



Osher Lifelong Learning Institute, Winter 2022
Contemporary Economic Policy

University of Alaska, Anchorage
February-March, 2022


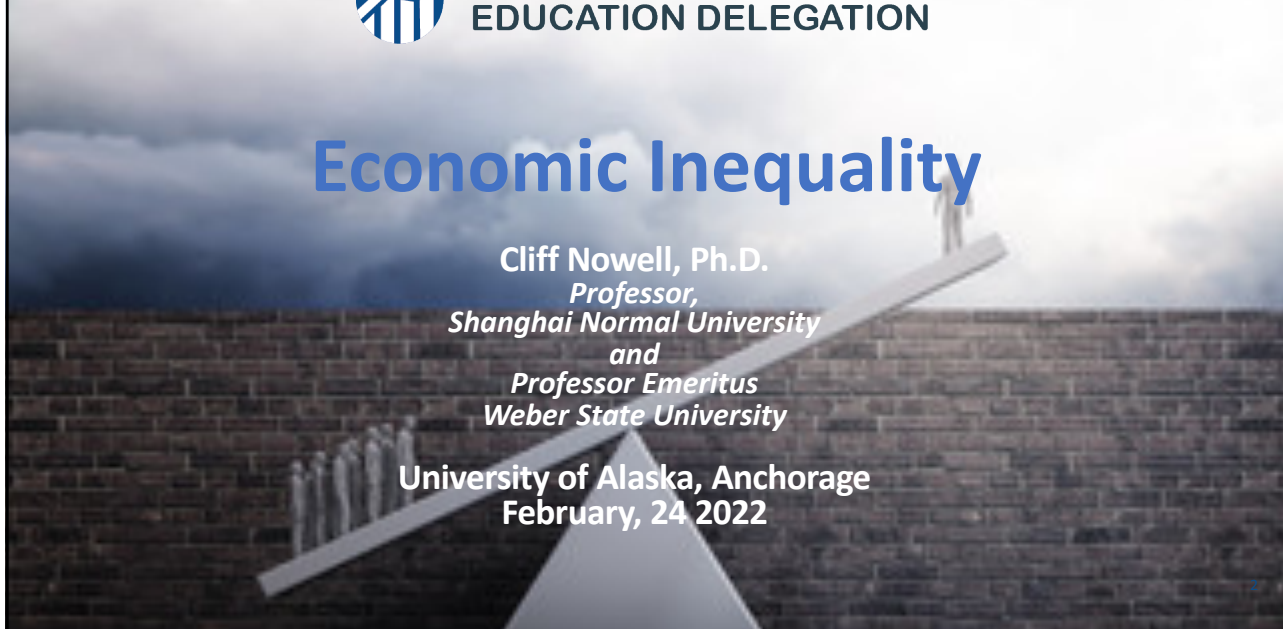
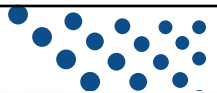
National Economic Education Delegation



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Economic Inequality

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University of Alaska, Anchorage
February, 24 2022

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- **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:

- **Coronavirus Economics**
- **US Economy**
- **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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Submitting Questions

- **Please submit questions in the chat.**
 - I will try to handle them as they come up, but may take them in a bunch as time permits.
- **We will do a verbal Q&A once the material has been presented.**
 - And the questions in the chat have been addressed.
- **OLLI allowing, we can stay beyond the end of class to have further discussion.**



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Outline

- **Definition**
- **Measurement**
- **How does it happen?**
- **Does it matter?**
- **Is it a problem?**
- **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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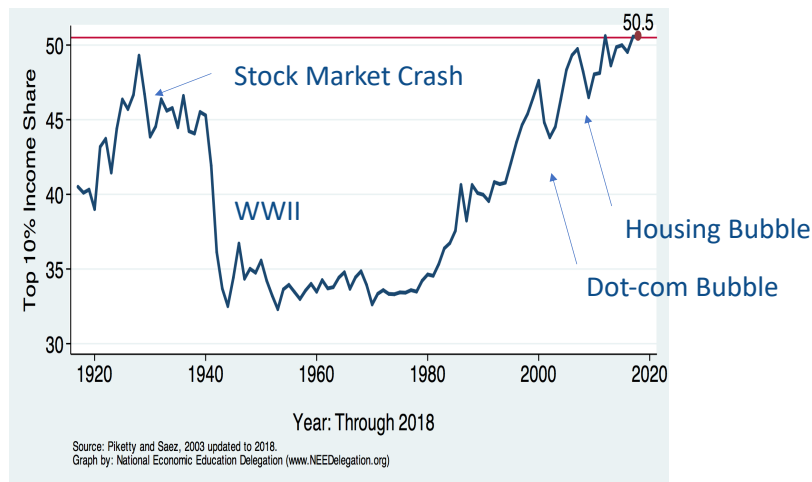
Different Ways of Thinking About Inequality

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



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National Income Inequality: Share of Top 10%



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Recent Facts on Income Inequality

- **Beginning in the 1970s, the income gap widened.**
 - Income in the middle and lower parts of the distribution slowed
 - Incomes at the top continued to grow strongly
 - Income shares at the very top of the distribution rose to levels last seen more than 80 years ago

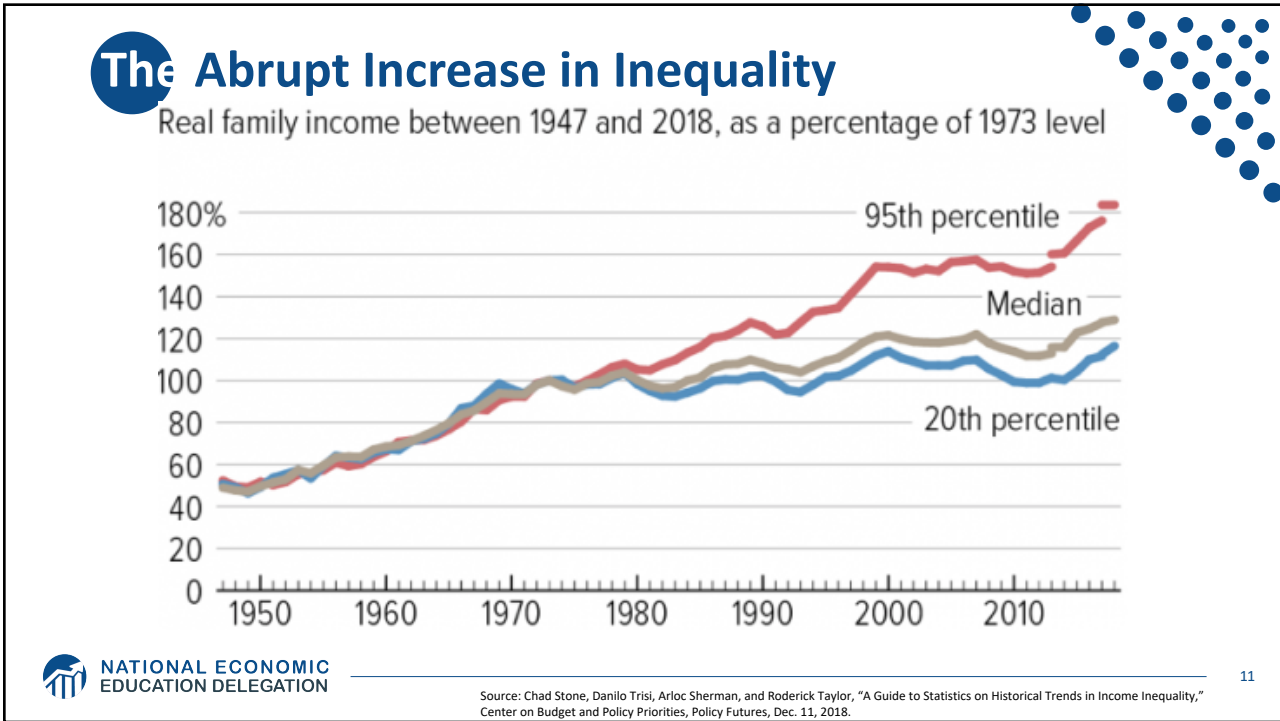


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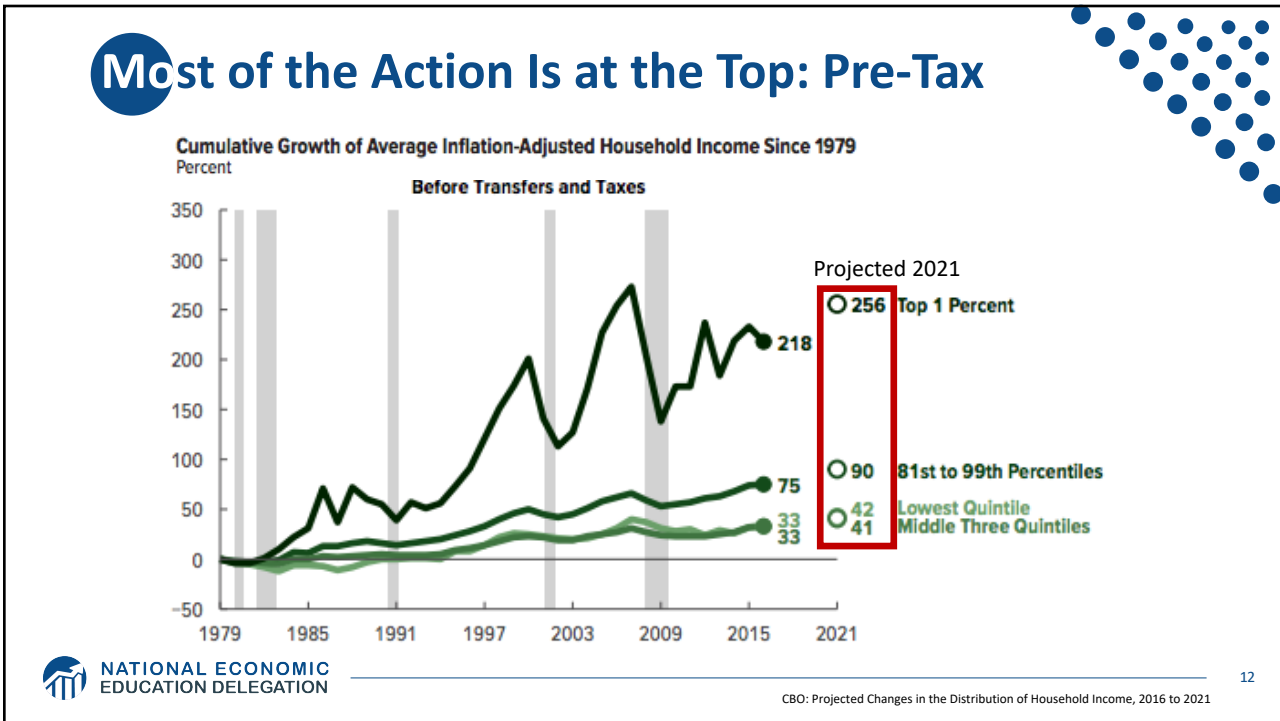
Source: Chad Stone, Danilo Trisi, Arloc Sherman, and Roderick Taylor, "A Guide to Statistics on Historical Trends in Income Inequality," Center on Budget and Policy Priorities, Policy Futures, May 15, 2018.

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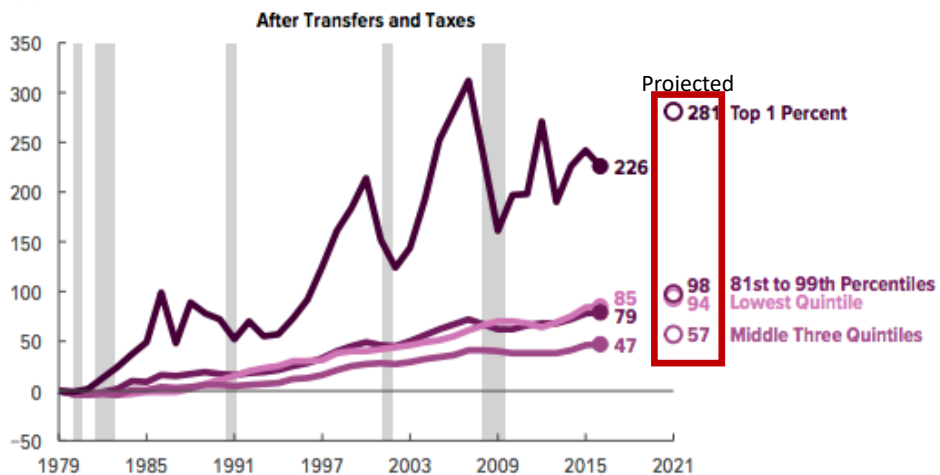
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Most of the Action Is at the Top: Post-Tax

Cumulative Growth of Average Inflation-Adjusted Household Income Since 1979
Percent



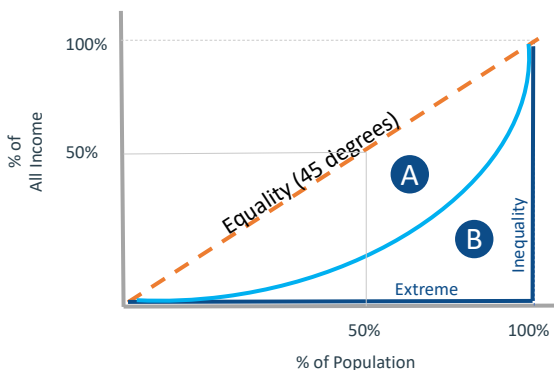
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CBO: Projected Changes in the Distribution of Household Income, 2016 to 2021

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The Gini Coefficient

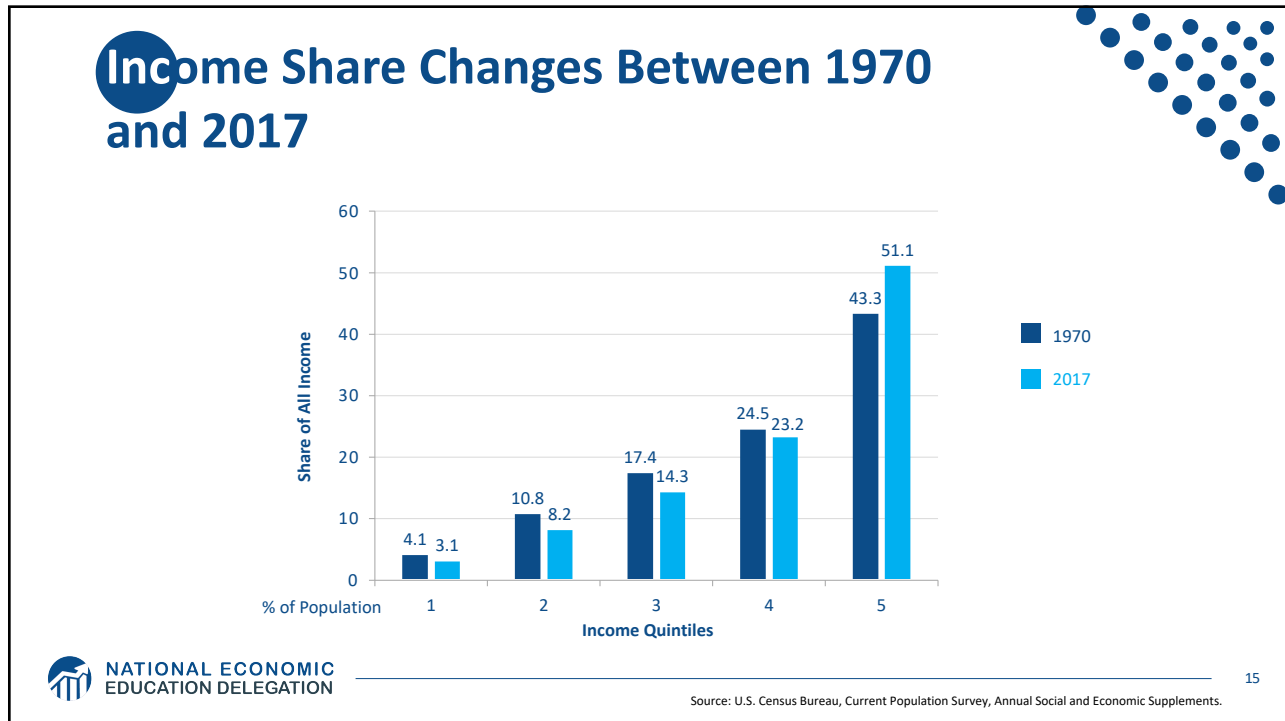


$$\text{Gini} = \frac{A}{A + B} \times 100$$

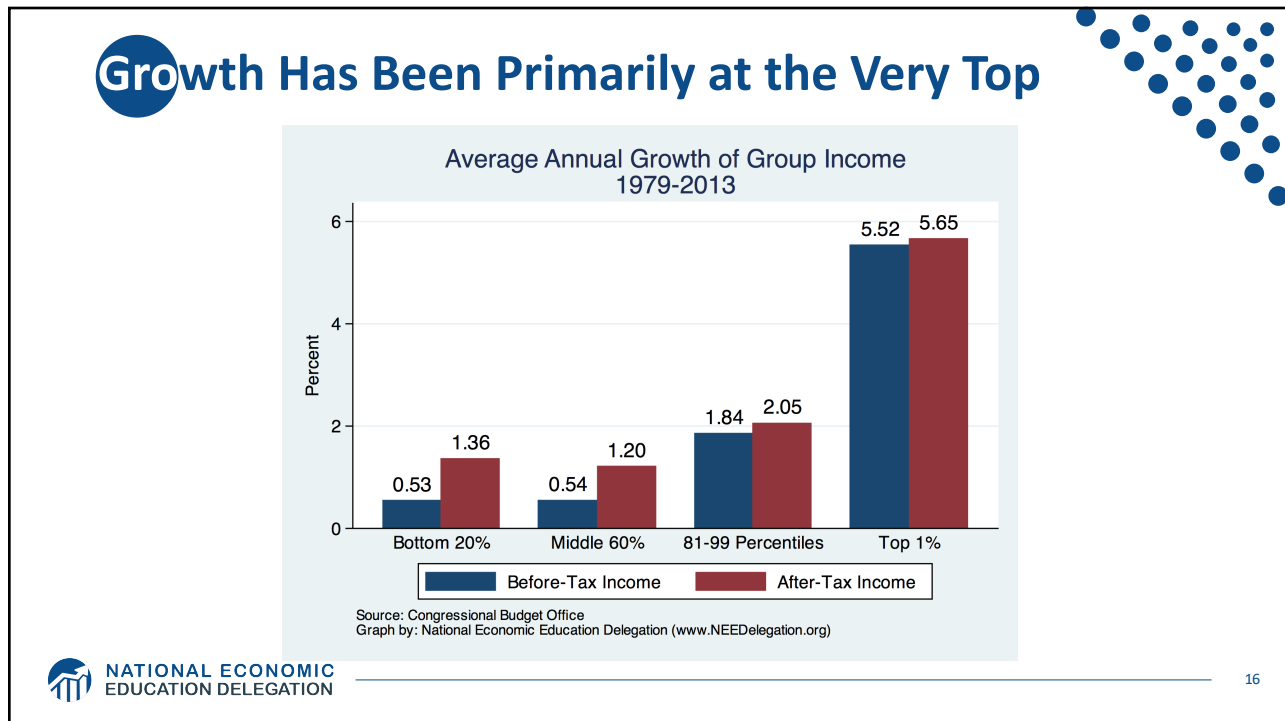
Bigger A: More inequality
Smaller A: Less inequality

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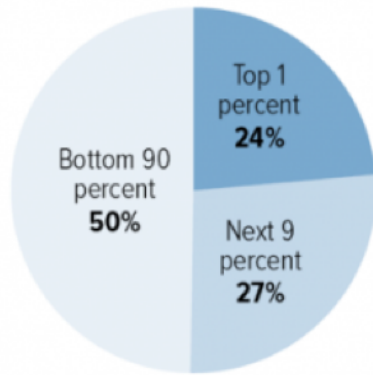
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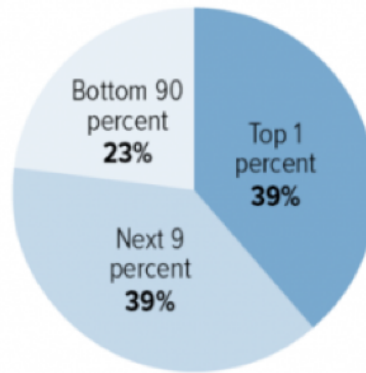
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Wealth Inequality Exceeds Income Inequality

Distribution of before-tax income, 2016

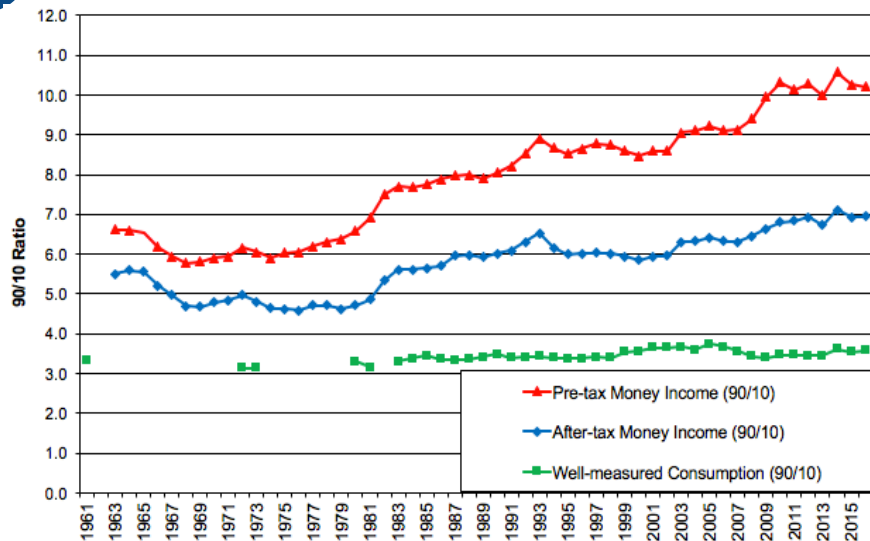


Distribution of wealth, 2016



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A Third Measure of Inequality: Consumption



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Consumption Inequality

- Consumption is another important metric for judging inequality
- Arguably a better indicator of “well-being”
- Extremely difficult to measure
- Growing evidence that consumption inequality has also increased



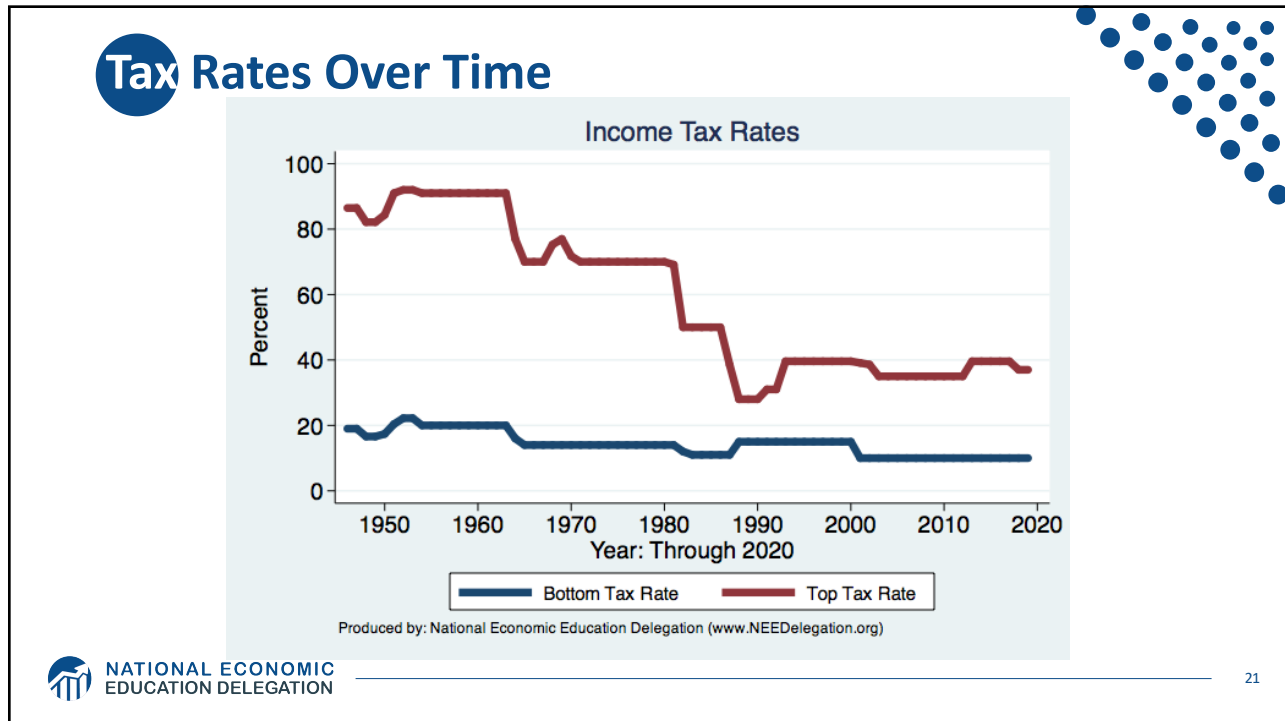
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Government Policy and Inequality

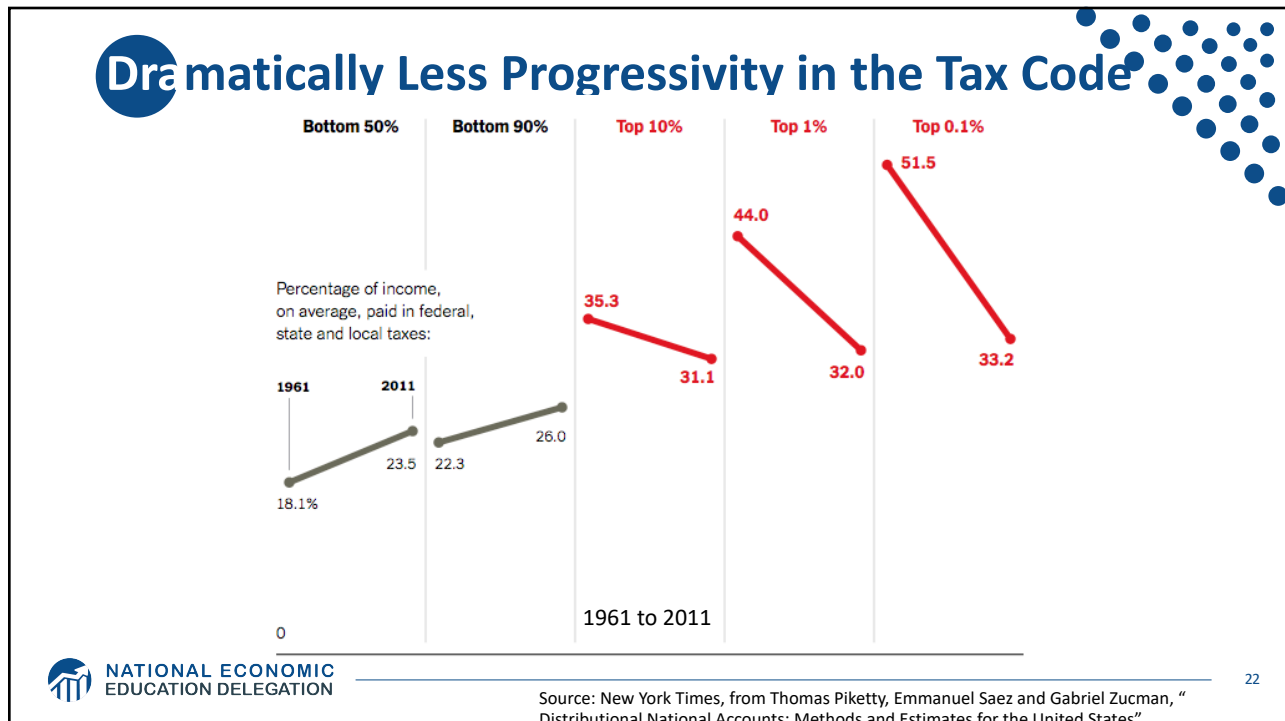
- **Market Influence: PRE-distribution**
 - Characteristics of labor
 - Access to education
 - Effects on labor demand
 - Market regulation
 - Competition policy
 - Labor regulations
 - Minimum wage, overtime, health insurance, etc.
- **RE-distribution**
 - Tax Rates
 - Income support
 - Direct aid
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



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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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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
- **There is a “winner take all” aspect of the technology-driven economy.**
 - This likely favors a small group of individuals.
- **Both aspects increase inequality by increasing the rewards to:**
 - Those with significant labor market skills.
 - Owners over workers



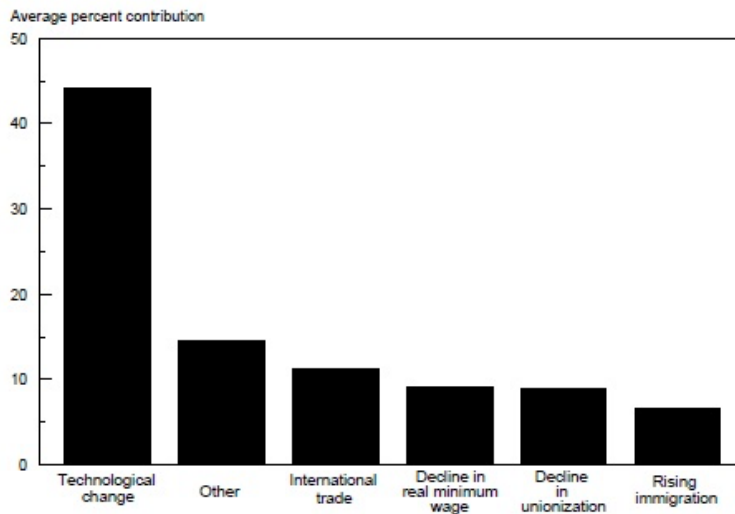
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Globalization

- **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

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Sources of Inequality Through Late 1990s



Source: Federal Reserve Bank of New York.

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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

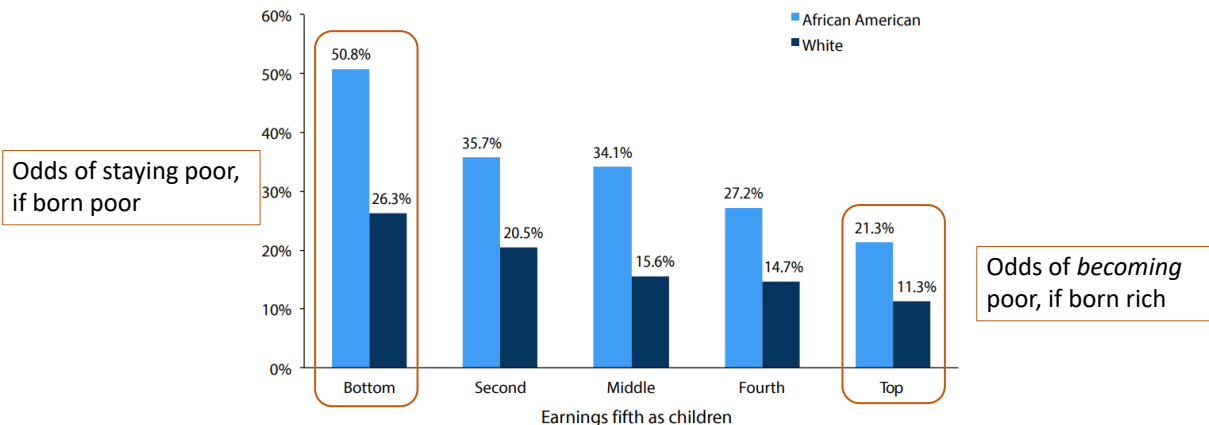
- **Too much inequality may also:**

- Divide society
- Distort political environment
- Reduce political participation
- Reduce investments in public goods
 - o Education
 - o Environmental protections



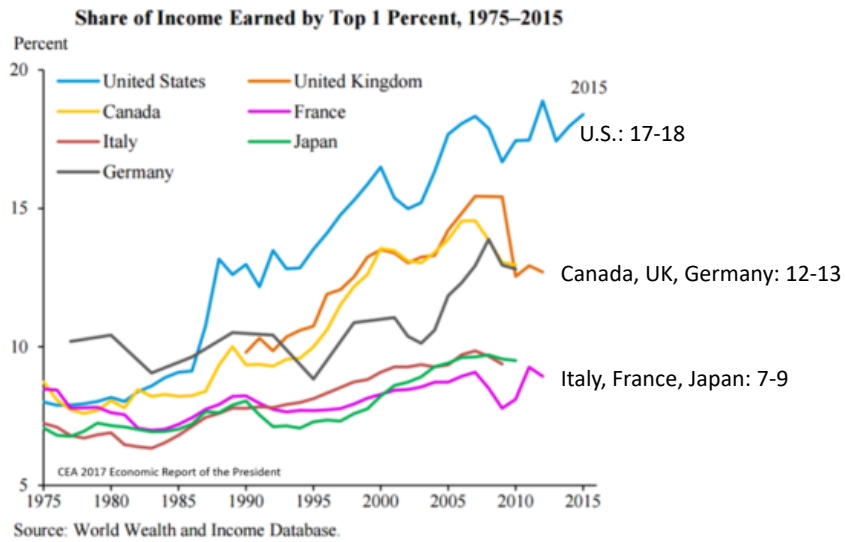
U.S. – Racial Differences

Figure 3L Share of children from various earnings fifths ending up in the bottom fifth as adults, by race



Source: Authors' analysis of Mazumder (2011, Table 7)

An International Perspective: Comparables



Addressing Inequality: Immediately Available Policy Solutions (1/2)

- **RE-distribution**
 - Tax and transfer programs

- **PRE-distribution**
 - Strengthen labor unions
 - Collective bargaining
 - Other policies that favor labor over business owners
 - Minimum wages



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
 - Uber, Lyft, etc.



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Thank you!

Any Questions?

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Cryptocurrencies: Geoffrey Woglom

