*Osher Lifelong Learning Institute,* Summer 2024

# Contemporary Economic Policy

### West Virginia University

**Host: Geoffrey Woglom, Ph.D.**
**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.
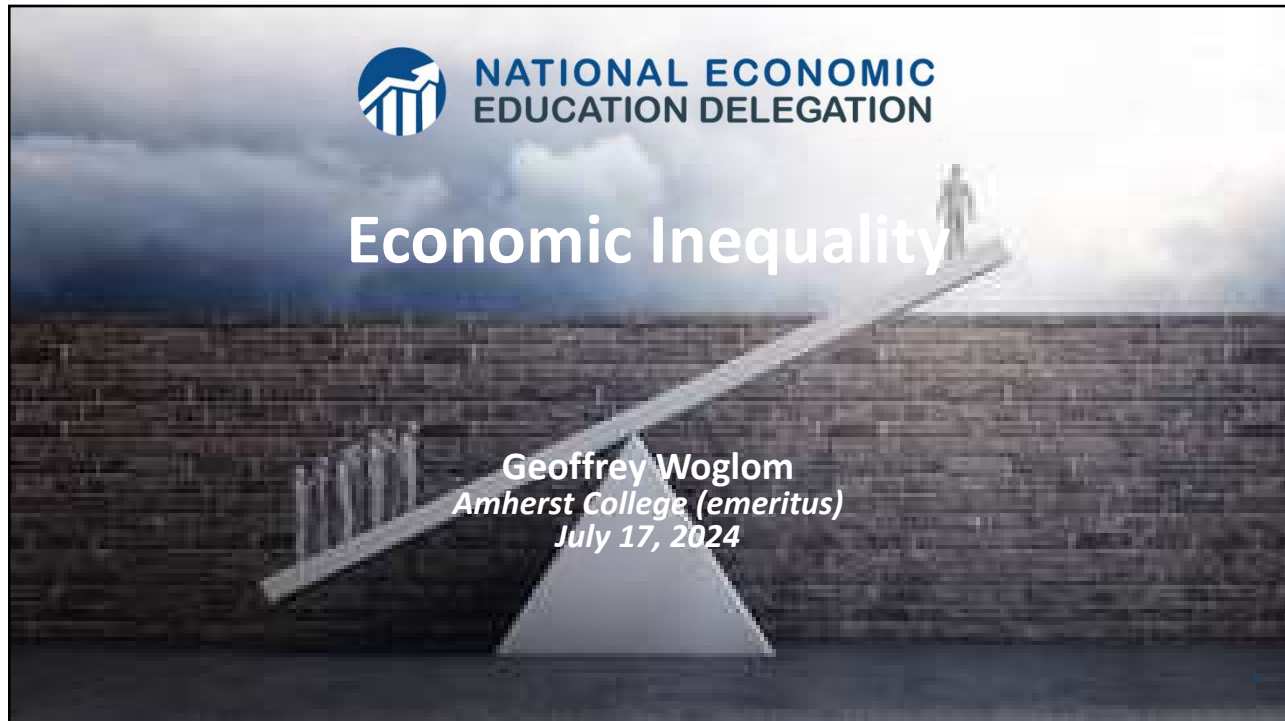
- **NEED Presentations**
  - Are nonpartisan and intended to reflect the consensus of the economics profession.

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# Available NEED Topics Include:

- US Economy
- Healthcare Economics
- Climate Change
- Economic Inequality
- Economic Mobility
- Trade and Globalization
- Minimum Wages

- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- Black-White Wealth Gap
- Autonomous Vehicles
- US Social Policy

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# Course Outline

- **Contemporary Economic Policy**
  - Week 1 (7/15): Economic Update (Joseph Carolan, Oakland University)
  - **Week 2 (7/17):  The New Inequality (Geoffrey Woglom Amherst College)**
  - Week 3 (7/22):  Is College Worth It? (Geoffrey Woglom Amherst College)
  - Week 4 (7/24): Federal Debt and Deficits (Brian Peterson, LaGrange College)

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# Economic Inequality

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**Geoffrey Woglom**
*Amherst College (emeritus)*
*July 17, 2024*

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# Credits and Disclaimer

- **This slide deck was authored by:**
  - Jon Haveman, Executive Director of NEED
  - Geoffrey Woglom, Amherst College
- **This slide deck was reviewed by:**
  - Timothy Smeeding, University of Wisconsin
  - Robert Wright, Augustana University
- **Disclaimer**
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  - Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED)

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# Submitting Questions

- **Submit questions in the chat or by raising your digital hand.**
  - I will try to handle them as they come up.

- **We will do a verbal Q&A once the material has been presented.**

- **Slides will be available from the NEED website tonight**
  **https://needecon.org/delivered_presentations.php**

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# Outline

- **Definitions.**
- **Snapshots of US Inequality.**
- **Inequality over time.**
- **Does it matter?**
- **The New Inequality?**
- **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 Material Inequality

- **Income Inequality**
  - Before taxes and transfers
  - After taxes and transfers
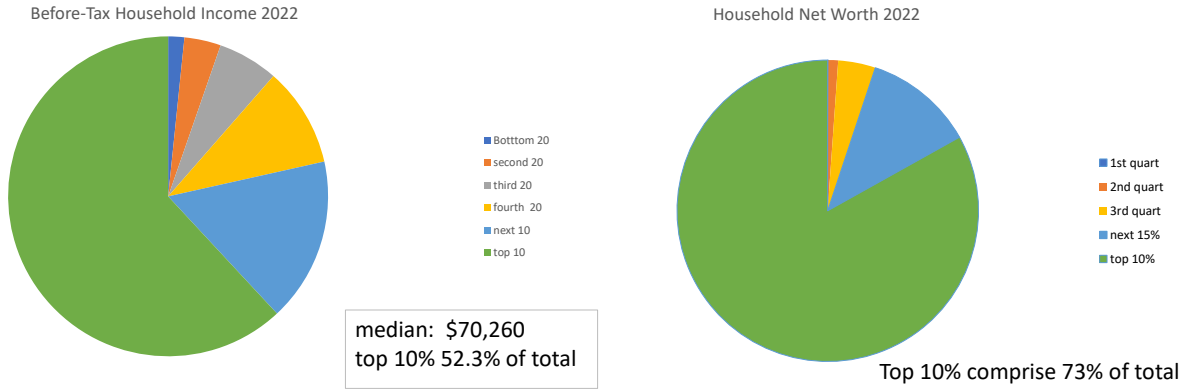- **Wealth Inequality**

How does wealth differ from income?

**Income** is measured over a period of time, say one year and measures ability to consume today.

**Wealth** is one's accumulated savings, including physical and financial assets (net worth), and measures the ability to consume now and in the future.
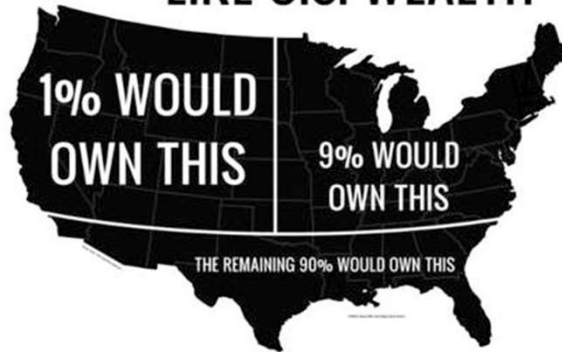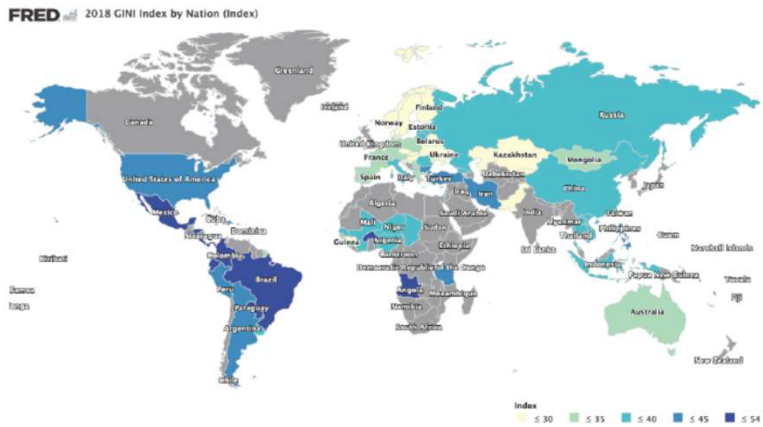
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# Measuring Material Inequality

Before-Tax Household Income 2022

| | |
|---|---|
| ■ | Botttom 20 |
| ■ | second 20 |
| ■ | third 20 |
| ■ | fourth 20 |
| ■ | next 10 |
| ■ | top 10 |

Household Net Worth 2022

| | |
|---|---|
| ■ | 1st quart |
| ■ | 2nd quart |
| ■ | 3rd quart |
| ■ | next 15% |
| ■ | top 10% |

median:  $70,260
top 10% 52.3% of total

Top 10% comprise 73% of total

Federal Reserve Board "Survey of Consumer Finances"

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# Wealth inequality in America

IF U.S. LAND WERE DIVIDED
LIKE U.S. WEALTH

1% WOULD
OWN THIS

9% WOULD
OWN THIS

THE REMAINING 90% WOULD OWN THIS

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# How We Compare to the Rest of the World

Figure 2
**Gini Index by Nation**

FRED 2018 GINI Index by Nation (Index)



Index
≤ 30   ≤ 35   ≤ 40   ≤ 45   ≤ 54

SOURCE: World Bank via FRED®, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/graph/?m=QRFh, accessed April 6, 2021.
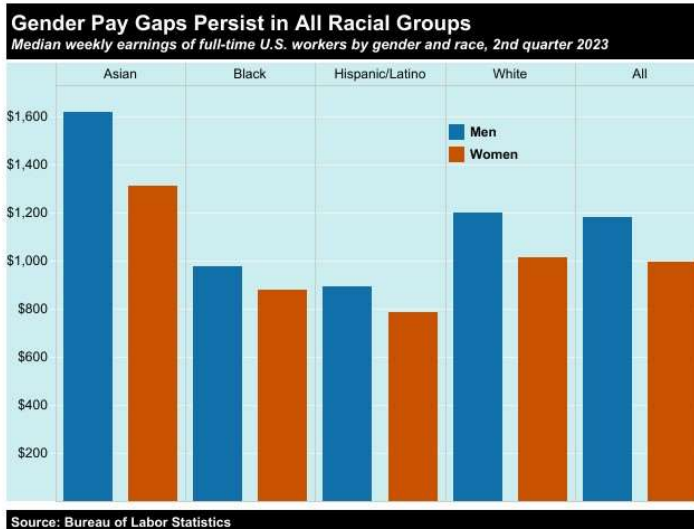
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https://files.stlouisfed.org/files/htdocs/publications/page1-econ/2022/09/01/income-and-wealth-inequality_SE.pdf

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# Racial Wage Gaps
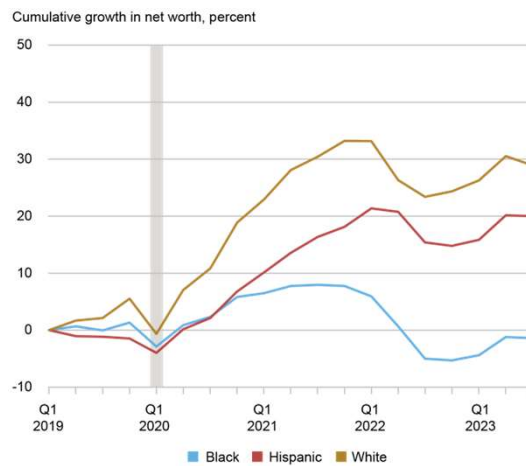
**White and Asian Wages Are Higher Than Black and Latino Wages**
*Median weekly earnings of U.S. full-time workers, 3rd quarter 2023*



Source: Bureau of Labor Statistics

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# Gender Pay Gaps

### Gender Pay Gaps Persist in All Racial Groups
*Median weekly earnings of full-time U.S. workers by gender and race, 2nd quarter 2023*



Source: Bureau of Labor Statistics

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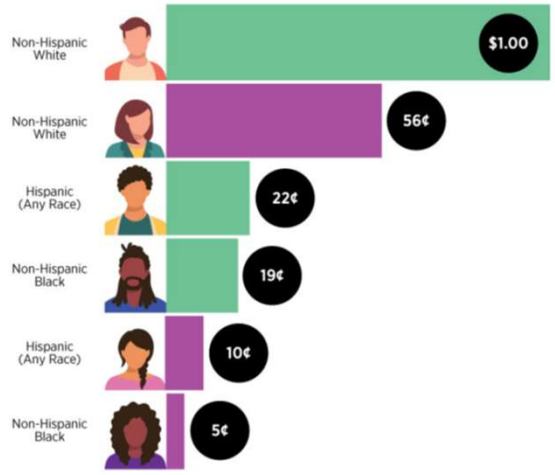# The Effects of Covid Recession & Recovery



Cumulative growth in net worth, percent

https://libertystreet
economics.newyork
fed.org/2024/02/rac
ial-and-ethnic-
wealth-inequality-
in-the-post-
pandemic-era/?

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# Racial and Gender Wealth Inequality

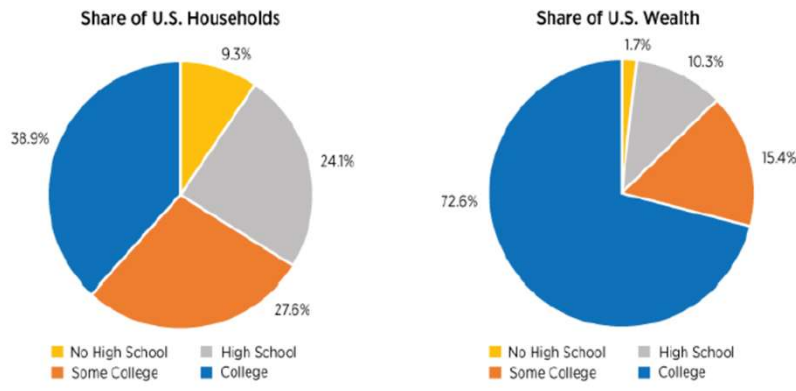**The U.S. Wealth Gap Is Particularly Large for Families Headed by Women of Color**



| | |
|---|---|
| Non-Hispanic White | $1.00 |
| Non-Hispanic White | 56¢ |
| Hispanic (Any Race) | 22¢ |
| Non-Hispanic Black | 19¢ |
| Hispanic (Any Race) | 10¢ |
| Non-Hispanic Black | 5¢ |

■ FEDERAL RESERVE BANK OF ST. LOUIS

NOTES: Demographic characteristics are taken from the survey respondent. All marital statuses are included.
SOURCES: Federal Reserve Board's Survey of Consumer Finances (2019) and author's calculations

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# Household Wealth by Education, 2023, Q2



**Share of U.S. Households**
- 9.3%
- 38.9%
- 24.1%
- 27.6%

**Share of U.S. Wealth**
- 1.7%
- 10.3%
- 15.4%
- 72.6%

■ No High School  ■ High School
■ Some College  ■ College

■ FEDERAL RESERVE BANK OF ST. LOUIS

SOURCES: Distributional Financial Accounts and Institute for Economic Equity calculations.
NOTE: College represents families with at least a bachelor's degree; other education levels represent the families' highest completed education.

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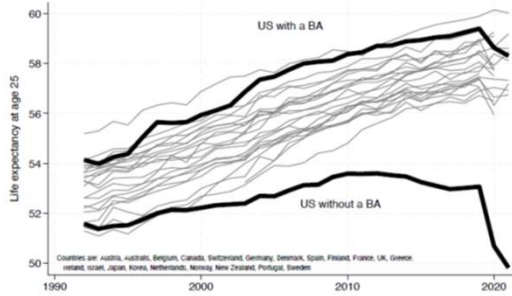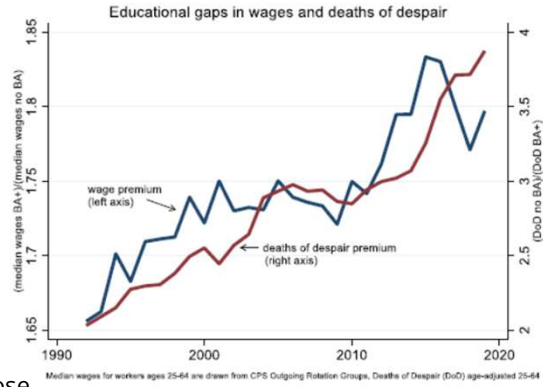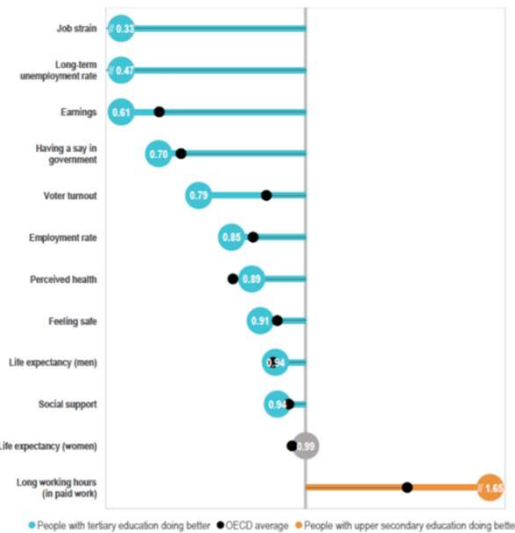
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## Case and Deaton's Astounding Findings



Opioids were involved in more than 80,000 overdose deaths in 2021, which was 10 times the number of opioid overdose deaths in 1999. http://wonder.cdc.gov/

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## Education Matters for Broader Measures of Inequality

Ratio of indicators of well being



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## Summary of Snapshot

- **Top 10% earns over 50% of total income and 70% of total wealth**
- **US is one of the more unequal countries in the industrialized world.**
- **Earning a BA is important for**
  - Earnings.
  - Life Satisfaction.
  - Life Expectancy.

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## How Did We Get Here: The Long View



**Income Concentration at the Top Has Risen Sharply Since the 1970s**

Share of total before-tax income flowing to the highest income households (including capital gains), 1913-2018
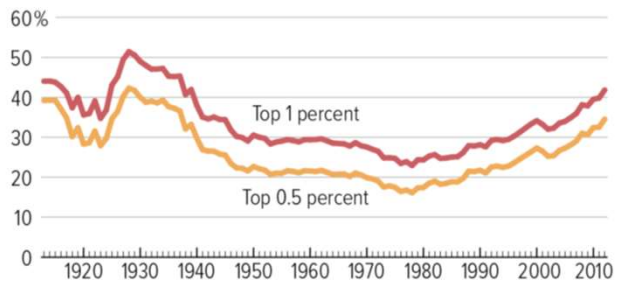
Top 1 percent

Top 0.5 percent
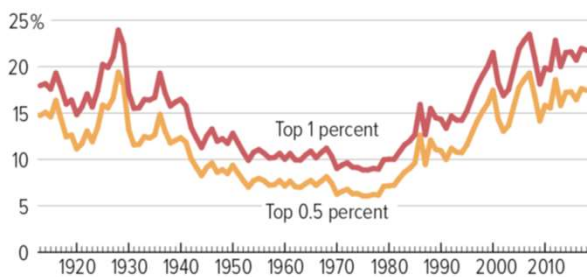
Source: Emmanuel Saez, based on IRS data

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG



**Wealth Concentration Has Been Rising Toward Early 20th Century Levels**

Share of total wealth held by the wealthiest families, 1913-2012

Top 1 percent

Top 0.5 percent
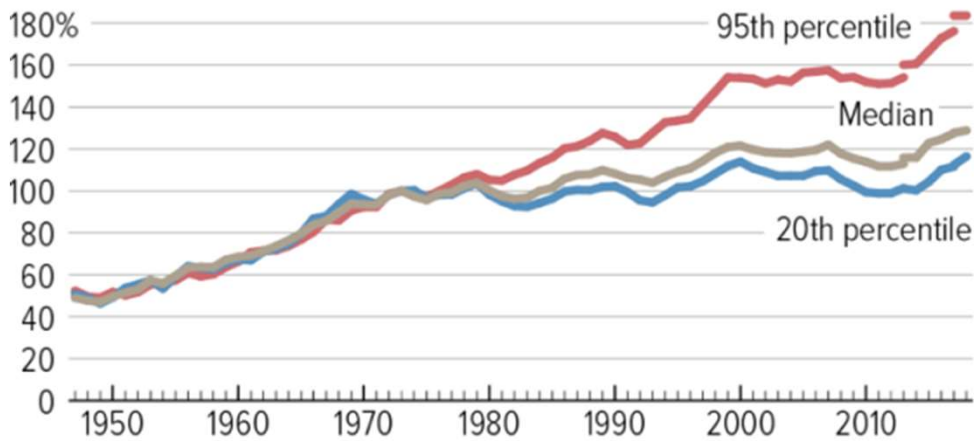
Source: Saez and Zucman, May 2016

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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, Dec. 11, 2018.

## The "Great Divergence:" 1979-2019

- **Beginning in the late 1970s, income gaps widened.**

  - Income growth in the middle and lower parts of the distribution slowed.

  - Incomes at the top continued to grow strongly.

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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.

## The Abrupt Increase in Inequality

Real family income between 1947 and 2018, 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, Dec. 11, 2018.

7/17/2024

# Increasing Inequality is Not Just US Phenomenon



Figure 1: Change in Gini coefficient, 1985 to 2013
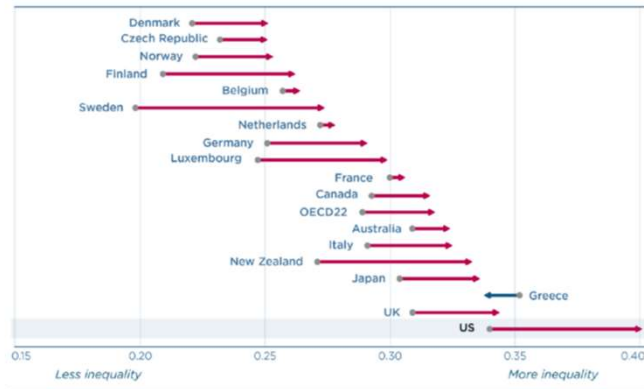
Note: 1985 data refer to 1985 or closest available year. 2013 data refer to 2013 or nearest available year. The Gini coefficient measures how equally income is distributed across a population, from 0 (perfectly equal) to 1 (all income to one person).
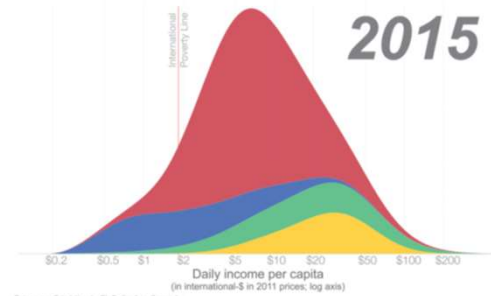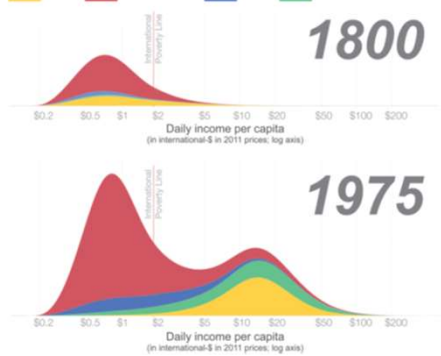
Source: Organization for Economic Cooperation and Development (OECD), "In It Together: Why Less Inequality Benefits All."

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# But Global Inequality is Falling!



Global income distribution in 1800, 1975, and 2015

*Global inequality in 1800, 1975, and 2015* [2]

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# "Inequality Doesn't Matter; Poverty Does" (?)

US Poverty and the Effects of Tax and Transfer Programs.



— SPM Poverty Rate without Taxes and Transfers   — SPMPoverty Rate with Taxes and Transfers

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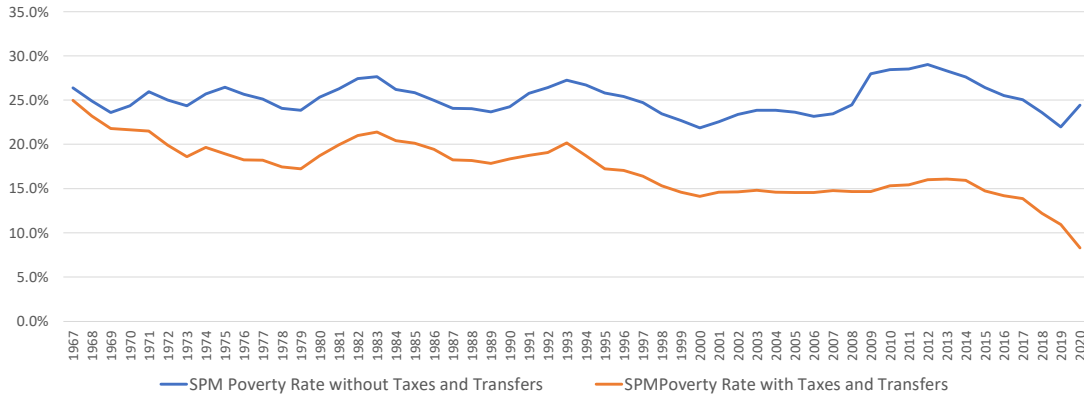
# "Inequality Doesn't Matter with Intergenerational Mobility (Horatio Alger)" (?)



The inheritance of income status
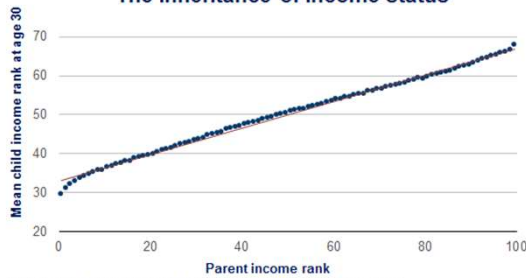
Source: Chetty et al., "Where is the land of opportunity? The geography of intergenerational mobility in the United States," Figure IIa: Association between children's and parent's percentile rank
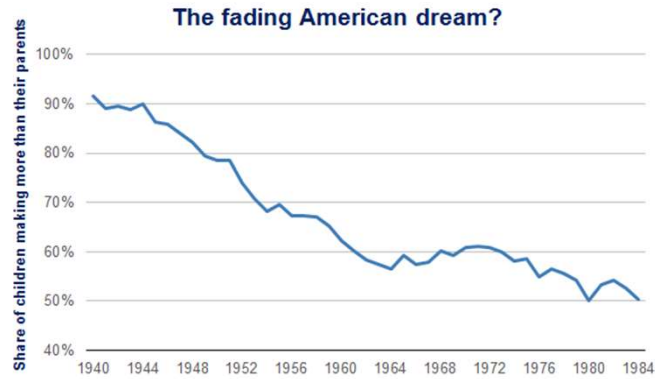
BROOKINGS



Relative mobility is almost twice as high in Canada

| | |
|---|---|
| Canada | 13.50% |
| Denmark | 11.70% |
| UK | 9.00% |
| USA | 7.50% |
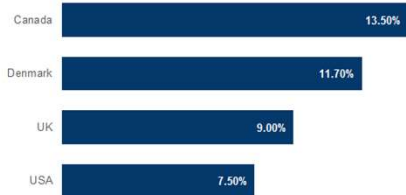
■ Probability that a child born to parents in the bottom fifth of the income distribution reaches the top fifth

Sources: Chetty et al., "Where is the land of opportunity? The geography of intergenerational mobility in the United States" (USA); Blanden and Machin, "Up and down the generational income ladder in Britain: Past changes and future prospects." (UK); Boserup, Kopczuk, and Kreiner, "Intergenerational Wealth Mobility: Evidence from Danish Wealth Records of Three Generations." (Denmark); Corak and Heisz, "The intergenerational earnings and income mobility of Canadian men: Evidence from longitudinal tax data" (Canada)

BROOKINGS

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# Inequality Doesn't Matter because Children Are Better Off Than Their Parents (?)

**The fading American dream?**



Source: Chetty et al., "The fading American dream: Trends in absolute income mobility since 1940"

BROOKINGS

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# 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, union regulations, etc.

- **RE-distribution**
  - Tax Rates
  - Income support
    - o Direct aid
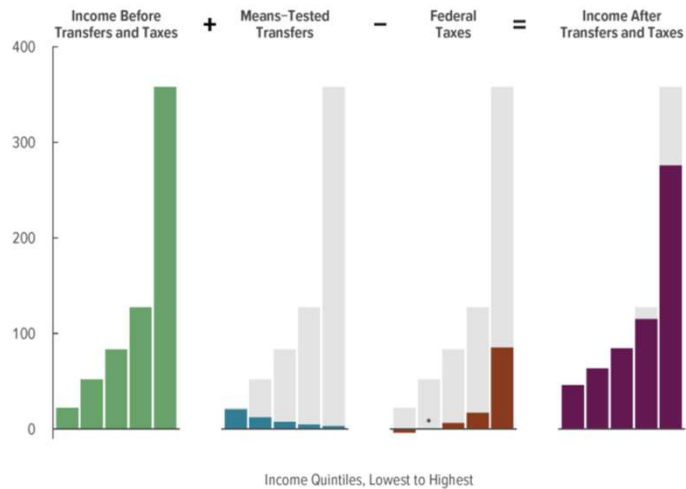    - o Food stamps
  - Medicare & SSA rules

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# Tax and Transfer Programs and Inequality



Average Real Income, Means-Tested Transfers, and Federal Taxes in 2020
Thousands of 2020 Dollars

https://www.cbo.gov/system/files/2023-11/59509-household-income_2019-2020.pdf

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# Market Forces and Inequality

- **Changing demand patterns**
    - Technology and "skill-biased technological change"
    - Increased Trade and Globalization
    - Industry composition
        - PCs instead of typewriters
        - Services instead of goods
        - Professional services instead of personal services
- **Competition in labor markets**
    - Unionization
    - Market concentration
    - Immigration (?)

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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
- **Technological change may result in "winner take all" outcomes.**
  - This likely favors a small group of individuals.
  - But of course the relative winners can change rapidly.
- **Both aspects increase inequality by increasing the rewards to:**
  - Those with significant labor market skills and college degrees.
  - Owners over workers.
- **What will AI do to this story?**

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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.
  - But Globalization lifted 300 million Chinese out of poverty.

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# History of Globalization

**US trade grew to levels exceeding a third of its GDP. World trade volume now surpasses half of world GDP.**

World and US trade as percent of GDP (1960–2016)
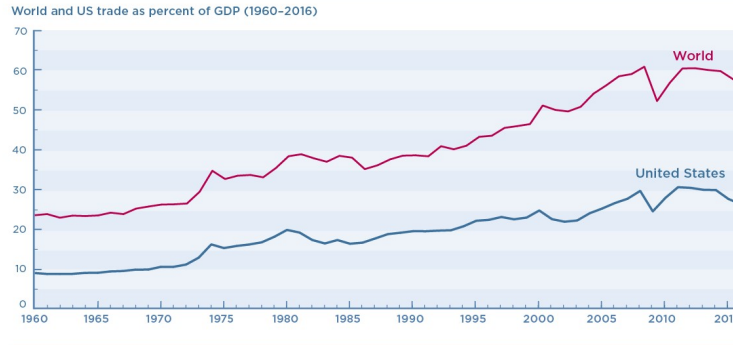


*Sources:* World Bank: World Bank DataBank and International Debt Statistics; International Monetary Fund: International Financial Statistics and Balance of Payments databases; GDP estimates from World Bank and Organization for Economic Cooperation and Development.

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# Declining Unionization
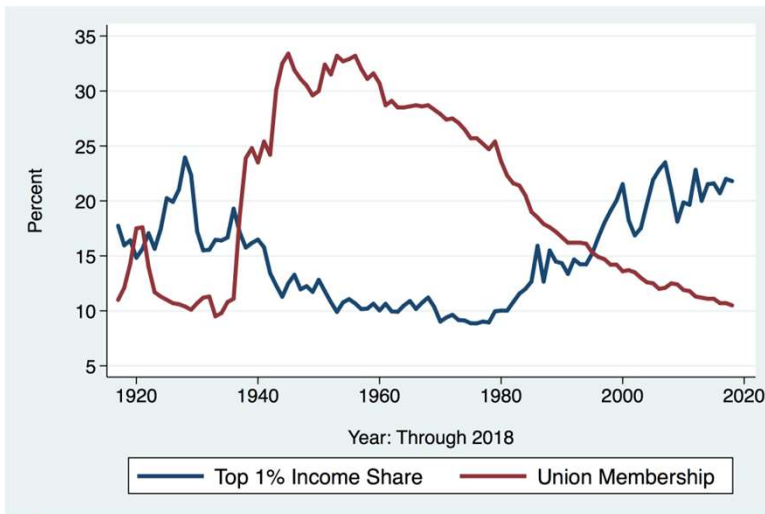


**Unionization Rates**
- **1983:**  20.1%
- **2022:**  10.1%

**Unionization Rates**
- **Public:**  33.1%
- **Private:**  6.0%

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Source: https://inequality.org/facts/income-inequality/, Bureau of Labor Statistics and Emmanueul Saez, University of Califonria, Berkeley
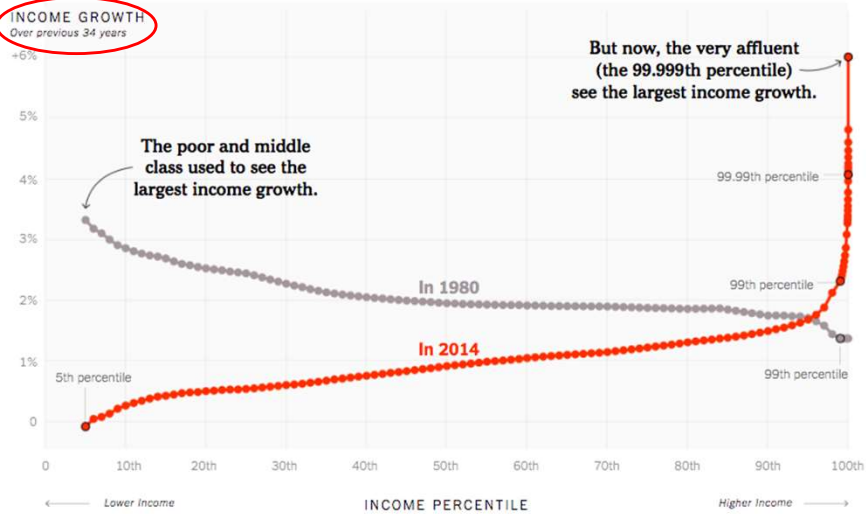
# Why Does Inequality Matter?

- Economic Reason:  too much inequality slows economic growth.
- Ethical Reasons:  concern for our neighbors.
- Political Reasons:  political polarization leads to government paralysis and an inability to take needed action.

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# How Has Income Inequality Changed?



Note: Inflation-adjusted annual average growth using income after taxes, transfers and non-cash benefits.

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Source: https://www.nytimes.com/interactive/2017/08/07/opinion/leonhardt-income-inequality.html

# Average Income Growth by Generation

| Generation | Bottom 50% | Middle 40% | Top 10% | Top 1% |
|---|---|---|---|---|
| Greatest (46-70) | 2.85 | 2.57 | 2.03 | 1.27 |
| Boomer (70-94) | 0.15 | 1.20 | 1.86 | 2.28 |
| Gen X (94-15) | 0.61 | 0.93 | 1.94 | 2.56 |

Distributional National Accounts: Methods and Estimates for the United States (with T. Piketty and E. Saez, Accessed from: https://gabriel-zucman.eu/usdina/ and my calculations.

Something changed in the nature of our economy and society somewhere at about the same time as the rise in inequality.

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# New Inequality due to Meritocracy

- **Greatest Generation and Meritocracy**
    1. GI Bill.
    2. High-paying, unionized manufacturing jobs.
- **Boomers**
    1. 1960s: SATs become more important and legacy status less for college.
    2. Economy is more competitive which tended to lessen prejudices against Catholics and Jews.
    3. The rise of suburbs
        a. Less socioeconomic and racial diversity.
        b. Investments in high quality public schools.
- **Gen X**
    1. Affluent, college educated boomers invest heavily in children's education.
    2. Globalization and the related decline in unionization eliminates high-paying blue collar jobs.
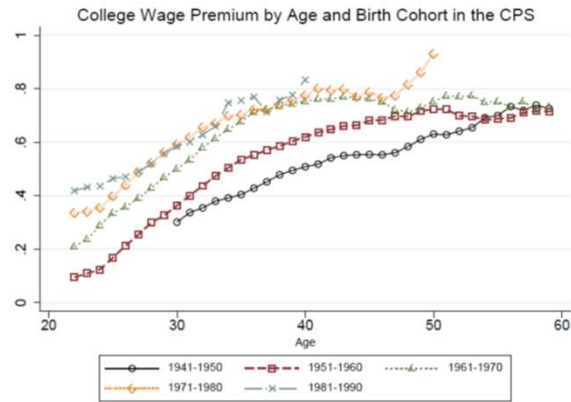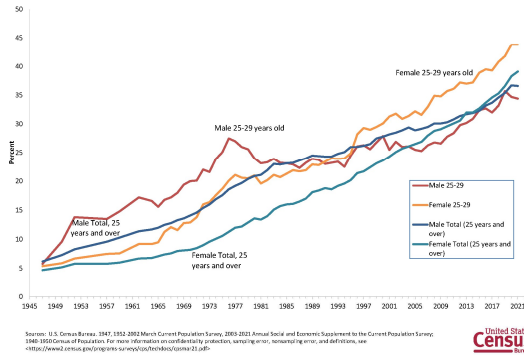
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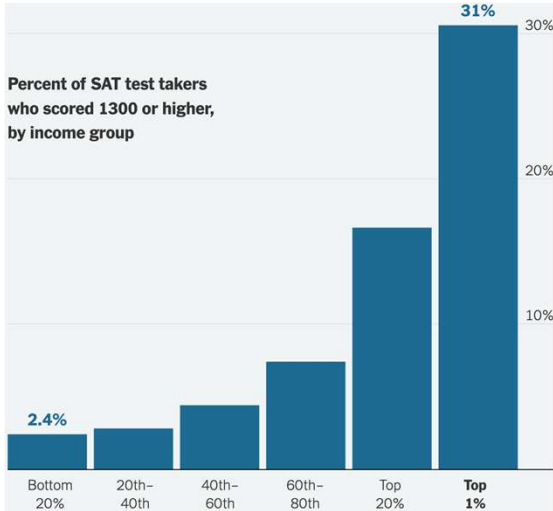
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# The Growing Importance of Education

Figure 6: Percent of Population 25 Years and Over, and 25 to 29 Years Old, with Bachelor's Degree or Higher by Sex: 1947-2021



College Wage Premium by Age and Birth Cohort in the CPS



David Deming, "Why Do Wages Grow Faster for Educated Workers," NBER Working Paper 31373, 6/23

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# Is it Still a "Meritocracy?"

- **The key question is whether there is equal opportunity for a college education.**
- **Without equal access, the meritocracy based on educational attainment becomes an aristocracy.**

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## To Emphasize Educational Access Issue

**Percent of SAT test takers who scored 1300 or higher, by income group**

31%

30%

20%

10%

2.4%

Bottom 20% | 20th–40th | 40th–60th | 60th–80th | Top 20% | Top 1%

What do these numbers reflect?

It gets worse.  With "All Students" instead of "test takers" in the bottom 20% scoring above 1300 falls to 0.6%
And worse(er?)…
Elite schools twice as likely to admit student from a high income family as a low to middle income family

Higher admission rates for the high income is due to: 1) "Legacies;  2)  higher "non-academic" rankings;  3) Athletic recruitment
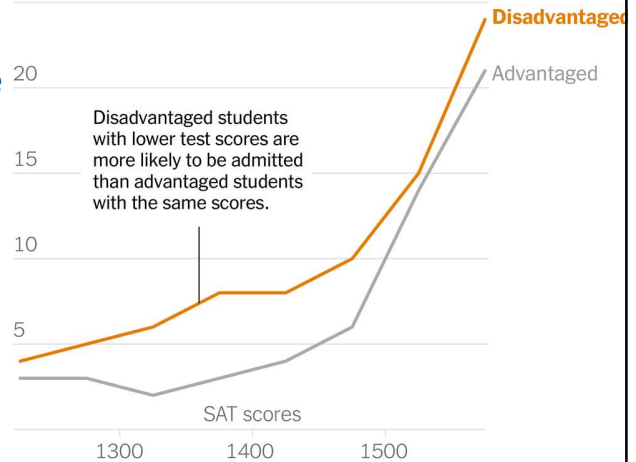
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https://www.nytimes.com/interactive/2023/10/23/upshot/sat-inequality.html

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## Reinstate the SAT!

**Share of students admitted to Dartmouth, by test scores and student advantage**

25% of students admitted

Disadvantaged

Advantaged

- **Don't Let the Bad be the Enemy of the Better!**

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Disadvantaged students with lower test scores are more likely to be admitted than advantaged students with the same scores.

15

10

5

SAT scores

1300 | 1400 | 1500

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# Our Imperfect Meritocracy Hurts Rich and Poor

- **Poor are hurt because there is less equality of opportunity**
- **Poor are hurt because in a meritocracy your lack of success is due your failings.**
- **Rich are hurt because they have to work harder to confirm their status.**
- **Rich are hurt because they make their children compete at an earlier age (Tiger Moms, SAT prep courses).**
- **We are all hurt because of the growing segregation between the rich and poor and increasing polarization**

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# What to do About Inequality?

- **Government policies to reduce material inequality:**
    1. Greater Progressivity of Tax/Transfer System.
    2. Fix Social Security and Medicare Funding, but ***NOT*** by raising age of eligibility.
    3. Encourage re-unionization of industry. (?)
    4. Put limits on low-skilled immigration. (?)
    5. Raise Minimum Wage (?)
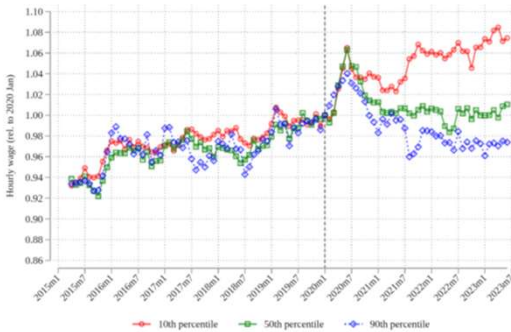    6. Industrial policies to provide meaningful work for non-BAs. (?)

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# What To Do about the "New Inequality"

1. **Research shows that high-quality birth-to-five programs for disadvantaged children can deliver a 13% return on the investment. (James Heckman)**
2. **Somehow improve public schools.**
3. **Encourage students from low-income families to apply to quality colleges (Carolyn Hoxby)**
4. **Encourage colleges to practice affirmative action based on socioeconomic status (William Bowen).**
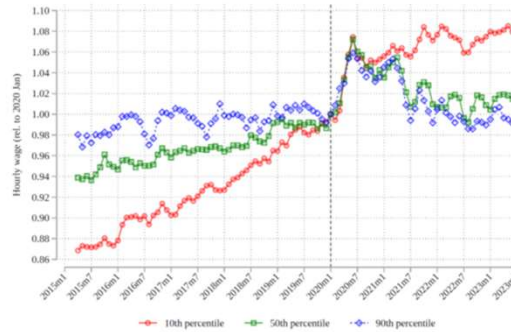5. **Reinstitute National Service to lessen socioeconomic and racial segregation. (?)**

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# An Encouraging Recent Trend: Full Employment Helps



Real Hourly Wages by Quantile, Relative to January 2020

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D. Autor, A. Dube and A. McGrew, "The Unexpected Compression: Competition at Work in the Low wage Labor Market", www.nber.org/papers/w31010

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# Readings on the New Ineqaulity

- **Roge Kama, "'The Meritocracy Trap' Explained,"** https://www.vox.com/policy-and-politics/2019/10/24/20919030/meritocracy-book-daniel-markovits-inequality-rich
- **David Brooks, "What if We're the Bad Guys,"** https://www.nytimes.com/2023/08/02/opinion/trump-meritocracy-educated.html
- **Mathew Stewart, "The Birth of the New American Aristocracy, "*The Atlantic,* June 2018**
- **Michael Sandel, "The Dark Side of Meritocracy,"** https://www.noemamag.com/the-dark-side-of-meritocracy/
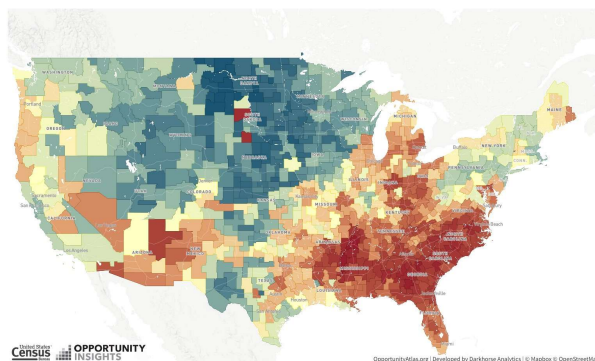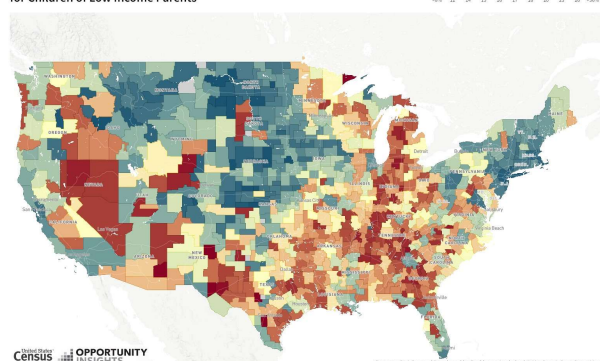
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# More Research on the Causes and Cures

Raj Chetty "Big Data" and Opportunity Insights



Household Income at Age 35 for Children of Low Income Parents

College Graduation Rate for Children of Low Income Parents

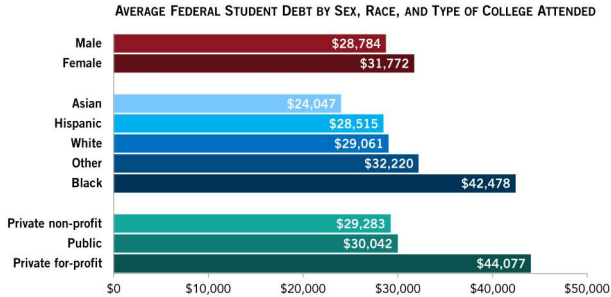**NATIONAL ECONOMIC EDUCATION DELEGATION**

Try it yourself:
https://www.opportunityatlas.org/

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## Next Week: Break Down of Where There is a Debt Problem

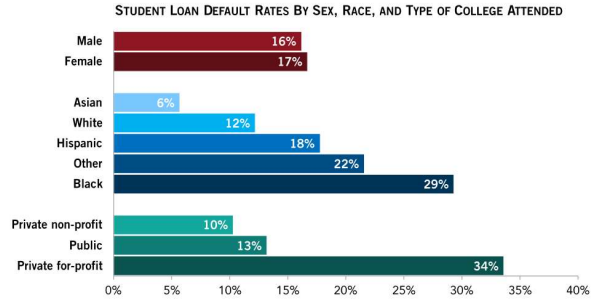**PETERSON FOUNDATION** — The average federal student loan debt is highest for women, Black borrowers, and those who attended for-profit colleges

AVERAGE FEDERAL STUDENT DEBT BY SEX, RACE, AND TYPE OF COLLEGE ATTENDED

| Category | Amount |
|---|---|
| Male | $28,784 |
| Female | $31,772 |
| Asian | $24,047 |
| Hispanic | $28,515 |
| White | $29,061 |
| Other | $32,220 |
| Black | $42,478 |
| Private non-profit | $29,283 |
| Public | $30,042 |
| Private for-profit | $44,077 |

SOURCE: U.S. Department of Education: National Center for Education Statistics, *B&B:17 Baccalaureate and Beyond Longitudinal Study*, accessed April 2021.
NOTES: Data reflects the average cumulative federal student loan amount owed, including principal and interest, for undergraduate and graduate education 12 months after completing a bachelors degree. Hispanic includes Hispanic or Latino borrowers of any race, all other racial categories are non-Hispanic. The race category of "Other" includes American Indian, Alaska Native, Native Hawaiian/Other Pacific Islander, and those who indicated more than one race.
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**PETERSON FOUNDATION** — Students at for-profit colleges and Black borrowers have higher student loan default rates

STUDENT LOAN DEFAULT RATES BY SEX, RACE, AND TYPE OF COLLEGE ATTENDED

| Category | Rate |
|---|---|
| Male | 16% |
| Female | 17% |
| Asian | 6% |
| White | 12% |
| Hispanic | 18% |
| Other | 22% |
| Black | 29% |
| Private non-profit | 10% |
| Public | 13% |
| Private for-profit | 34% |

SOURCE: U.S. Department of Education: National Center for Education Statistics, *Beginning Postsecondary Students Longitudinal Study 2012/2017*, accessed on April 19, 2021.
NOTES: Data reflect default rates for those who entered college in the 2011-2012 academic year and had entered repayment by 2017. The race category of "Other" includes American Indian, Alaska Native, Native Hawaiian/Other Pacific Islander, and those who indicated more than one race.
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## Let's Hear from You!

### Geoffrey Woglom
### grwoglom@amherst.edu

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