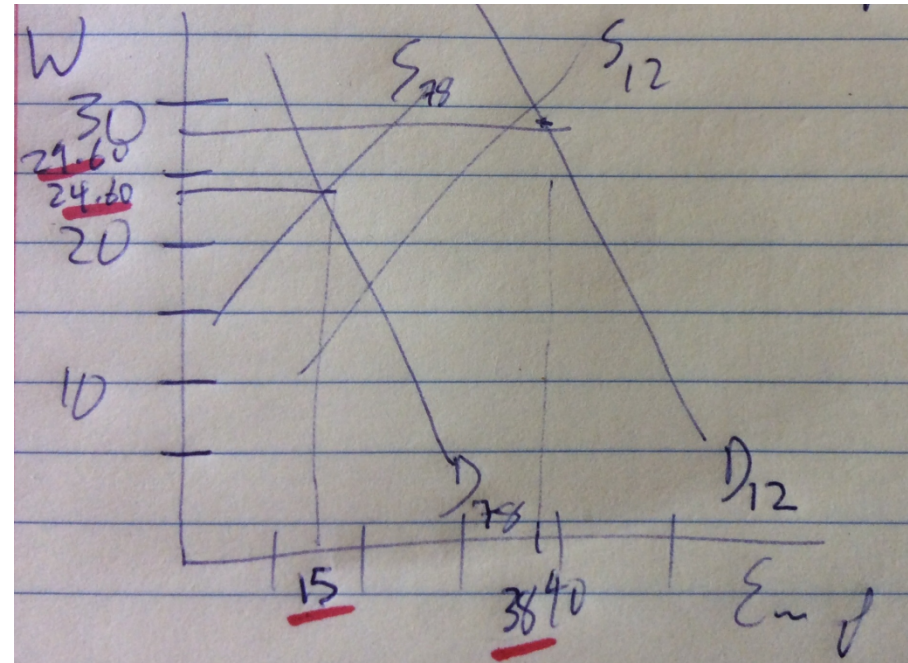
- The wages of college graduates grew, while the wages of high school graduates grew slowly (women) or shrank (men)...so the gap between “college wages” and “high school wages” increased.
- Why? One reason: computers and new management strategies meant that firms rapidly increased their employment of college-educated workers. More people were graduating college each year, but that growth was slow compared to the growth in employment. The resulting shortage pushed up “college wages” quickly.

Rising Demand for Skill

The Market for Workers with Just a High School Degree



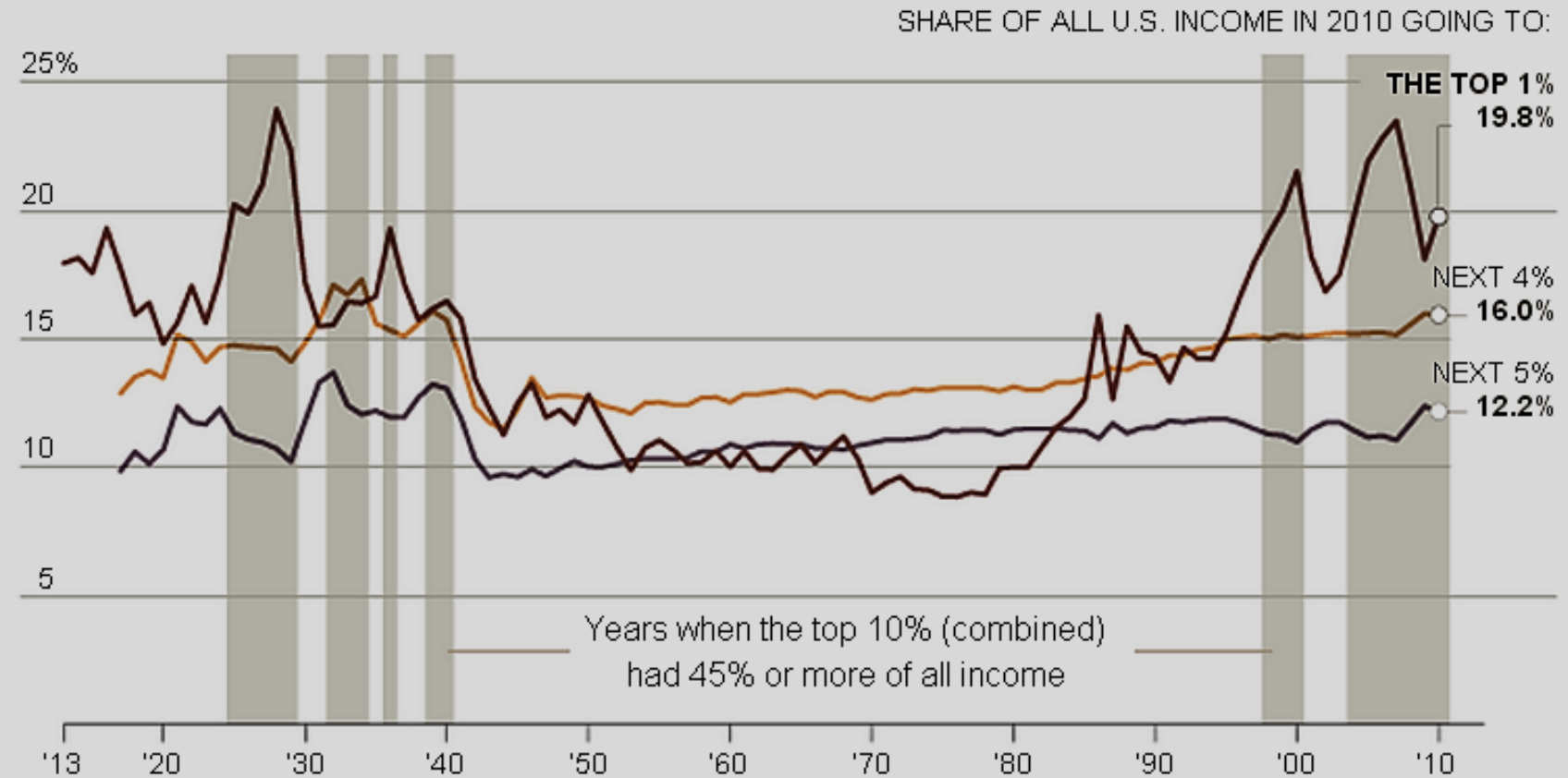
The Market for Workers with Just a College Degree

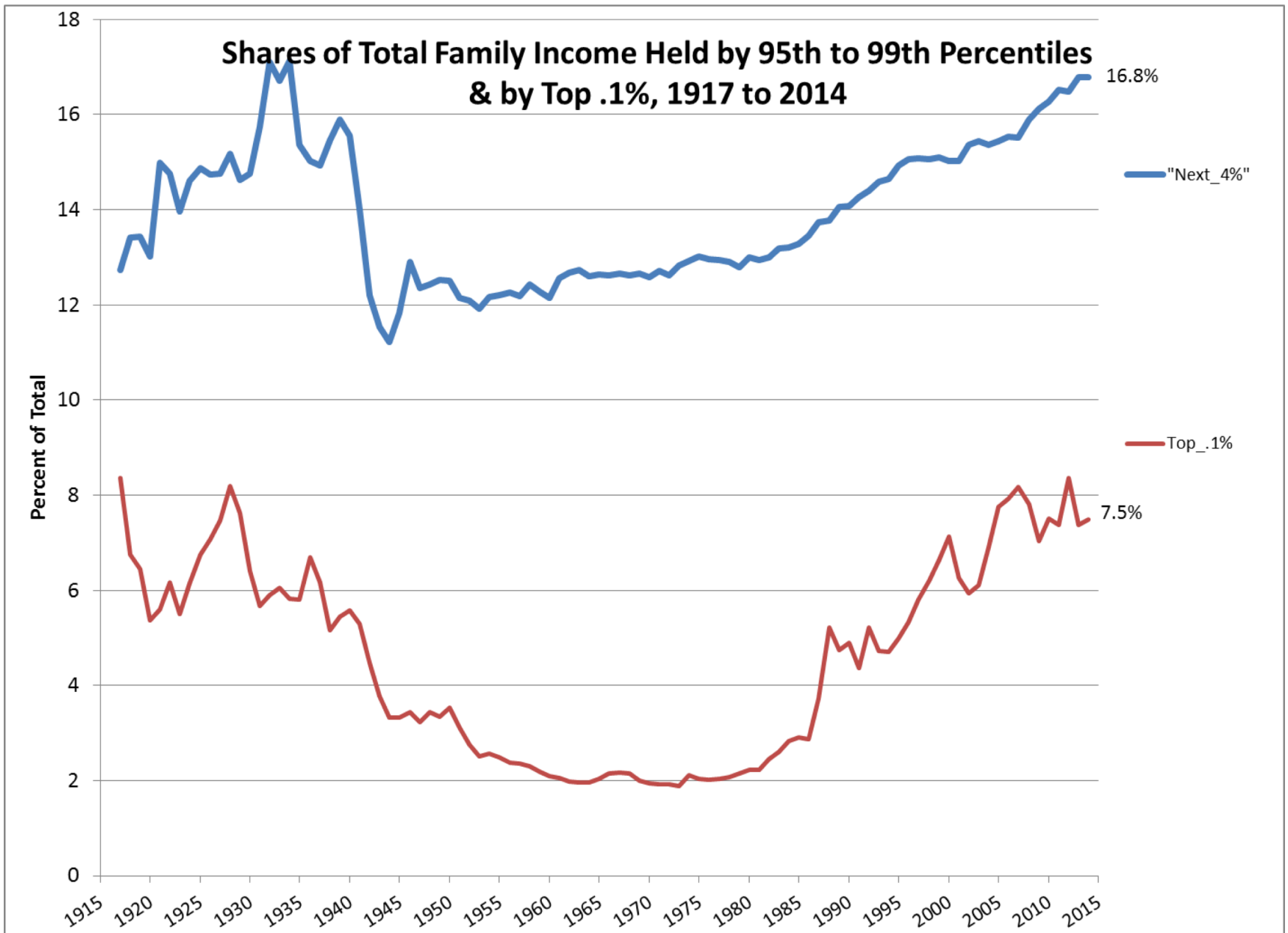


Wages are 2015 dollars per hour. Employment is in millions of workers. The employment levels for workers with just a college degree are approximate.

Income Earned by the Wealthiest

Work by the French economists Emmanuel Saez and Thomas Piketty shows income inequality growing in the United States, with the top 1 percent of earners taking home more and more of the nation's income. The wealthiest received nearly a quarter of U.S. income before the Great Depression, but their share fell after World War II. It began rising again after top marginal tax rates decreased significantly in the 1980s. [Related Article »](#)





Analysis by Emmanue I Saez, [Excel workbook](#) downloaded from World Wealth and Income Database 8/29/16

Growth in Income Share of Top 1% and Top .1%

Year	Top 1%	Top 0.1%	
1973	7.7	1.9	
2015	18.4	7.9	
	138%	316%	Growth in share

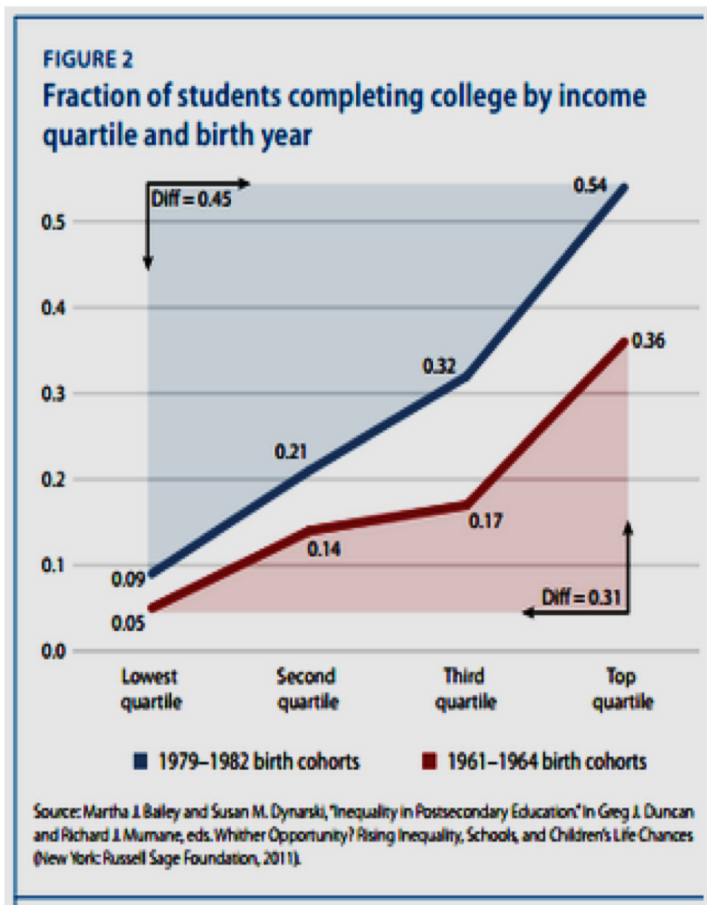
3) Rising CEO compensation & rising salaries in finance

These are the two groups that contributed most to the rise in average incomes among households in the top .1%.

Possible Links Between Rising Inequality and Macroeconomic Health

(From the Brad Plummer article on Slide 3)

1) Inequality reduces household investments in education



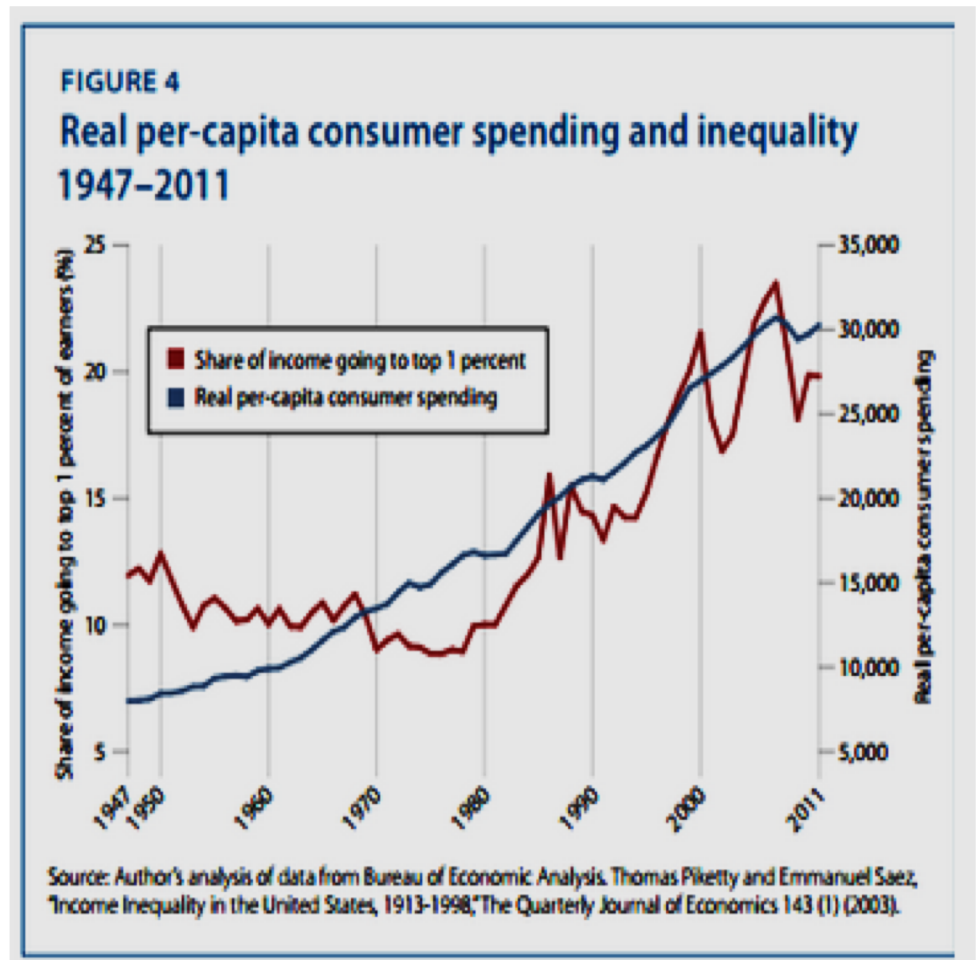
...and slower improvement of education levels means slower growth in productivity and real incomes. Remember, one of the four biggest contributors to productivity growth is improvement in human capital.

Links Between Rising Inequality and Macroeconomic Health

2) Rising inequality reduces consumption

Oh...but consumer spending actually seemed to keep up just fine!

But maybe that's because lower-quintile households were increasing their spending by **borrowing**...which brings us to the next slide.



Links Between Rising Inequality and Macroeconomic Health

3) Rising inequality increases household borrowing & debt

- This actually is part of what happened in the years before the Great Recession. Many households borrowed against their homes, increasing their debt.
- When house prices dropped and the economy slid into the recession, many households lost their homes, but were stuck with the debt.
- High debt levels have held back consumer spending, especially in parts of the country that experienced the biggest boom in house prices.
- Slow growth in consumer spending since 2009 has kept GDP growth slow.