

Osher Lifelong Learning Institute, Spring 2022

Contemporary Economic Policy

Bradley University
March-April 2022

Host: Brian Peterson, Ph.D.
National Economic Education Delegation



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Course Outline

• Contemporary Economic Policy

- Week 1 (3/7): US Economic Update (Geoffrey Woglom, Amherst College)
- Week 2 (3/14): Climate Change Economics (Sarah Jacobson, Williams College)
- Week 3 (3/21): Federal Debt (Geoffrey Woglom, Amherst College)
- Week 4 (3/28): Trade and Globalization (Alan Deardorff, University of Michigan)
- Week 5 (4/4): The Black-White Wealth Gap (Jon Haveman, NEED)
- Week 6 (4/11): Autonomous Vehicles (Jon Haveman, NEED)
- **Week 7 (4/18): Economic Inequality (Brian Peterson, Central College)**
- Week 8 (4/25): Healthcare Economics (Jon Haveman, NEED)



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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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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.
- **I will try to leave a few minutes for a verbal Q&A once the material has been presented.**
 - (and the questions in the chat have been addressed)



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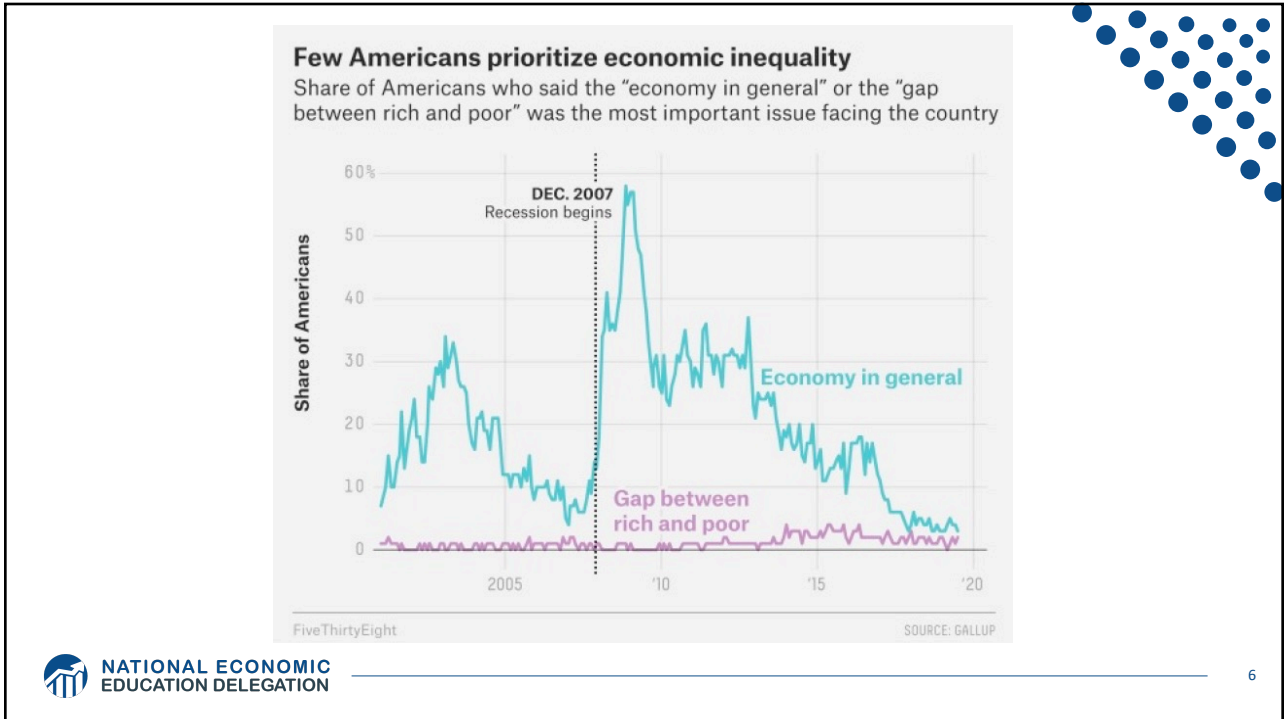
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Economic Inequality

Brian Peterson, Ph.D.
*Senior Associate Academic Dean and Professor of Economics
Central College, Pella, Iowa*

Osher Lifelong Learning Institute, Bradley University
April 18, 2022

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Outline

- Definition
- Measurement
- How does it happen?
- Does it matter?
- Is it a problem?
- What do we do about it?



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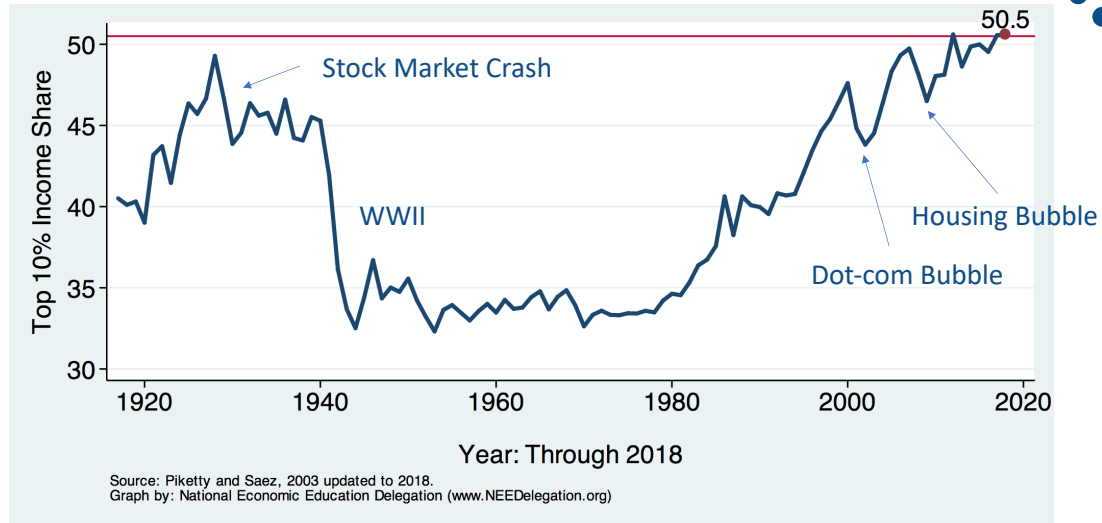
Economic Inequality: Income

- **Definition:**
 - The extent to which the distribution of income deviates from complete equality
 - The dispersion of income throughout the economy



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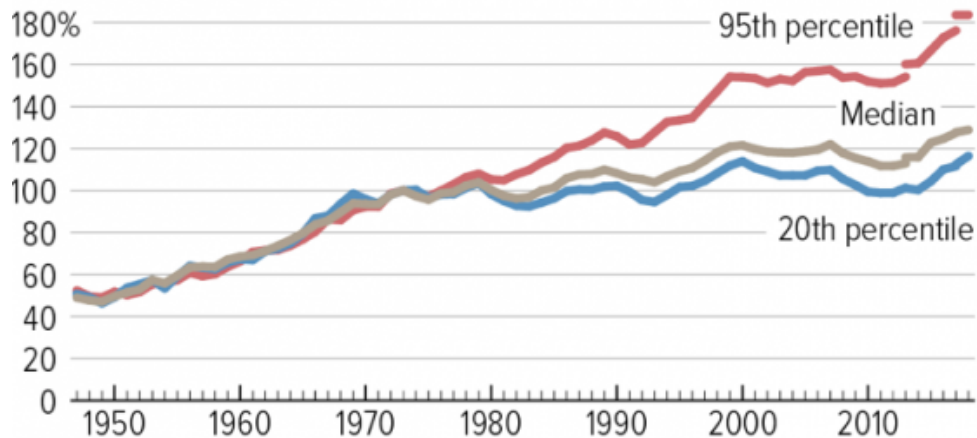
Source: Chad Stone, Danilo Trisi, Arloc Sherman, and Roderick Taylor, "A Guide to Statistics on Historical Trends in Income Inequality," Center on Budget and Policy Priorities, Policy Futures, May 15, 2018.

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The Abrupt Increase in Inequality

Real family income between 1947 and 2018, as a percentage of 1973 level

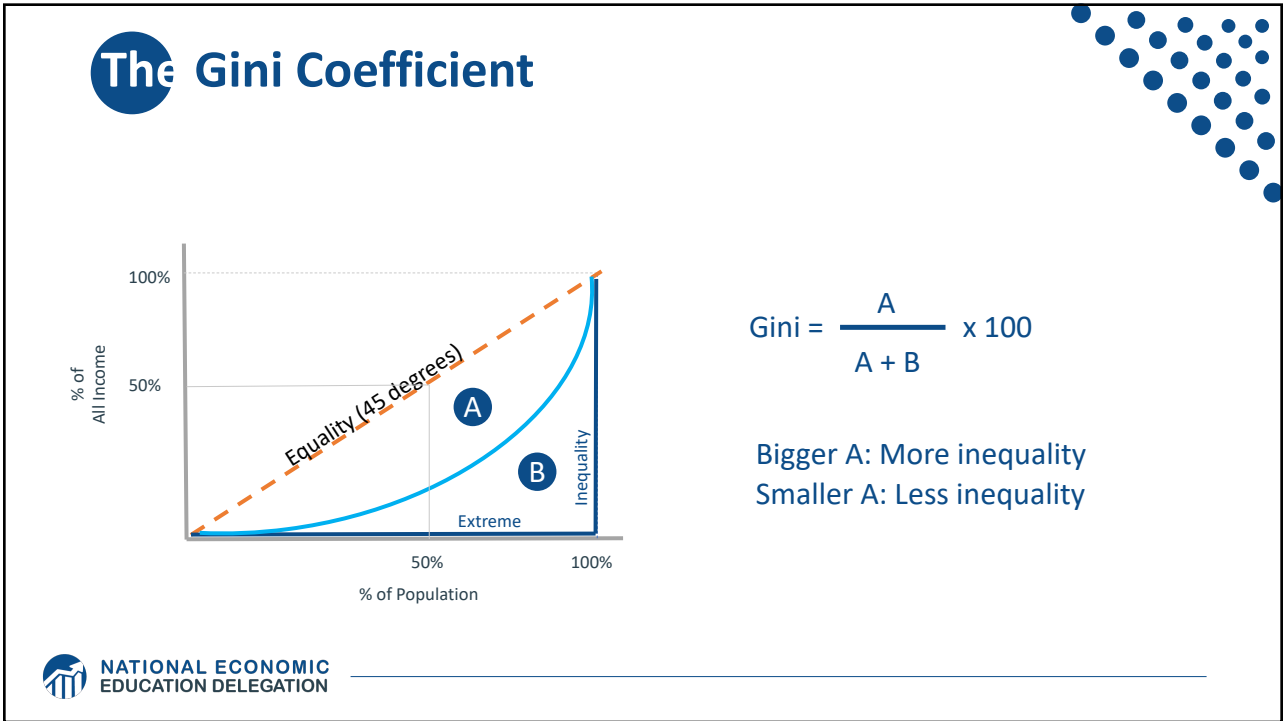


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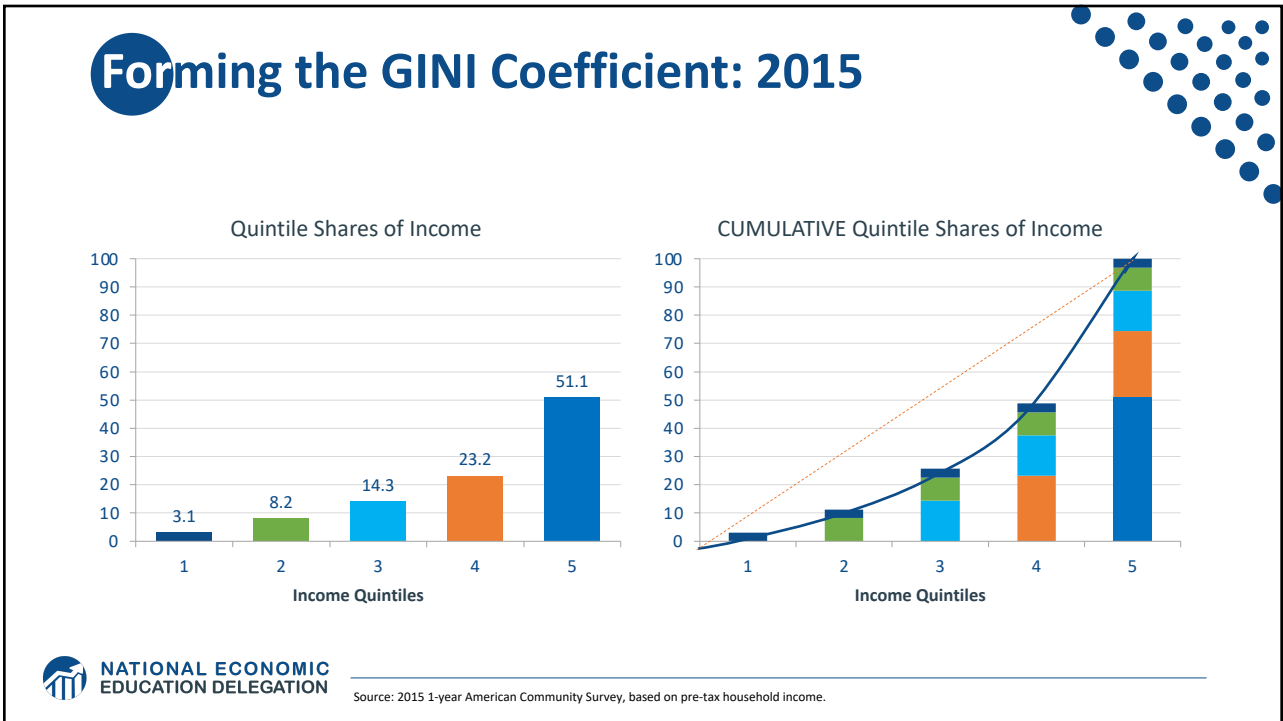
The Gini Coefficient

- A common way to describe income inequality is by using a Gini coefficient.
- Gini coefficient – a numerical measure of the overall dispersion of income
 - Ranges from 0 – 1
 - 0= perfect equality – everyone has same income
 - 1=perfect inequality – one person makes all income, no one else has any
 - In practice:
 - 0.5 – 0.7 – highly unequal
 - 0.2 – 0.35 – relatively equal

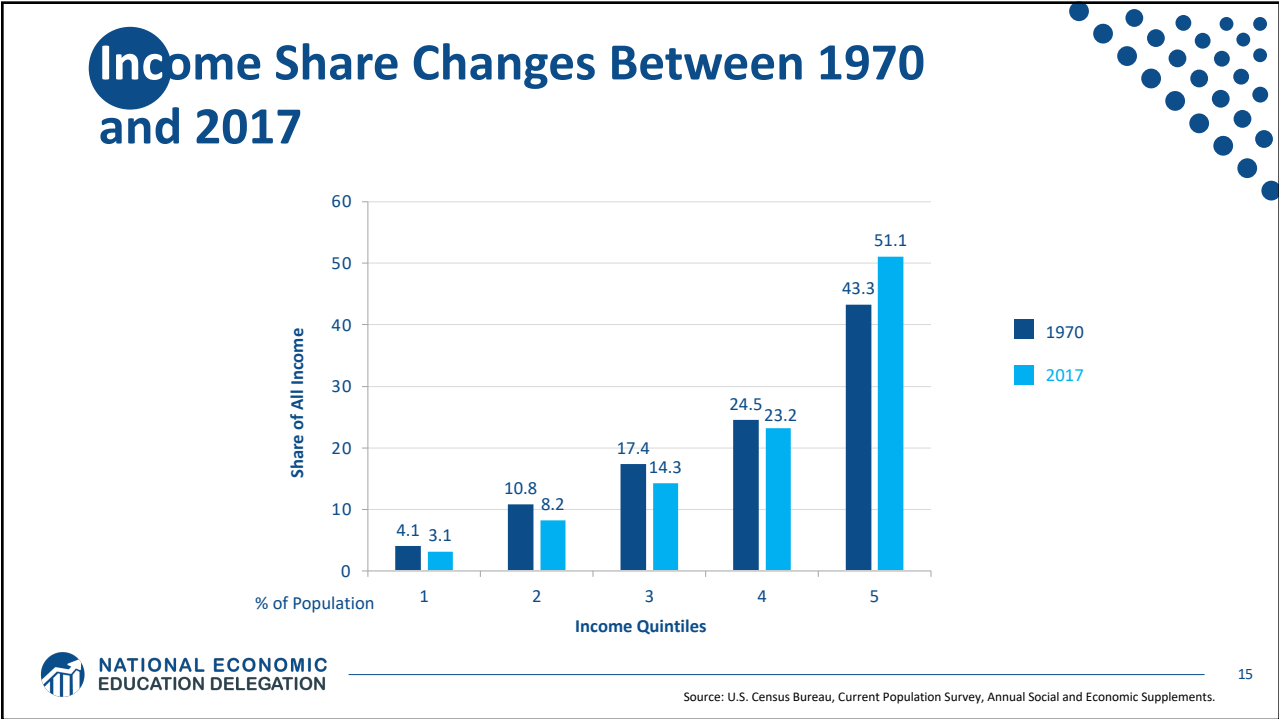
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Income Changes from Growing Inequality

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

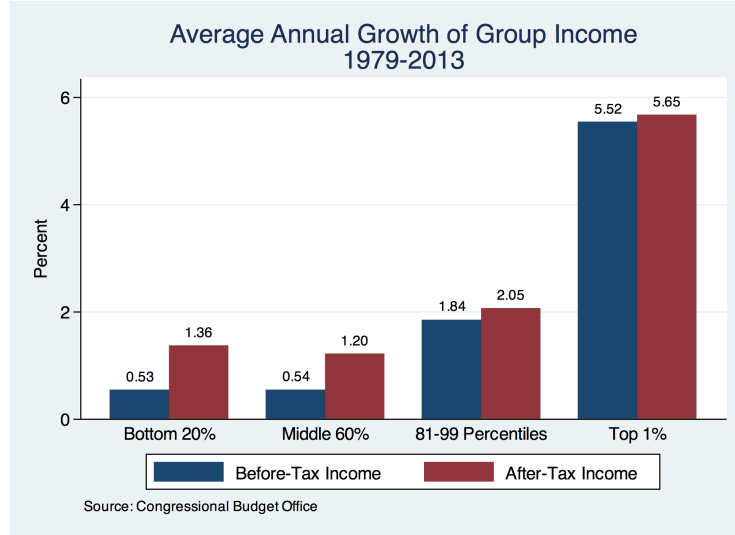
Bottom 90% of Households →

* 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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Growth Has Been Primarily at the Very Top



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Income Inequality Varies by Location

Gini Coefficients in 2019

- US: 48.1
- IL: 48.0
- Peoria County, IL: 49.8 - (increasing since 2014)

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Where Does Inequality Come From?

• Labor Characteristics

- Demographics
 - Age distribution
- Personal Choices
 - Educational attainment
 - Effort
 - Priorities
 - Household composition
- Immigration

• Market Forces

- Technology
- Changing demand patterns
- Competition for labor

• Government Policy

- Market influence
- Redistribution



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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

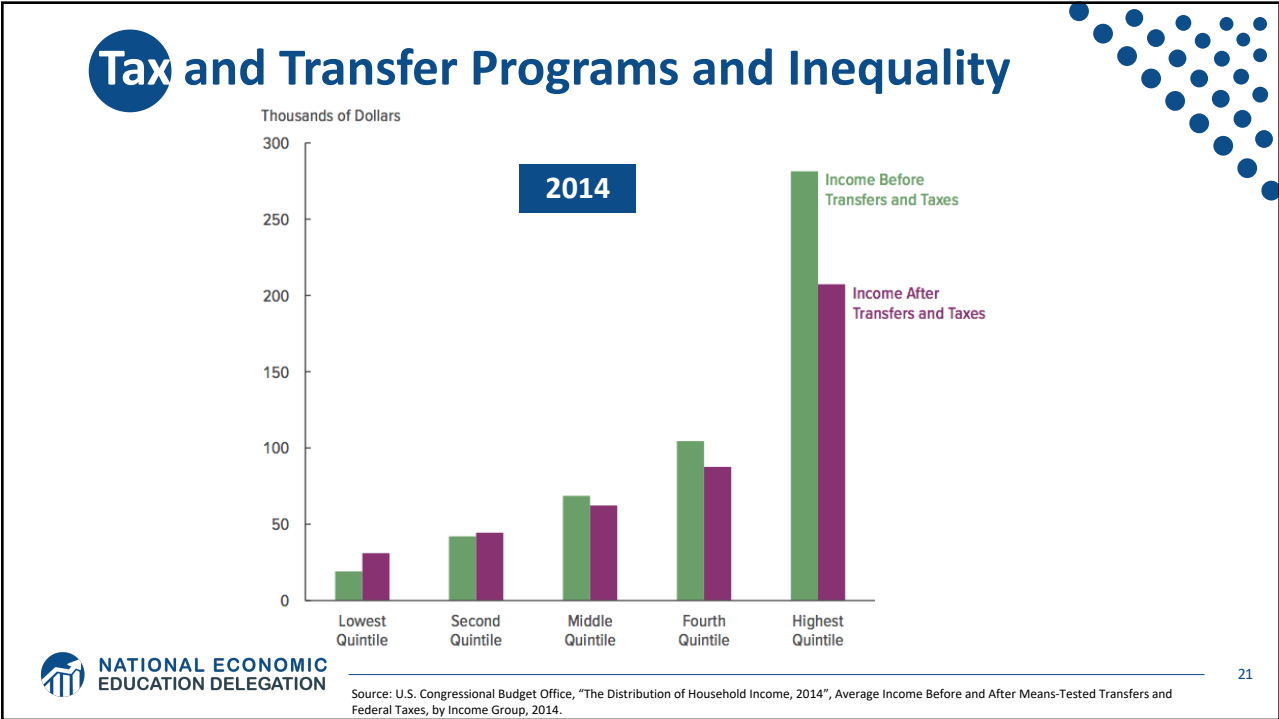
- Tax Rates
- Income support
 - Direct aid
 - Food stamps



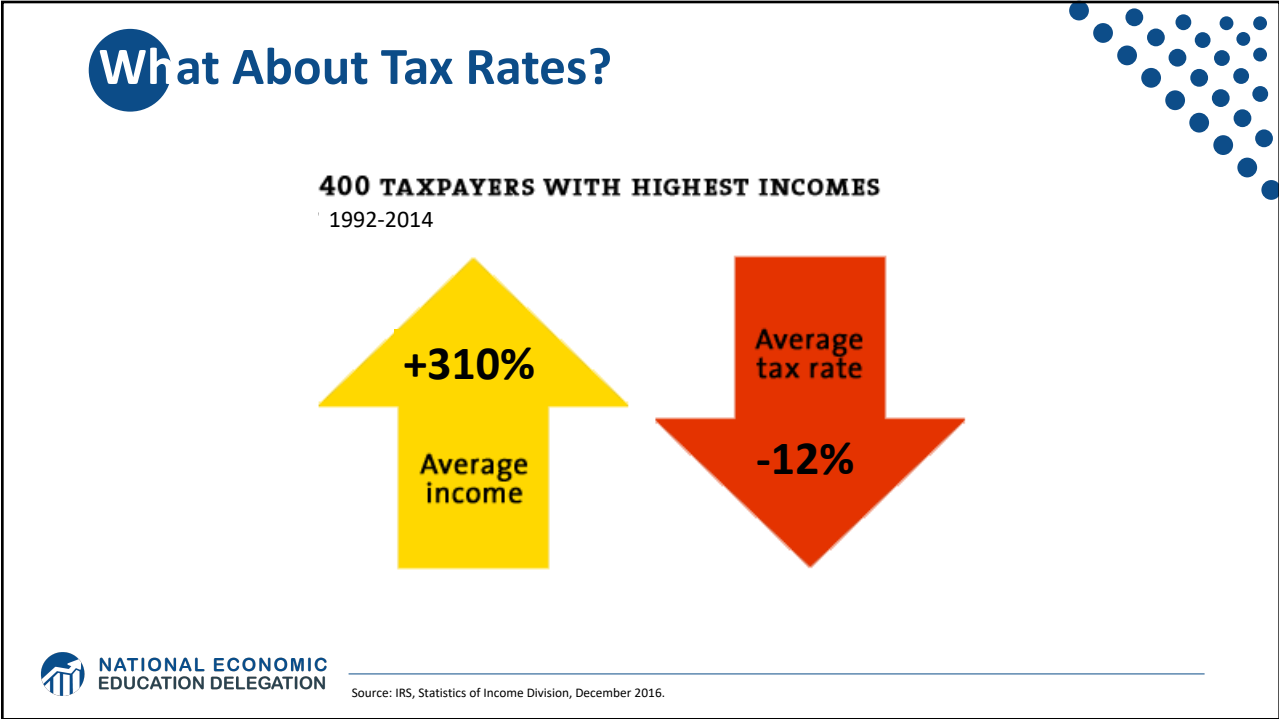
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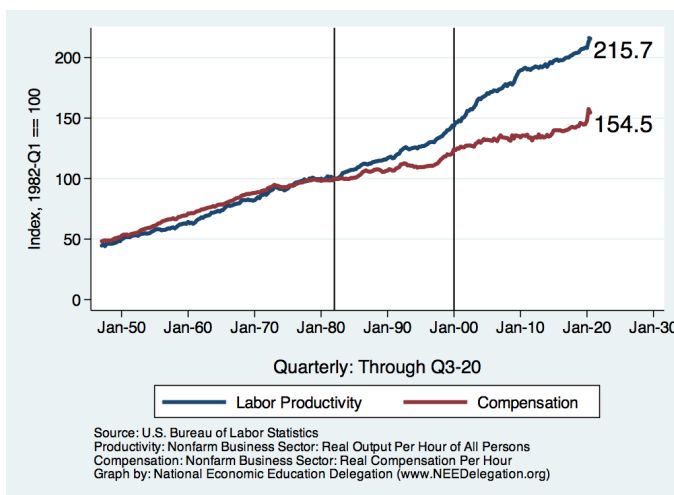
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Market Forces and Inequality

- **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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Labor Income is Unhinged from Productivity

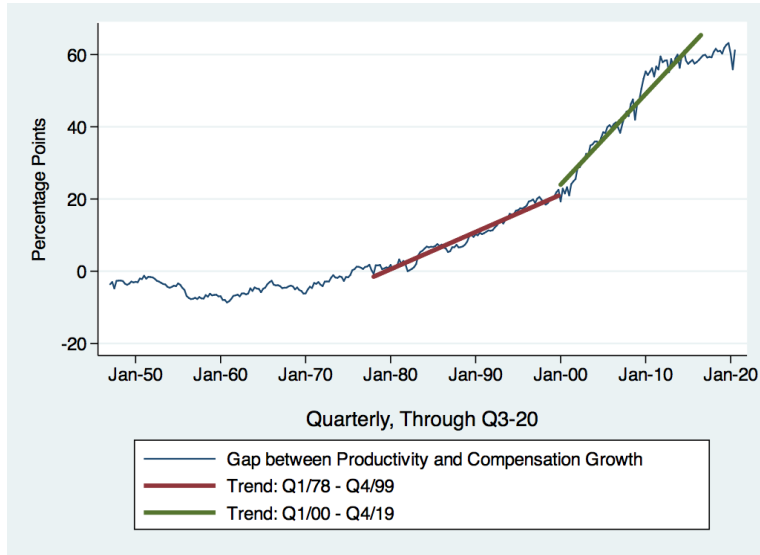


Why?

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

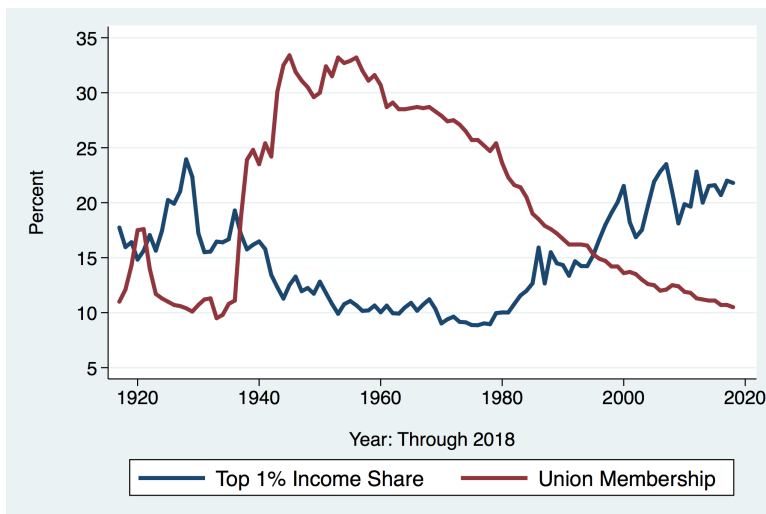
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Labor Share Gap Acceleration



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Declining Unionization



Unionization Rates

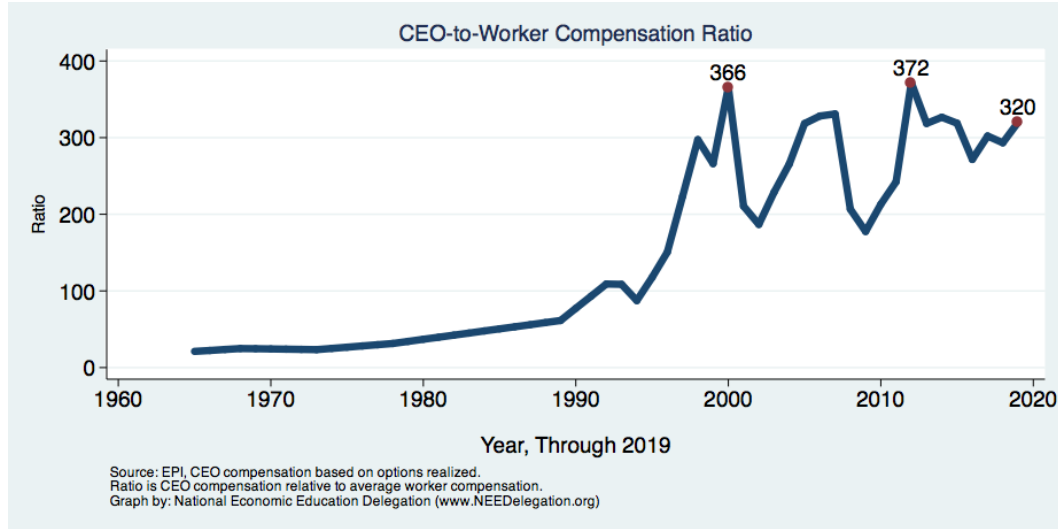
- **1983:** 20.1%
- **2018:** 10.5%

Unionization Rates

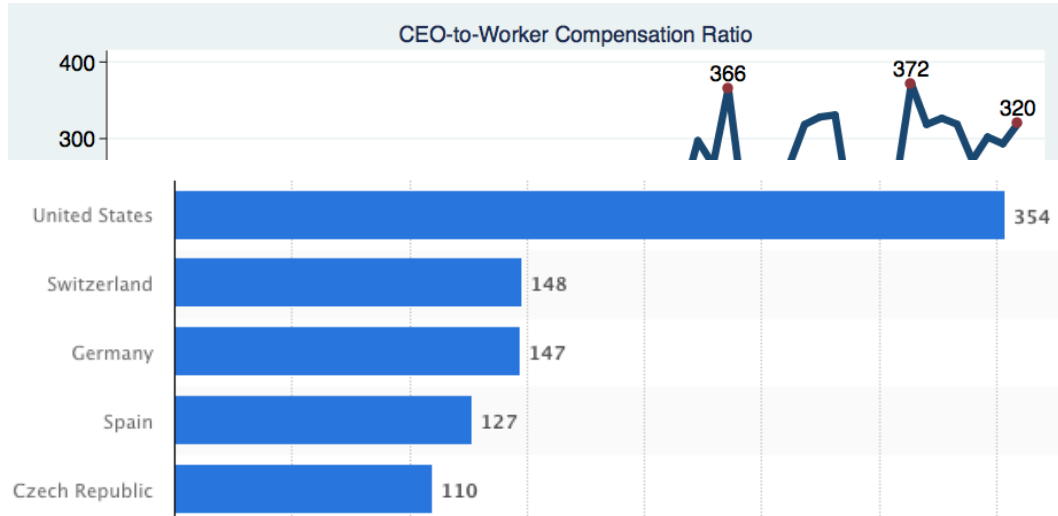
- **Public:** 33.9%
- **Private:** 6.4%

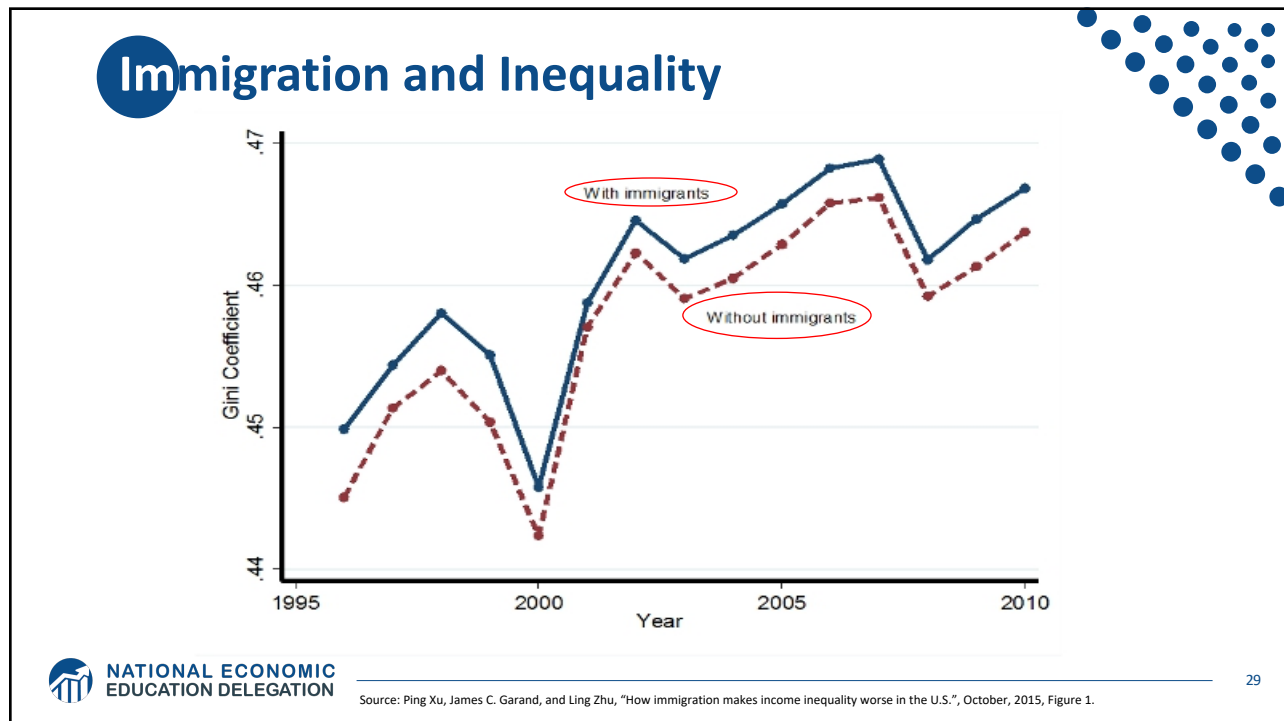
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CEO Pay Has Been Growing Rapidly



CEO Pay Has Been Growing Rapidly





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Immigration and Inequality- Summary

- **Beginning in about 1970, the immigrant share of the U.S. Population increased dramatically.**
 - 5% in 1970 and 14% in 2016
- **Immigration tends to happen most often among:**
 - Low-skilled low-wage workers
 - High-skilled high-wage workers
- **Immigration has likely increased income inequality.**
- **Its effect has likely been small.**
 - ~5% between 1980 and 2000
 - No reason to think it has been bigger since

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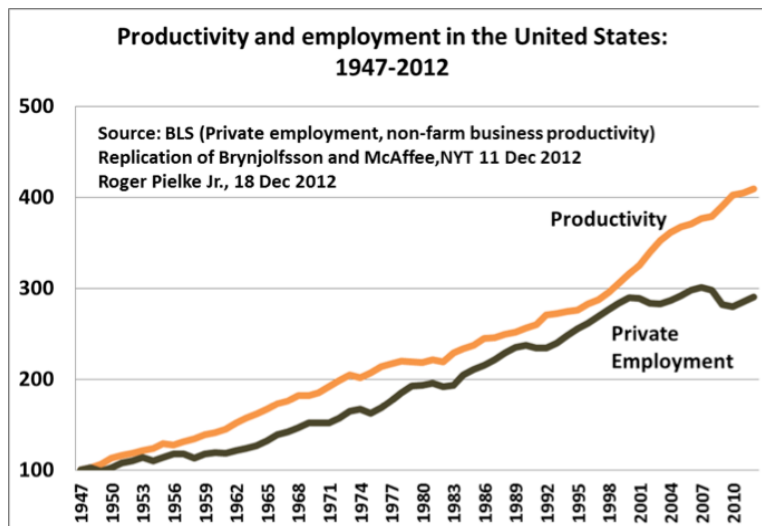
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Technological Change and Inequality

- **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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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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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
 - o Lowers the wages of unskilled relative to skilled
 - making the distribution of income **less equal**

- **Outsourcing**

- Similar channel as with merchandise trade

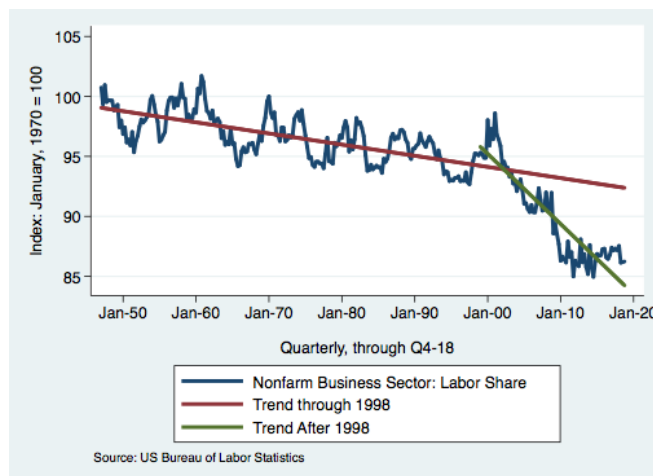
- **Trade in services**

- US imports of middle-skill services: business and some professional services

- **Intuitively: The same as if we were to move the actual workers.**

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Effects of the Unhinging?



Labor's Share of Income

1960: 66%

2011: 56%

2016: 58%

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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:**

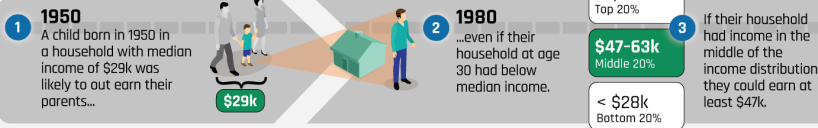
- Divide society
- Distort political environment
- Reduce political participation
- Reduce investments in public goods
 - o Education
 - o Environmental protections



A pattern of unequal growth has made it more common for children to earn less than their parents

Research shows that a child born in 1950 in the United States has about an 80% chance of having higher household income than their parents at age 30. A child born in 1980 has just a 50% chance.

Growth was shared equitably in these years (poorest to richest)



Most growth went to the rich in these years (poorest to richest)



Notes: Incomes shown are for households. Growth as shown in the bar charts is National Income Growth from Thomas Piketty, Emmanuel Saez, and Gabriel Zucman's Distributional National Accounts dataset. Growth in the first period is 1962-1980 because by quintile growth does not extend back to 1950. Source: Chetty, Raj, and others. 2017. "The Fading American Dream: Trends in Absolute Income Mobility since 1940." Science 356 [6336]: 398-406. Thomas Piketty, Emmanuel Saez, and Gabriel Zucman, "Distributional National Accounts: Methods and Estimates for the United States," The Quarterly Journal of Economics 133, no. 2 [May 1, w018]: 553-609

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 childcare
 - 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:**
 - 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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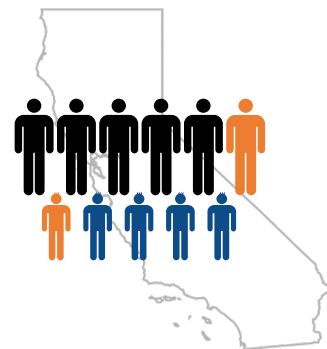
Tension in Policy Solutions

- **Is it possible to increase growth at the same time that you reduce income 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.

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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?

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Healthcare Economics: Jon Haveman

Dollars (US\$), adjusted for differences in cost of living

Total per-capita spending

Public spending Private spending Out-of-pocket spending

