



Osher Lifelong Learning Institute, Winter 2022 **Contemporary Economic Policy**

American University
March-May, 2022

Host: Jon Haveman, Ph.D.
National Economic Education Delegation



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**



Course Outline

• Contemporary Economic Policy

- Week 1 (3/11): US Economy & Coronavirus Economics
- Week 2 (3/18): Federal Debt (Brian Peterson, Central College)
- Week 3 (3/25): Trade and Globalization (Alan Deardorff, Univ. of Michigan)
- Week 4 (4/1): Healthcare Economics (Veronika Dolar, SUNY-Old Westbury)
- Week 5 (4/8): Economics of Immigration (Jennifer Alix-Garcia, Oregon St. Univ.)
- **Week 6 (4/15): Economic Inequality (Kyle Montanio, Colorado University - Denver)**
- Week 7 (4/22): Economic Mobility (Kathryn Wilson, Kent State University)
- Week 8 (4/29): Discrimination in US Policy History (Jon Haveman, NEED)
- Week 9 (5/6): The Black-White Wealth Gap (Mike Shor, Univ. of Connecticut)
- Week 10 (5/13): The Gender Wage Gap (Mallika Pung, Univ. of New Mexico)



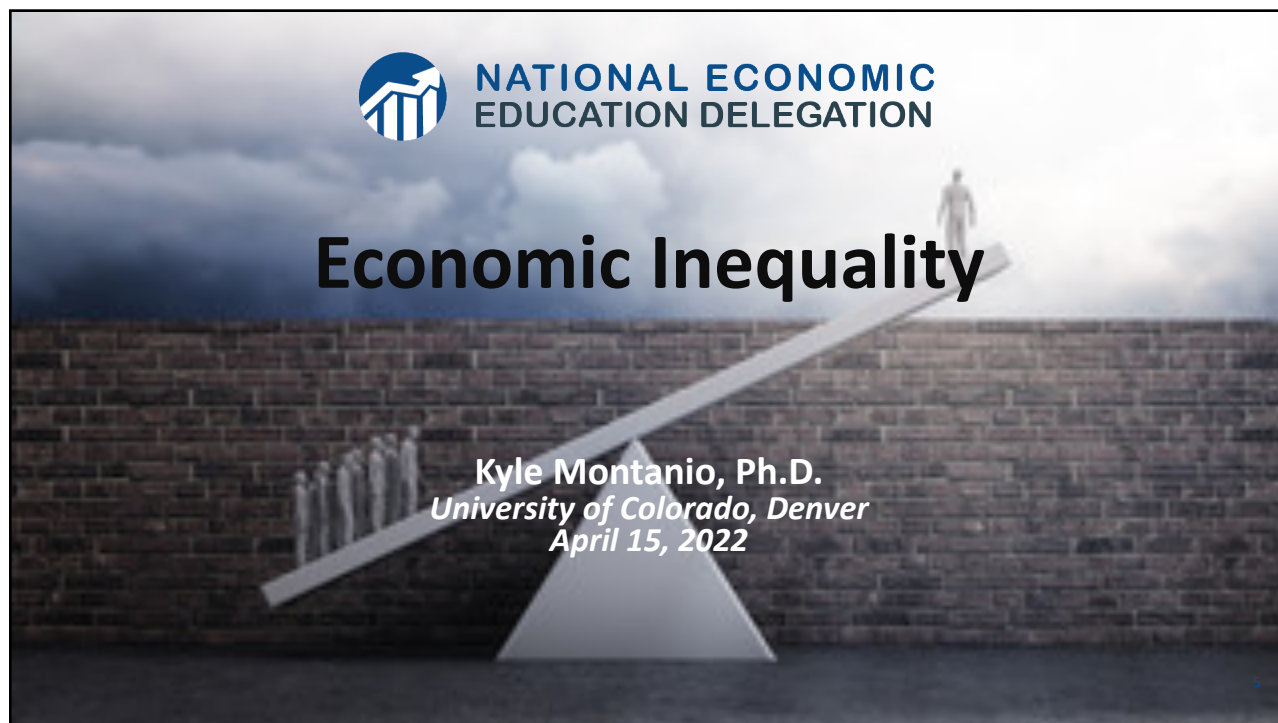
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Submitting Questions

- **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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Credits and Disclaimer

- **This slide deck was authored by:**
 - Jon Haveman, Executive Director of NEED
- **This slide deck was reviewed by:**
 - Timothy Smeeding, University of Wisconsin
 - Robert Wright, Augustana University
- **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)

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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/wealth throughout the economy



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Different Ways of Thinking About Inequality

Inequality

How evenly income/wealth is divided between a population


It is about the distribution of some measure and not a comparison between sub-groups.

Inequality between groups

Are there differences between different groups of people?

Are observable outcomes different based on group characteristics?

Ex: racial inequality or gender pay gap



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Different Ways of Thinking About Inequality

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

How does wealth differ from income?

Income is measured over a period of time, say one year.

Wealth is one's accumulated savings, including physical and financial assets (net worth).

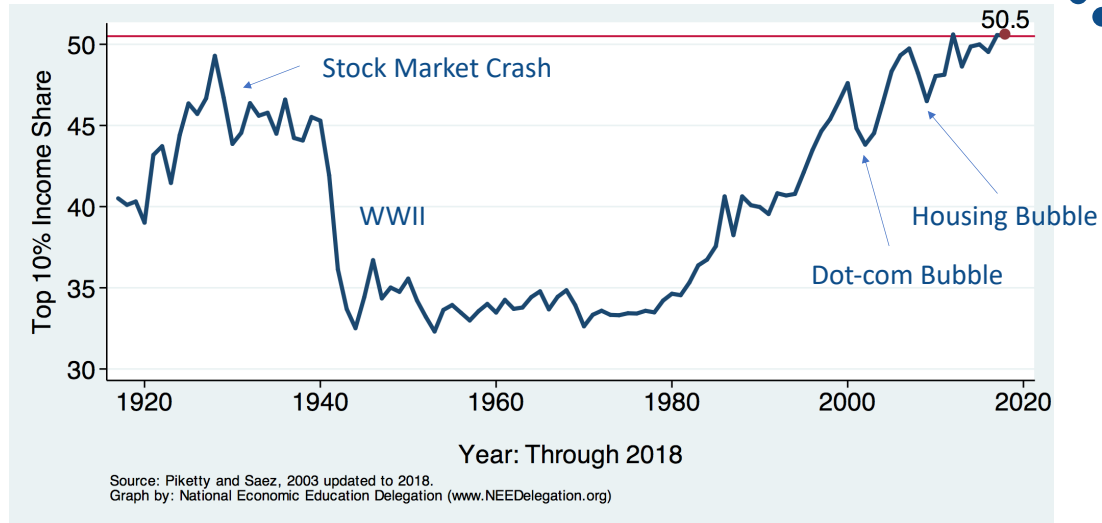


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National Income Inequality: Share of Top 10%



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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

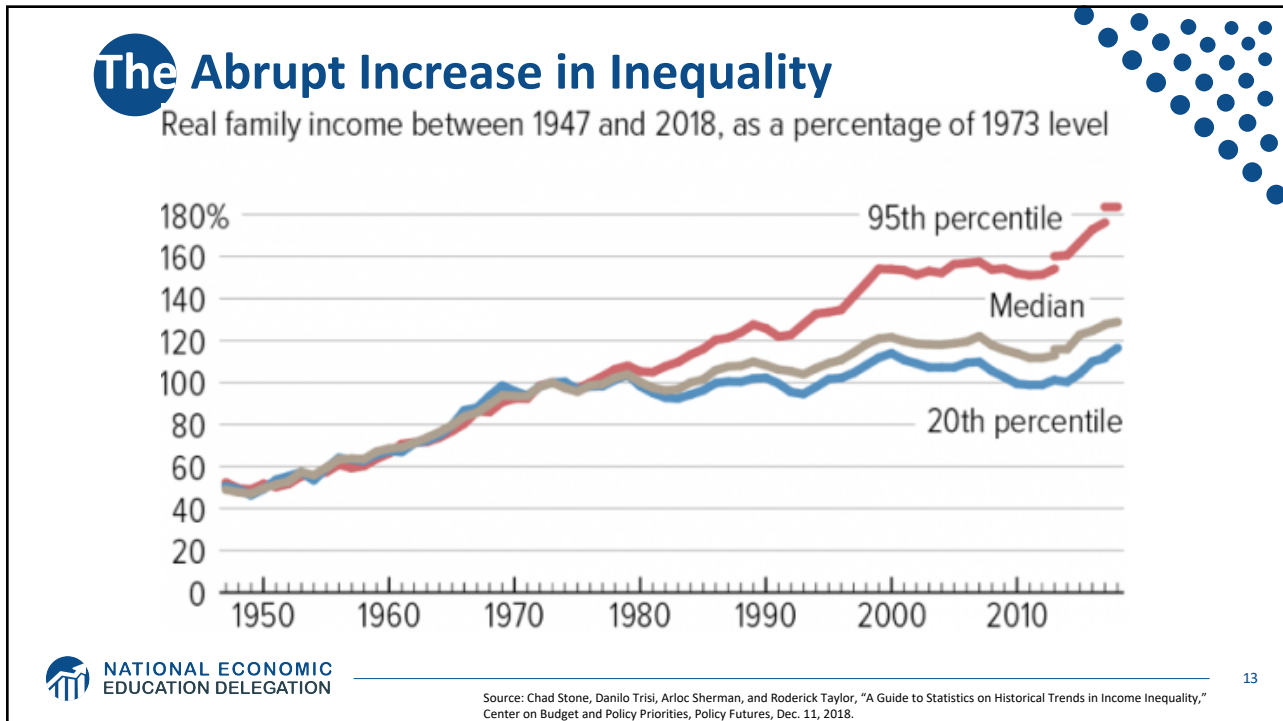


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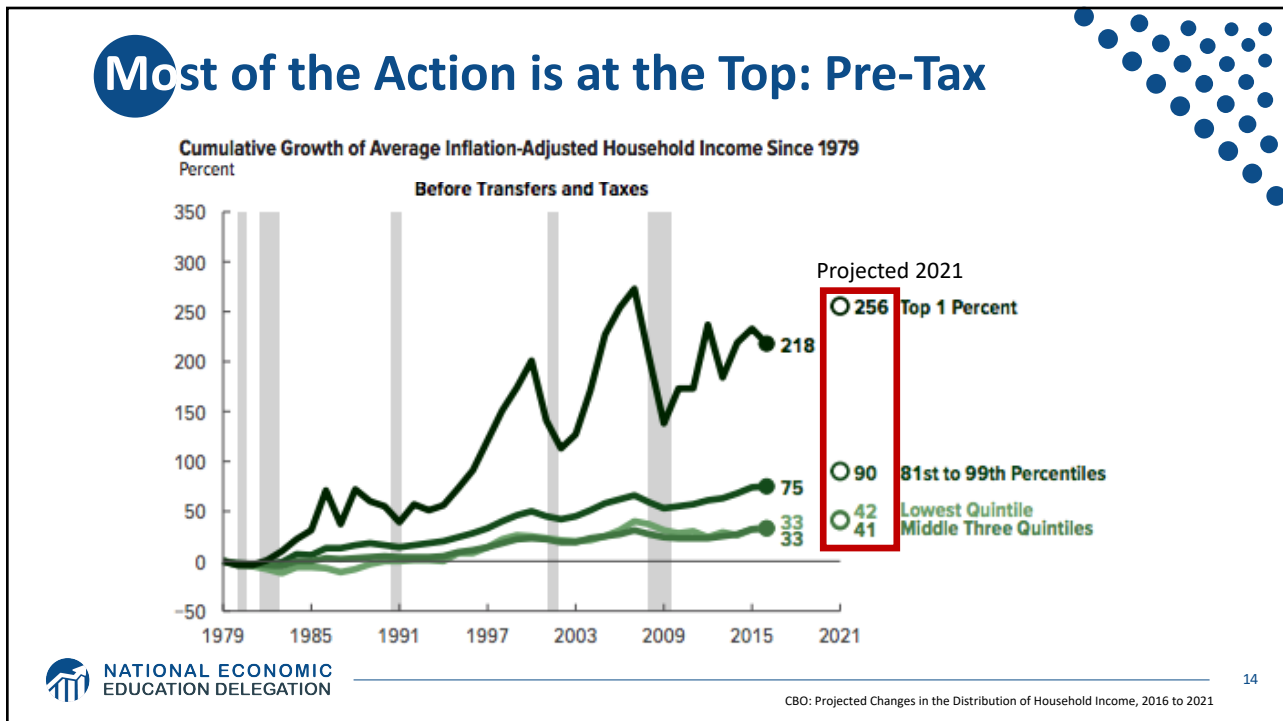
Source: Chad Stone, Danilo Trisi, Arloc Sherman, and Roderick Taylor, "A Guide to Statistics on Historical Trends in Income Inequality," Center on Budget and Policy Priorities, Policy Futures, May 15, 2018.

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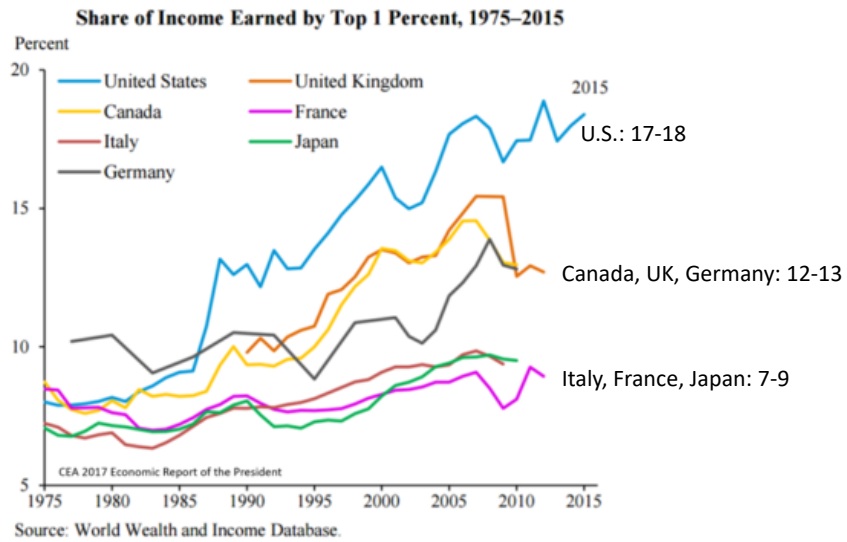


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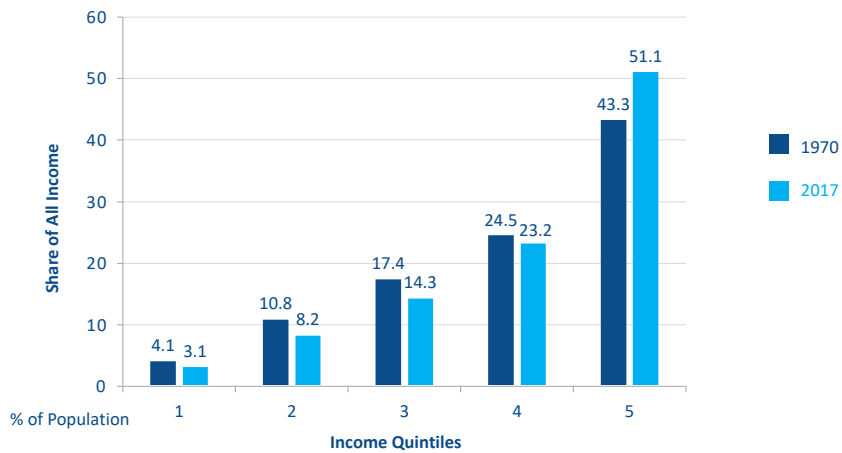
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An International Perspective: Comparables



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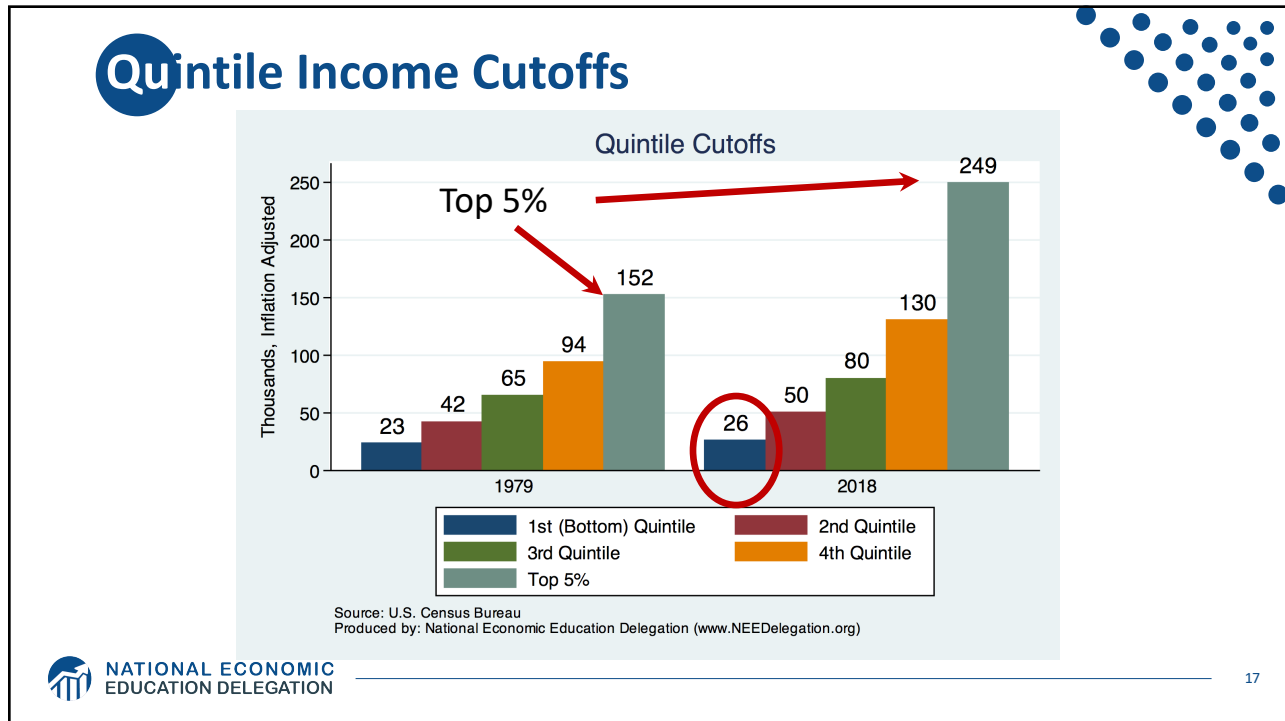
Income Share Changes Between 1970 and 2017



Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements.

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Income Changes from Growing Inequality

INCOME GROUP	TOTAL LOSS/GAIN IN ANNUAL INCOME*	AVERAGE LOSS/GAIN PER HOUSEHOLD PER YEAR*
TOP 1%	\$673 billion more	\$597,241 more
96-99	\$140 billion more	\$29,895 more
91-95	\$29 billion more	\$4,912 more
81-90	\$43 billion less	\$3,733 less
61-80	\$194 billion less	\$8,598 less
41-60	\$224 billion less	\$10,100 less
21-40	\$189 billion less	\$8,582 less
BOTTOM 20%	\$136 billion less	\$5,623 less

Bottom 90% of Households →

* Compared to what incomes would have been had all income groups seen the same growth rate in 1979-2005 as they did during previous decades.
Source: Jacob Hacker, Yale University; Paul Pierson, UC-Berkeley

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Income Changes from Growing Inequality

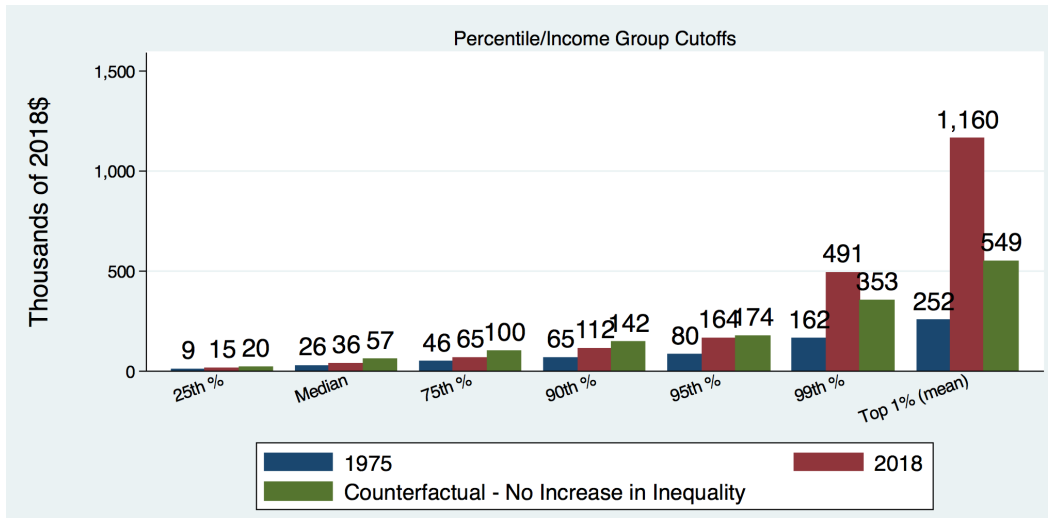
Middle class hit hardest

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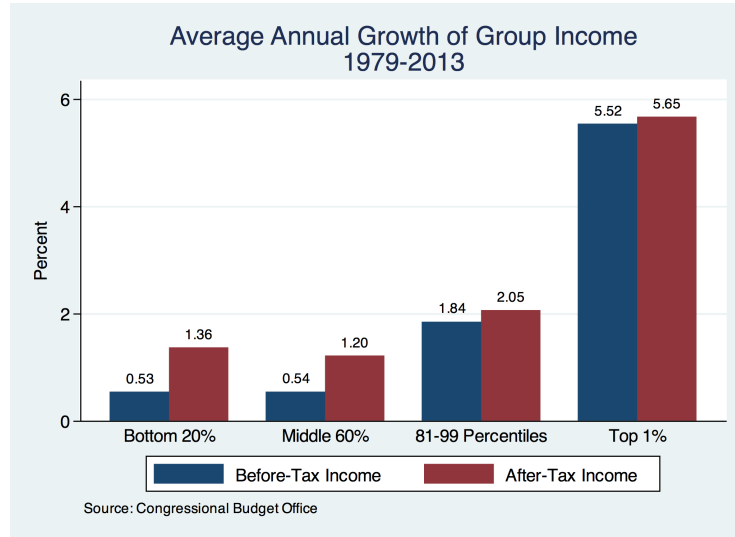
* Compared to what incomes would have been had all income groups seen the same growth rate in 1979-2005 as they did during previous decades.
Source: Jacob Hacker, Yale University; Paul Pierson, UC-Berkeley



How Has Inequality Influenced Incomes?

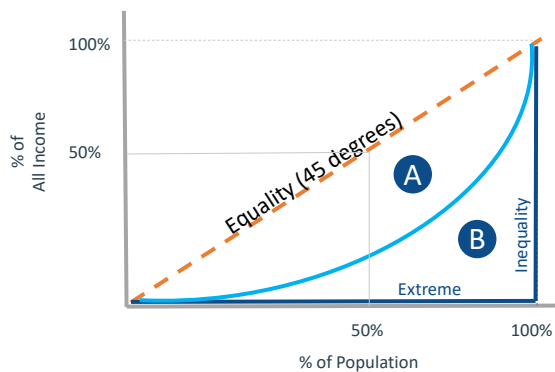


Growth Has Been Primarily at the Very Top



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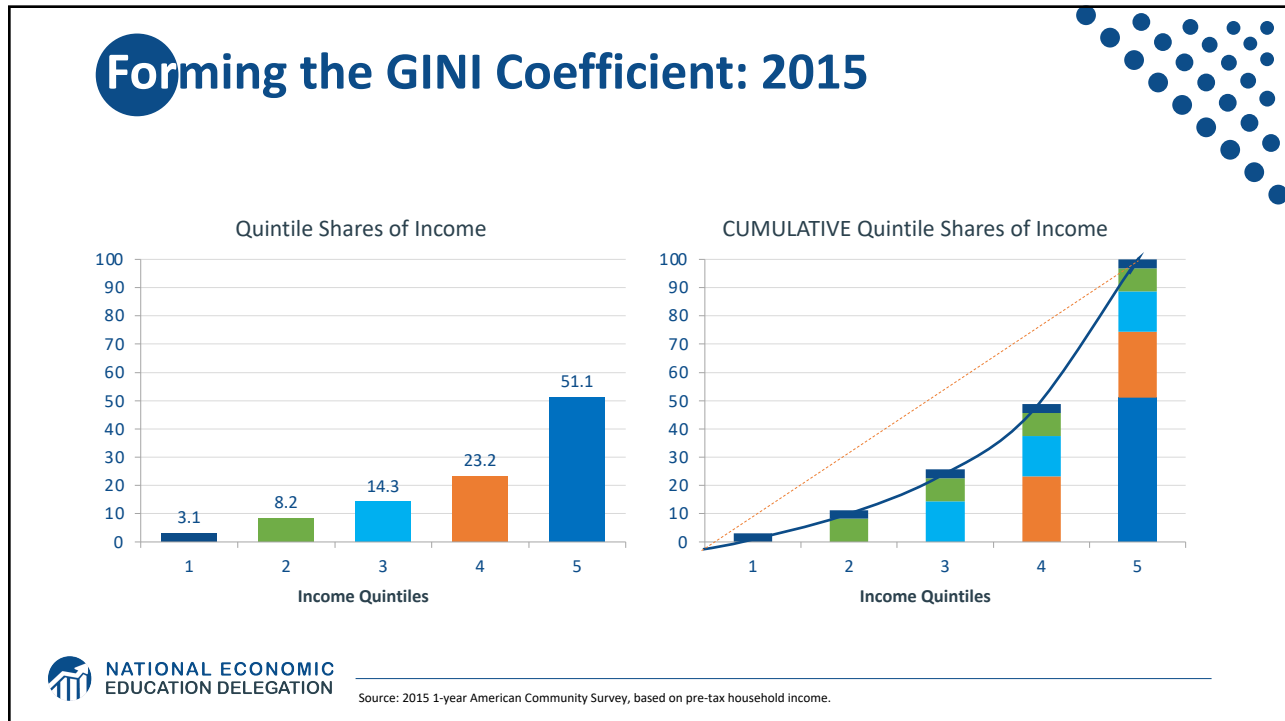
The Gini Coefficient



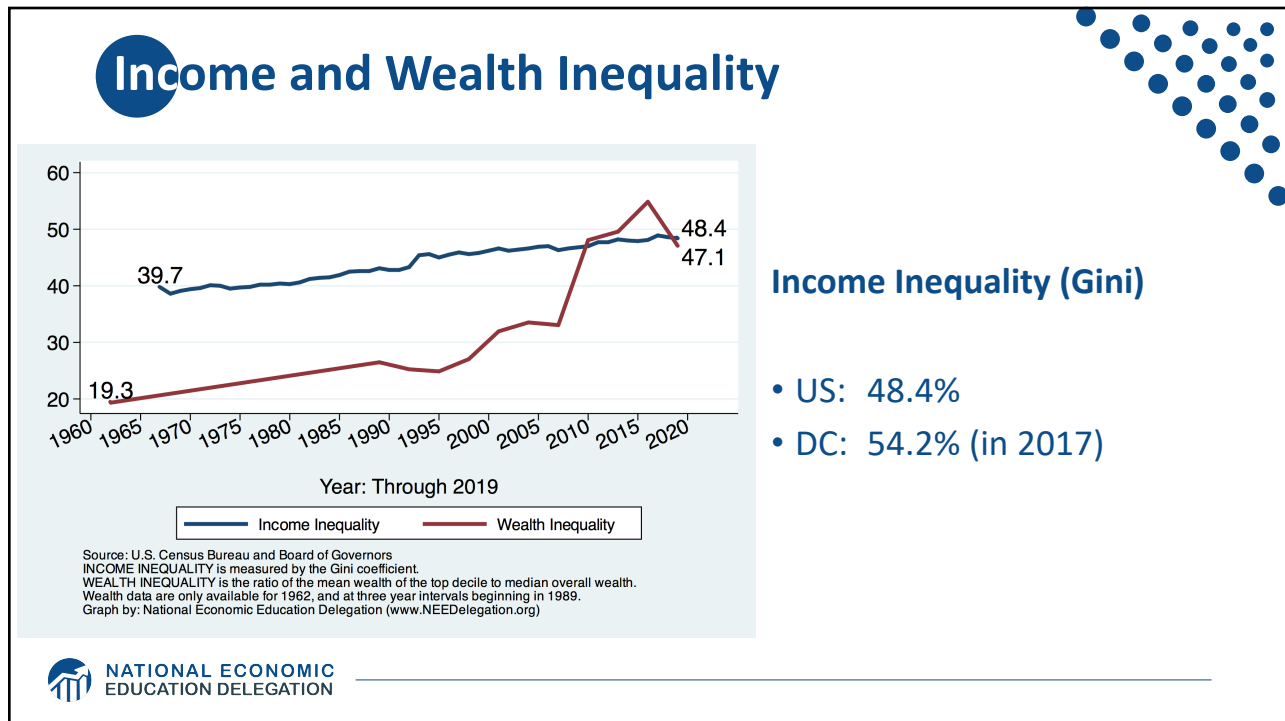
$$\text{Gini} = \frac{A}{A + B} \times 100$$

Bigger A: More inequality
Smaller A: Less inequality

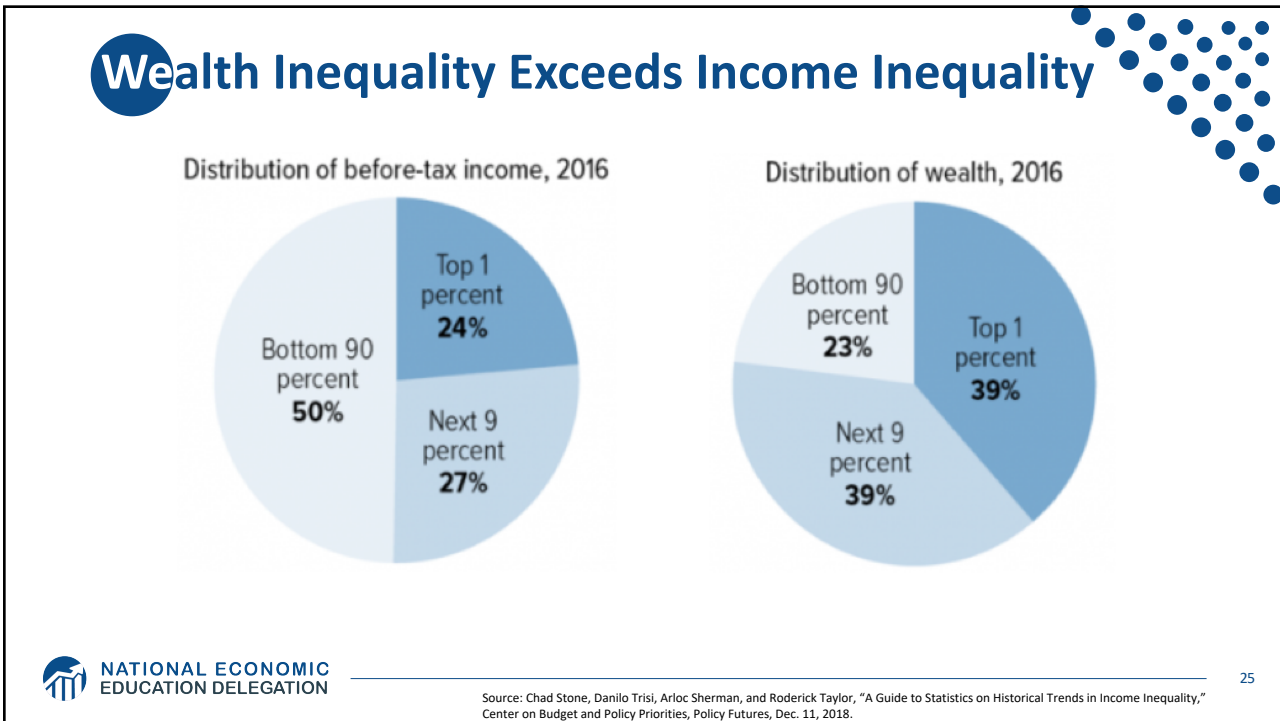
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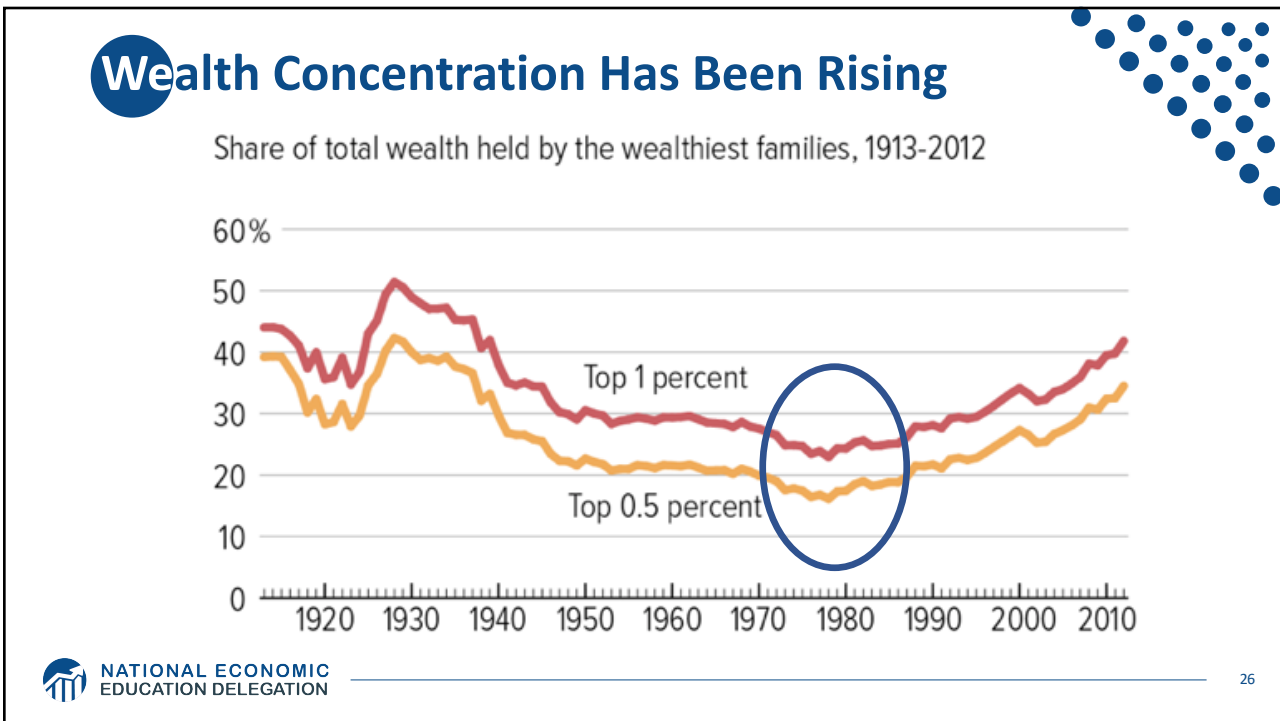
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Where Does Inequality Come From?

- **Labor Characteristics**

- Demographics
 - o Age distribution
- Personal Choices
 - o Educational attainment
 - o Effort
 - o Priorities
- Immigration

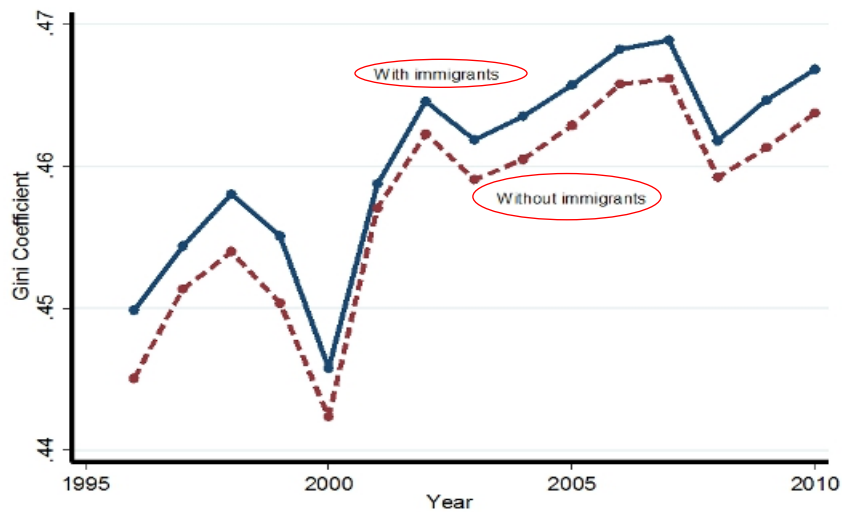
- **Market Forces**

- Technology
- Changing demand patterns
- Competition for labor

- **Government Policy**

- Market influence
- Redistribution

Immigration and Inequality



Government Policy and Inequality

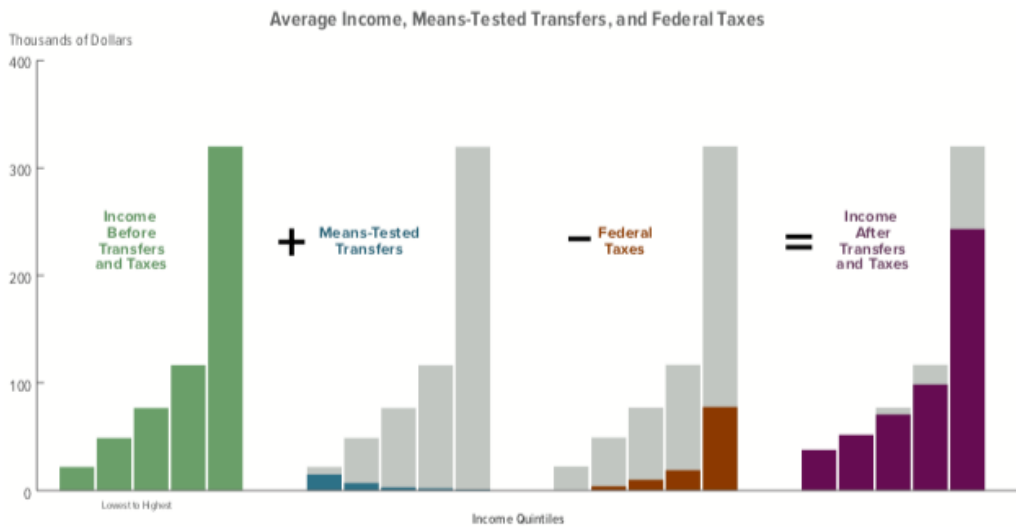
- **Market Influence: PRE-distribution**

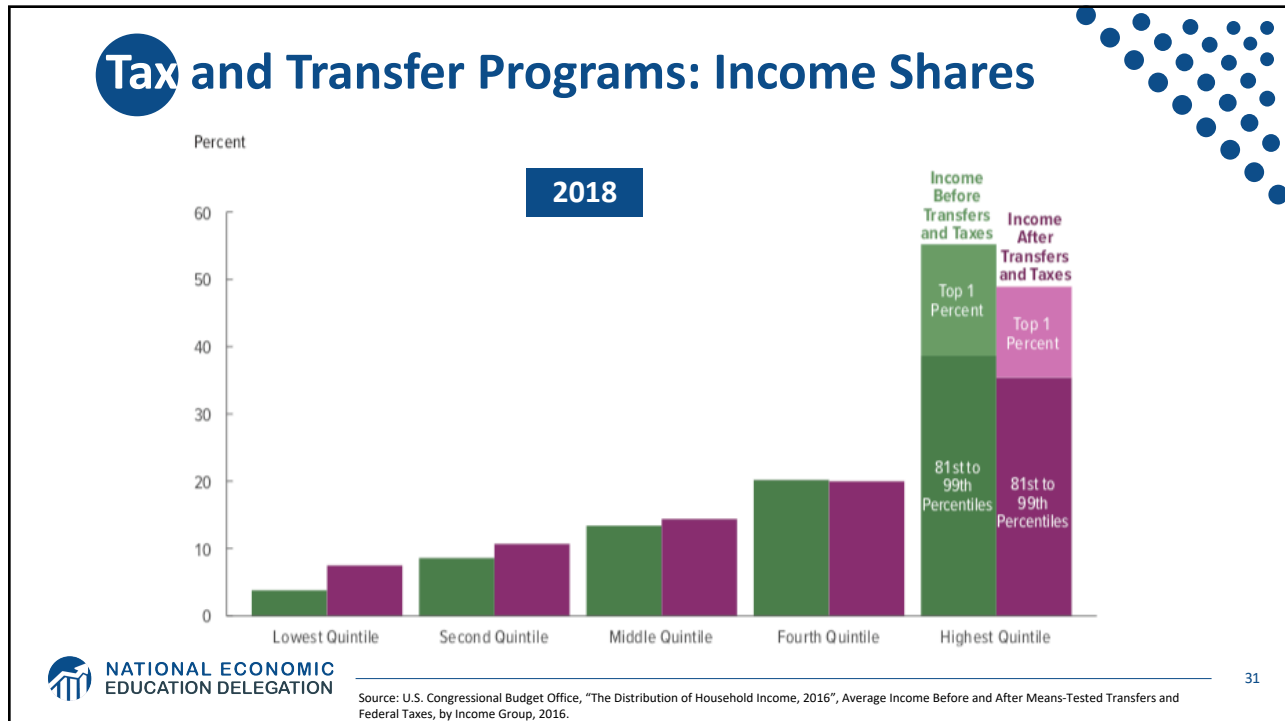
- Characteristics of labor
 - o Access to education
- Effects on labor demand
 - o Market regulation
 - Competition policy
 - o Labor regulations
 - Minimum wage, overtime, health insurance, etc.

- **RE-distribution**

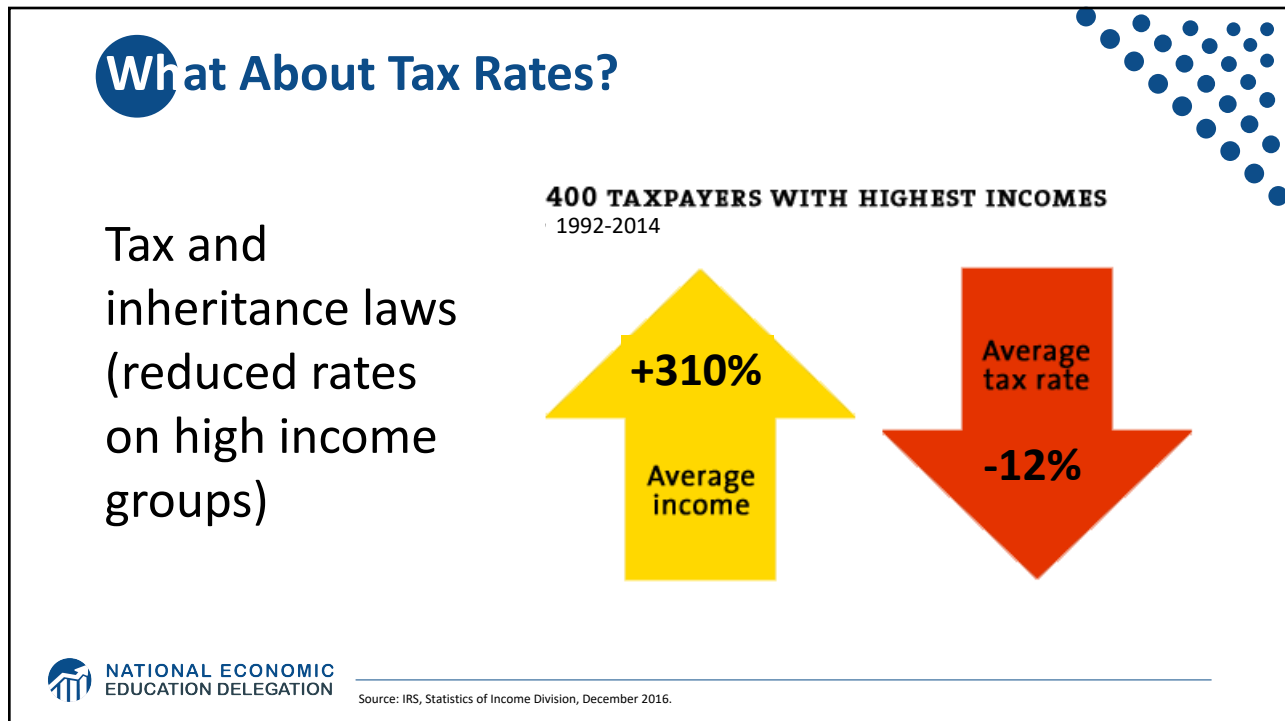
- Tax Rates
- Income support
 - o Direct aid
 - o Food stamps

Taxes, Transfers, and Income: 2018



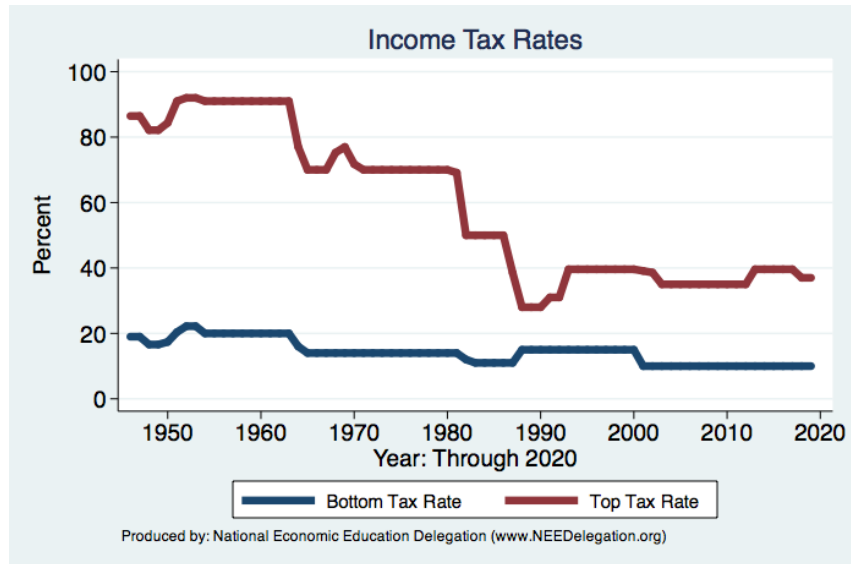


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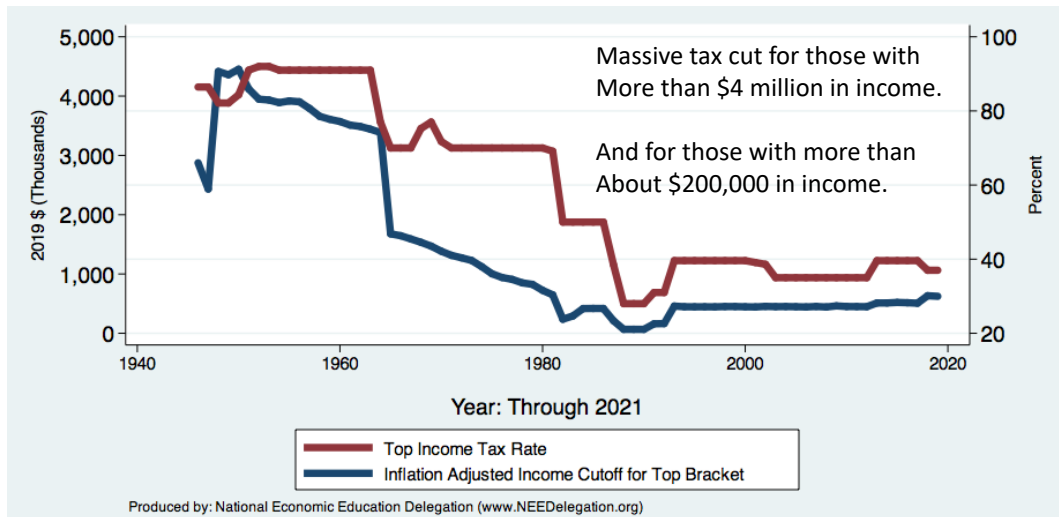
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Tax Rates Over Time

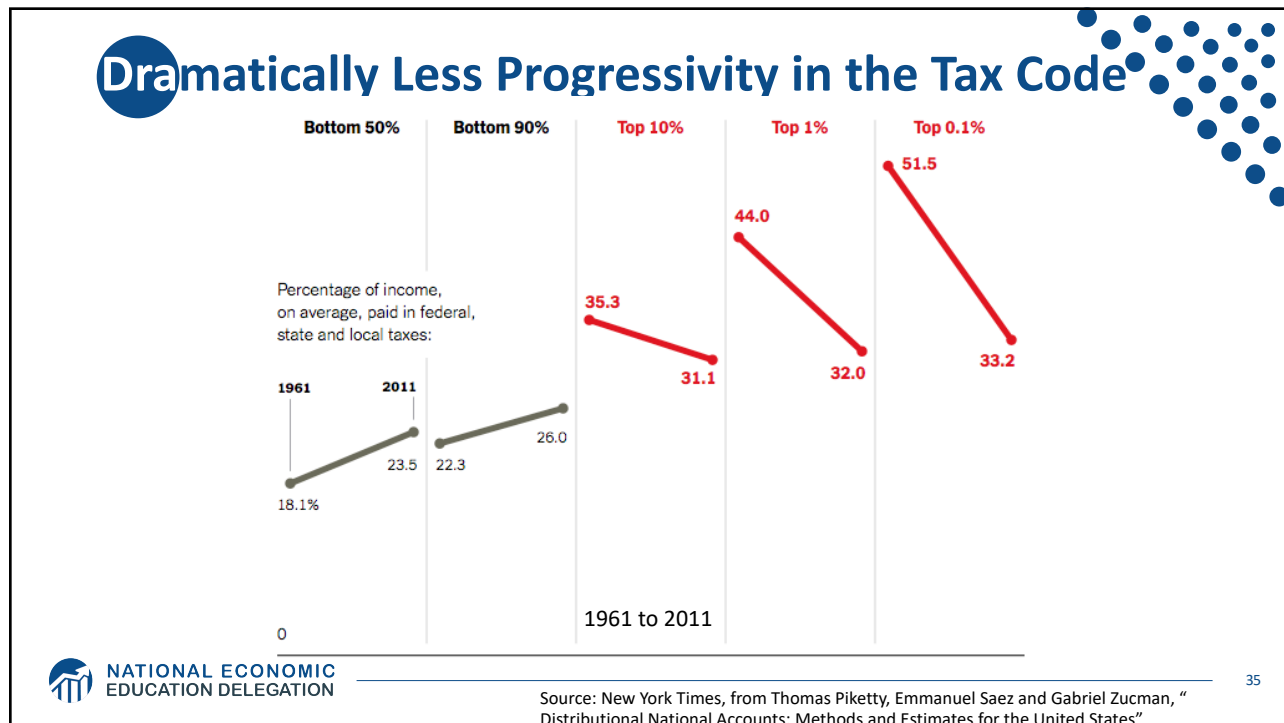


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The Top Tax Rate and Income Cutoff



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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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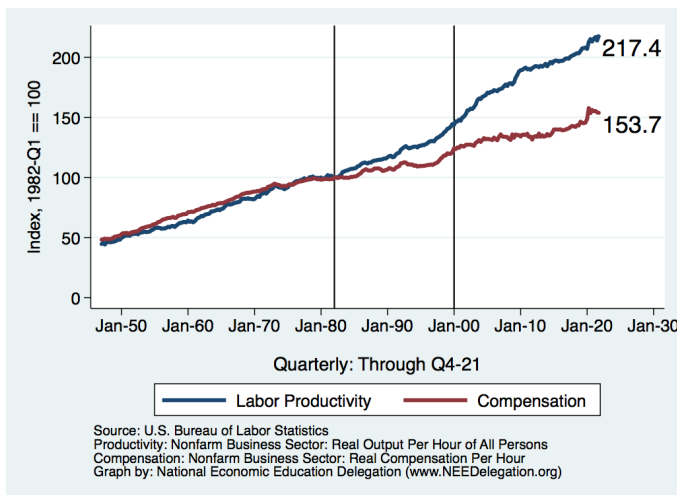
Where Does Inequality Come From? Summary

- **Labor characteristics**
 - What do workers bring to the market?
- **Market forces**
 - How does the market value the labor characteristics?
- **Government policies**
 - PRE-distribution – affecting markets
 - Redistribution – affecting incomes



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Labor Income is Unhinged from Productivity

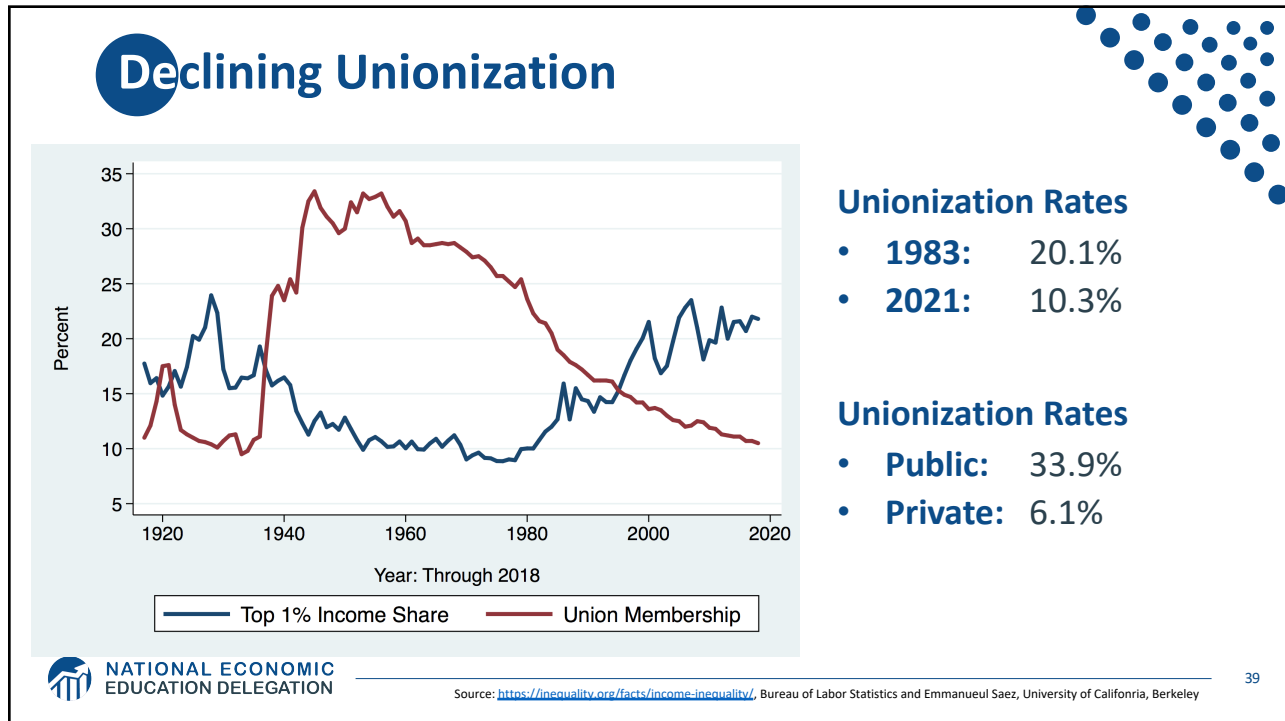


Why?

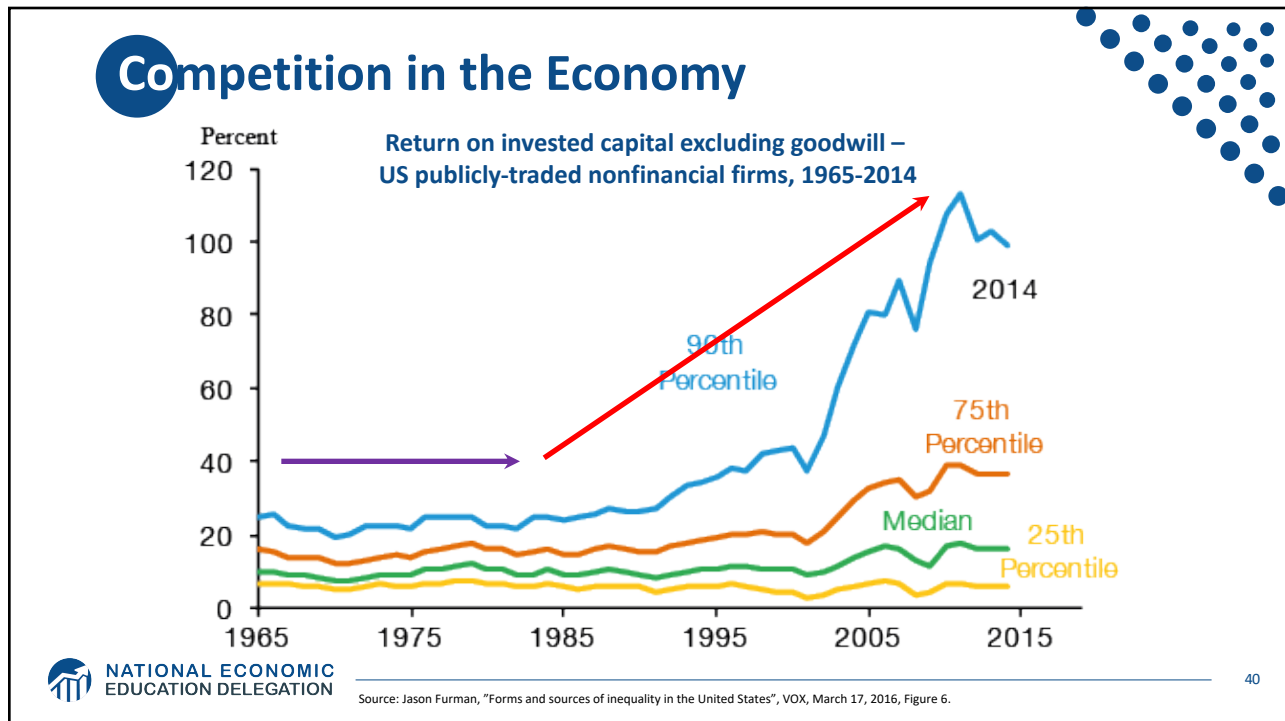
- Declining unionization
- Globalization
- Immigration
- Competition policy
- Cheap technology



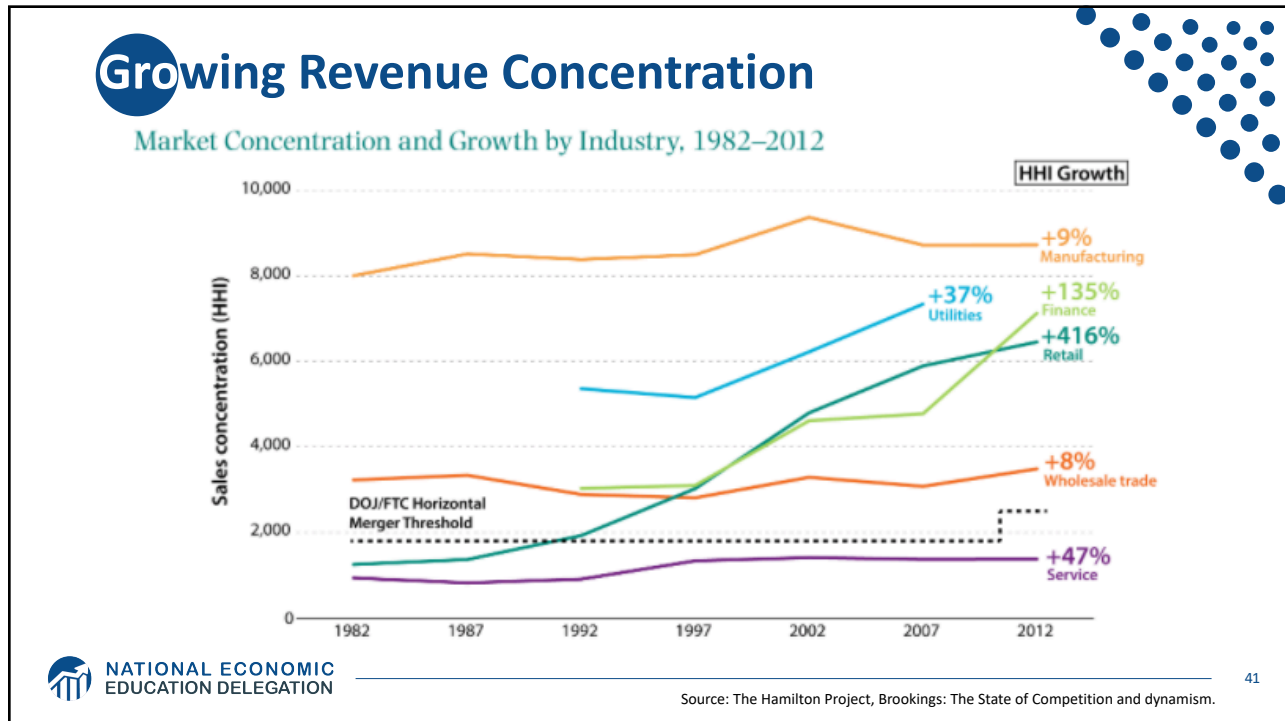
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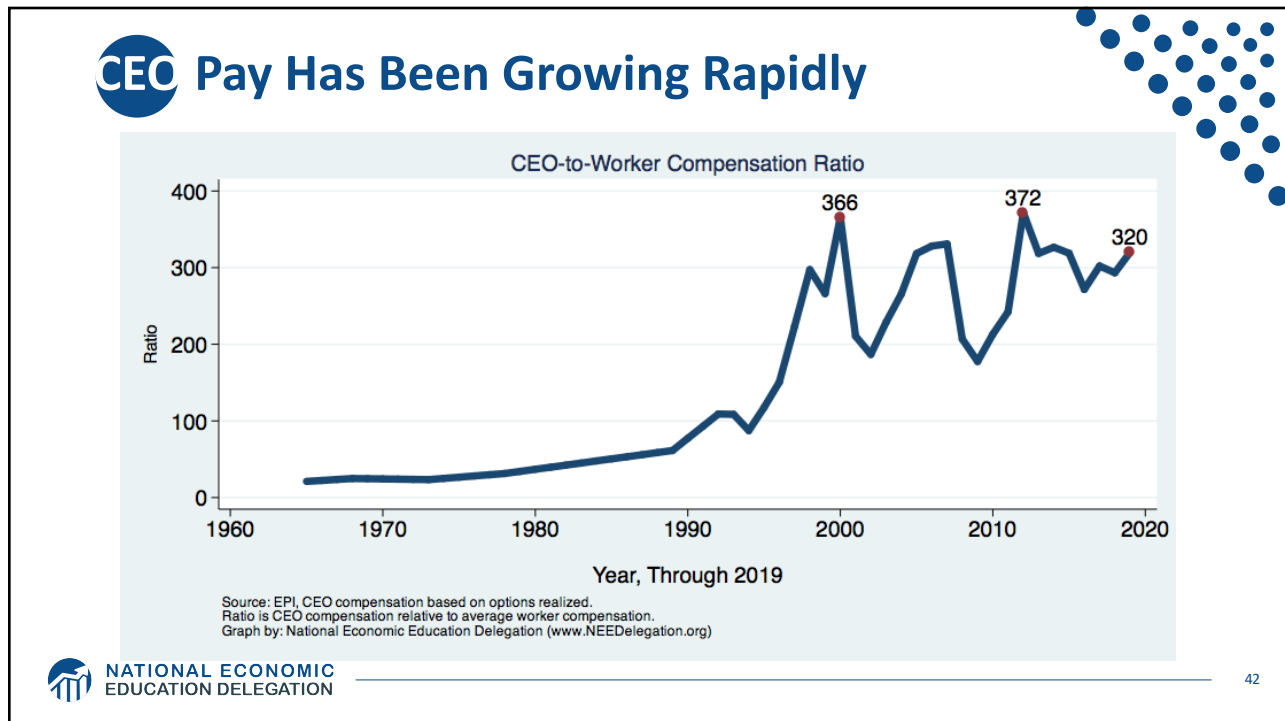
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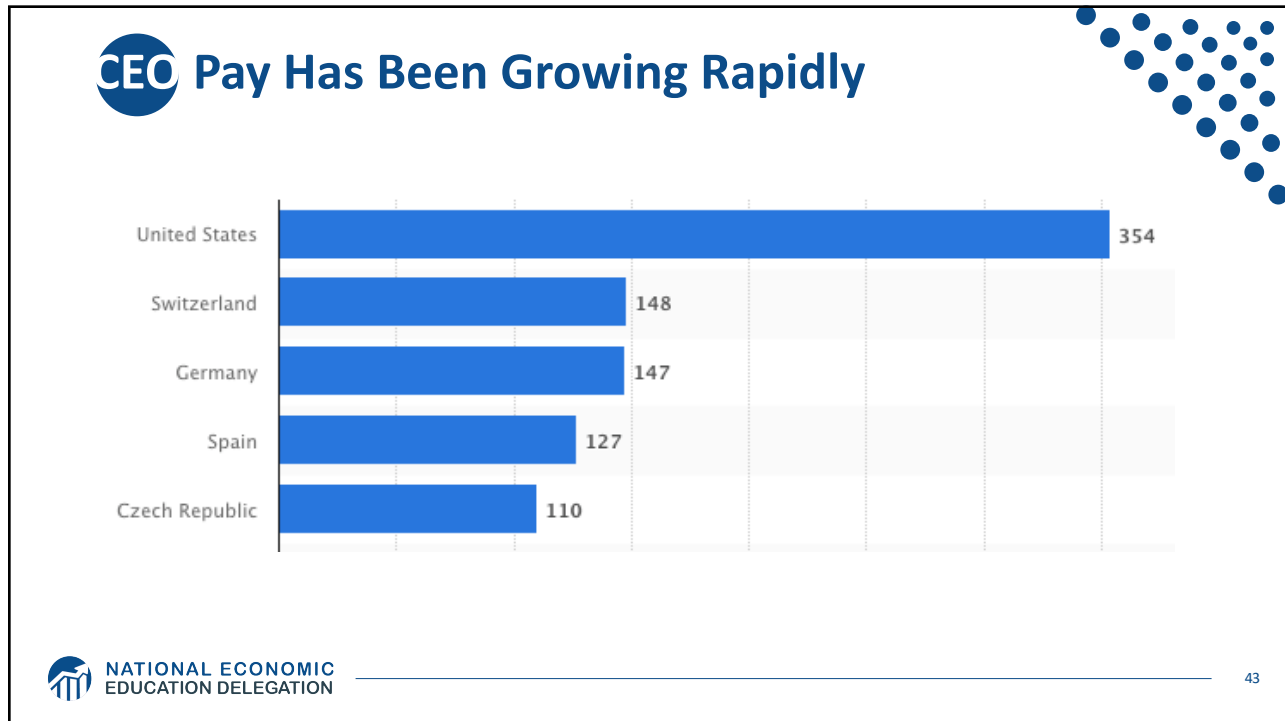
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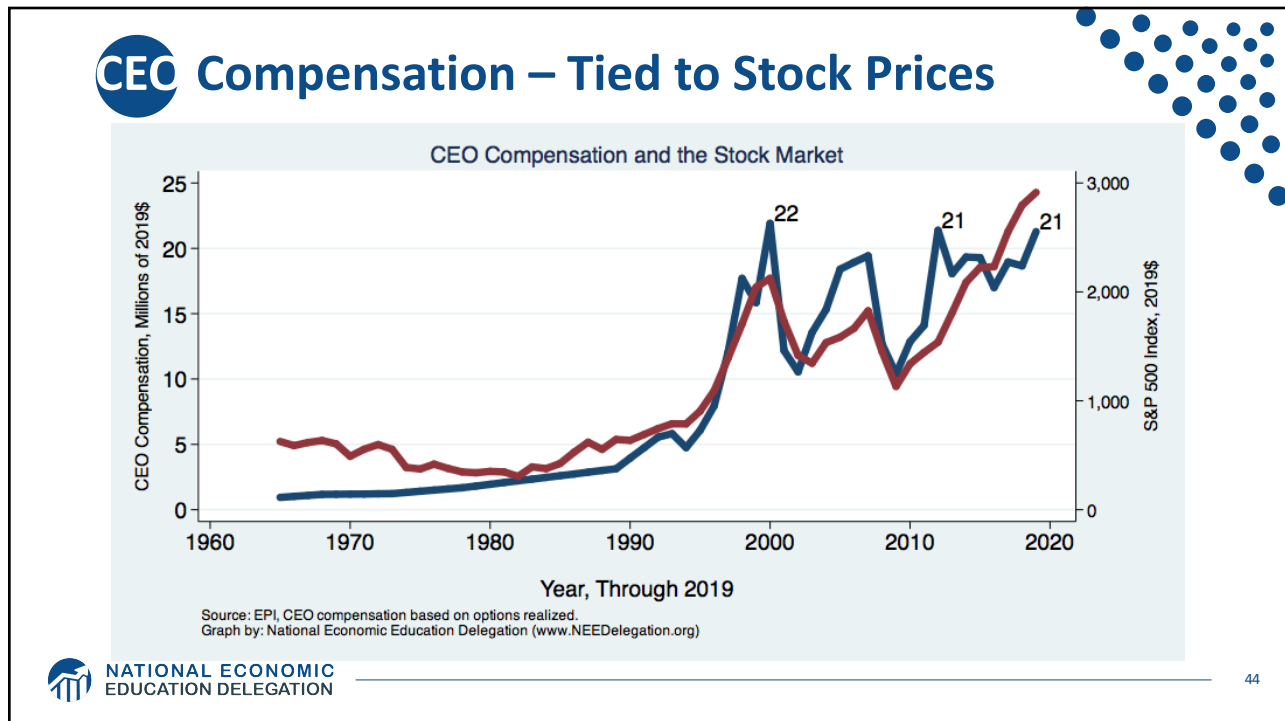
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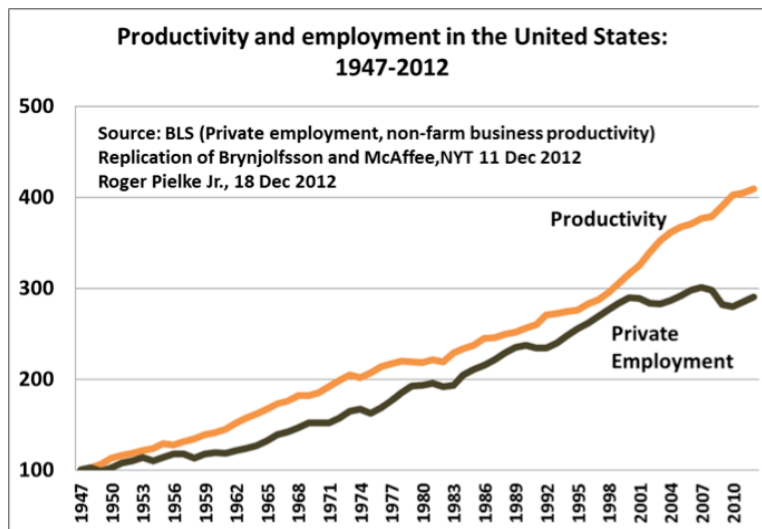
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Technological Change and Inequality

- **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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Technology Benefits Ownership over Labor



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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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A Modern Example: Uber & Lyft

- **Technology:**

- Facilitates market power for owners.
- Reduces bargaining power for labor.
- Shifts costs of doing business onto labor.

- **Modern day Robber Barons?**

- Ruthlessly absorbing as much income as they can.
- Lack of regard for labor.



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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



Mechanisms for the Effects of Globalization

- **Merchandise trade**
 - Importing goods that are made with low-skilled workers and exporting goods that are made with high-skilled workers
 - Lowers the wages of unskilled relative to skilled
 - making the distribution of income **less equal**
- **Outsourcing**
 - Similar channel as with merchandise trade
- **Trade in services**
 - US imports of middle-skill services: business and some professional services
- **Intuitively: The same as if we were to move the actual workers.**



What is driving increasing inequality?

- **Primary drivers:**

- Technology
- Globalization
- Institutions

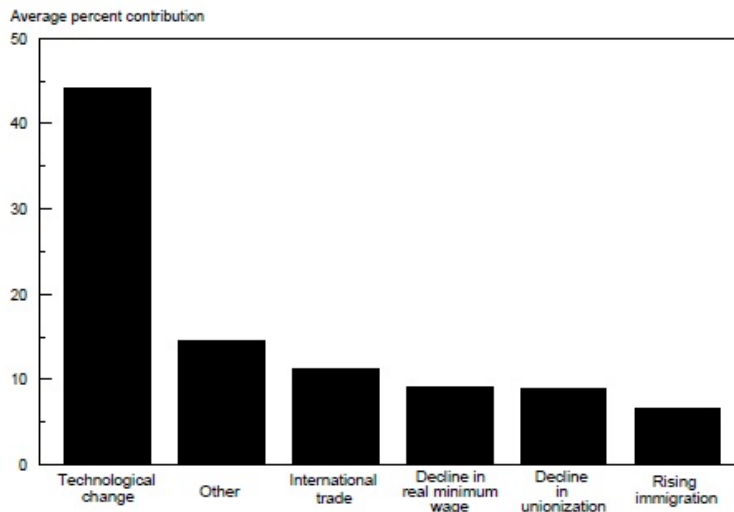
- **These drivers can also influence personal choices in ways that affect measured income inequality.**

- For example, educational choices or labor force participation



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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

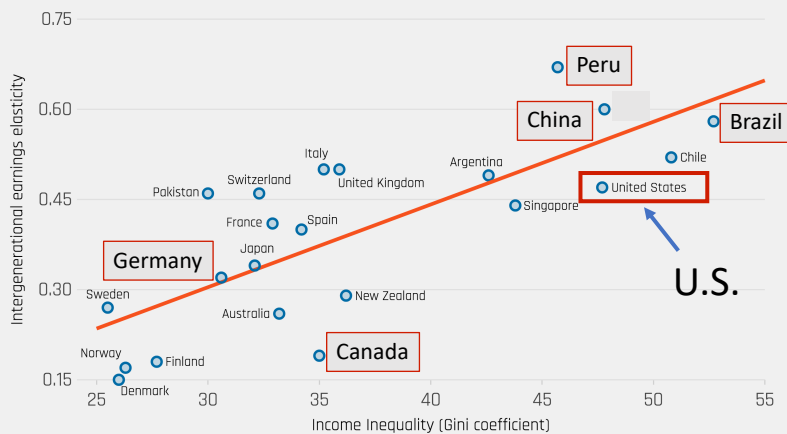
- **Too much inequality may also:**

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



The Great Gatsby Curve: high inequality tends to mean low mobility

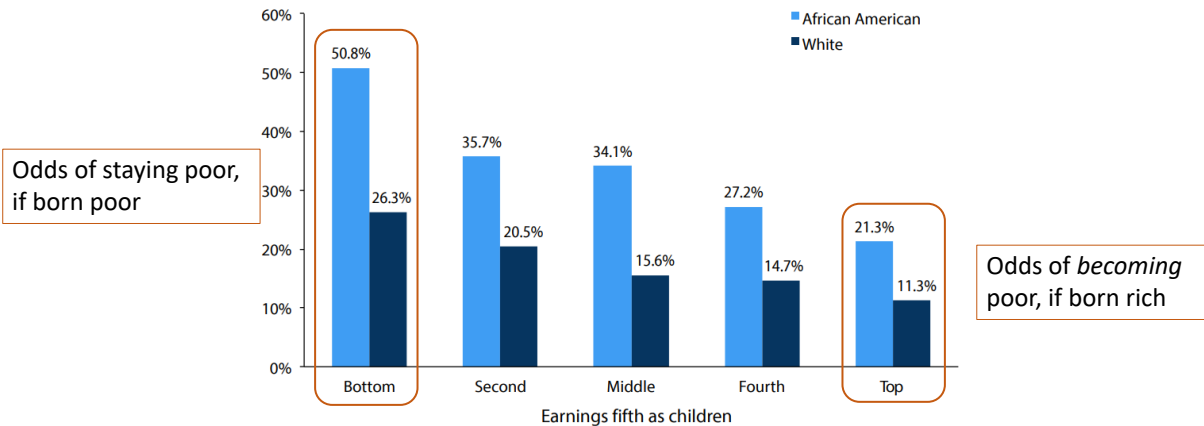
More inequality is associated with less mobility across generations



Source: Miles Corak, "Income Inequality, Equality of Opportunity, and Intergenerational Mobility," Journal of Economic Perspectives 27 [3]: 79-102; "All the Ginis," available at <http://www.worldbank.org/en/research/brief/all-the-ginis> [last accessed 9/28/2018]

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)



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Economic Policy Institute, *State of Working America*, 2012

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Government Policy and Racial Inequality

- Product of a long historical process of discrimination with at least two reinforcing sets of policies.
 - Policies that govern the spatial distribution of the black population.
 - Restrictive covenants, redlining, and general housing and lending discrimination
 - Policies that have a disparate impact on black individuals because of their locations.
 - The original version of Michigan Senate Bill 897 exempted individuals from this work requirement conditional on residing in a county with an unemployment rate above 8.5 percent. The higher unemployment rates in rural counties would disproportionately exempt white Medicaid recipients from the work requirement within the bill.



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Addressing Inequality: Is It A Problem?

- **Why it might be a problem.**

- Economic issues (*Efficiency*)
 - There is evidence that at some level, increased inequality slows economic growth.
 - Or, inequality concentrates resources among investors.
- Noneconomic issues (*Equity*)
 - Values, ethics and morals will drive individual evaluations of the level of inequality.
 - E.g., inequality is primarily a function of market outcomes, so should be left alone.
 - Or, a solid middle class is important for maintaining a civil society, which runs contrary to a high degree of inequality.

- **Suppose you think it's a problem. How might it be addressed?**

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

- **RE-distribution**

- Tax and transfer programs

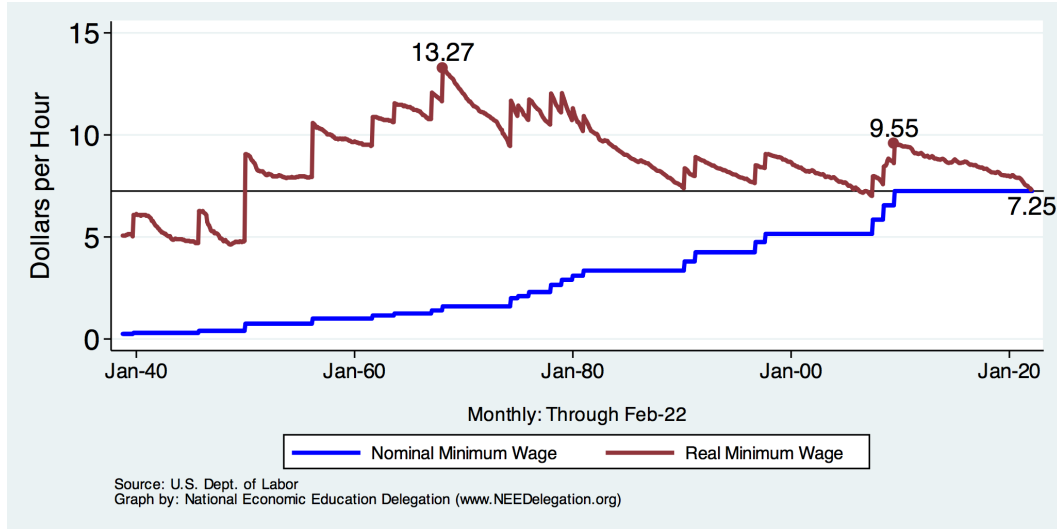
- **PRE-distribution**

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



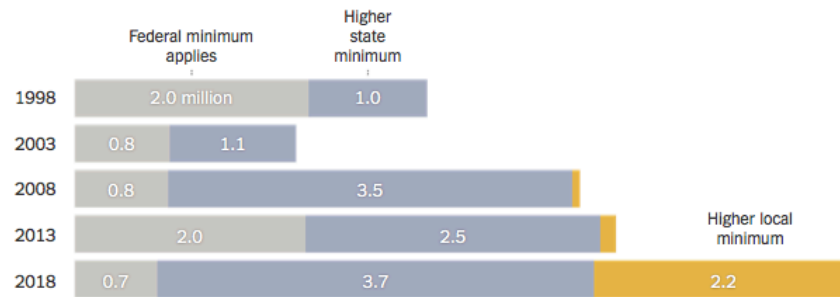
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History of the Federal Minimum Wage



Most Minimum Wage Workers Aren't Bound by the Federal Minimum Anymore

Millions of workers:



Includes farm workers and tipped incomes

Source: Author's analysis of Current Population Survey; data from the Berkeley Center for Labor Research and Education, as well as Kavya Vaghul and Ben Zipperer (2016).

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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Addressing Inequality: Long Term

- **It's all about access to resources (*equality of opportunity*):**
 - Education, in particular
 - Improve public education
 - Reduce disparities in quality of public education
 - Improve counseling in low-income schools
 - With respect to college – paths to success and funding
 - 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 and reduce 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.
- **Possibly: encouraging competition promotes a more efficient economy**
 - Companies with market power (monopolies) can stagnate economies



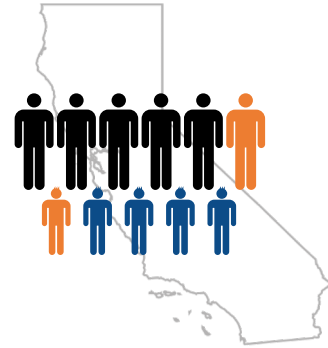
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Summary

- **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

Kyle Montanio, Ph.D.

Kyle.Montanio@UCDenver.edu

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