

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

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National Economic Education Delegation



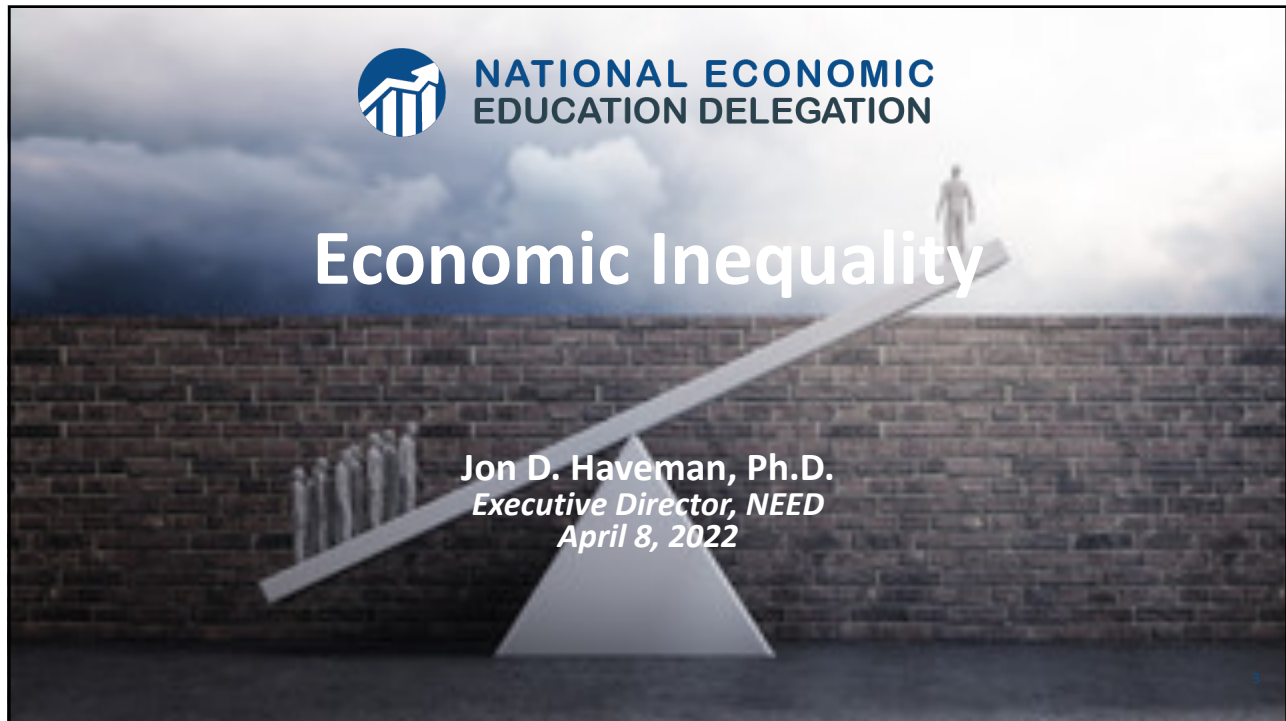
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Available NEED Topics Include:

- **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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- **This slide deck was authored by:**
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 - Timothy Smeeding, University of Wisconsin
 - Robert Wright, Augustana University
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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

- **Income inequality**
 - Before taxes and transfers
 - After taxes and transfers
- **Wealth inequality**
- **Racial inequality**

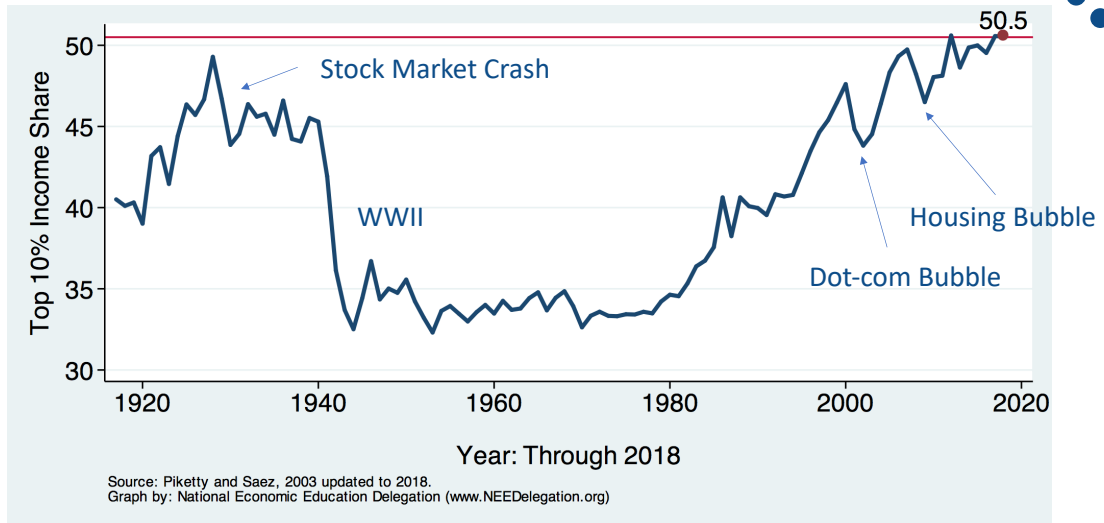
How does wealth differ from income?

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

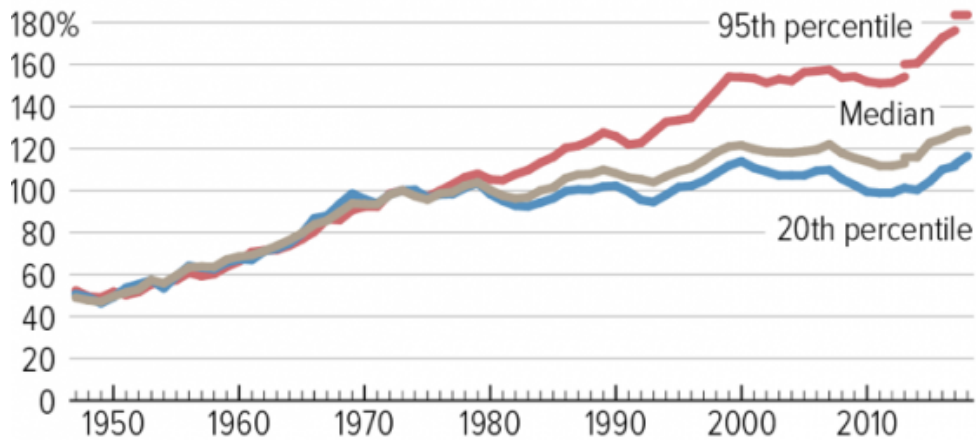
- **Beginning in the 1970s, the income gap widened.**
 - Income in the middle and lower parts of the distribution slowed
 - Incomes at the top continued to grow strongly
 - Income shares at the very top of the distribution rose to levels last seen more than 80 years ago



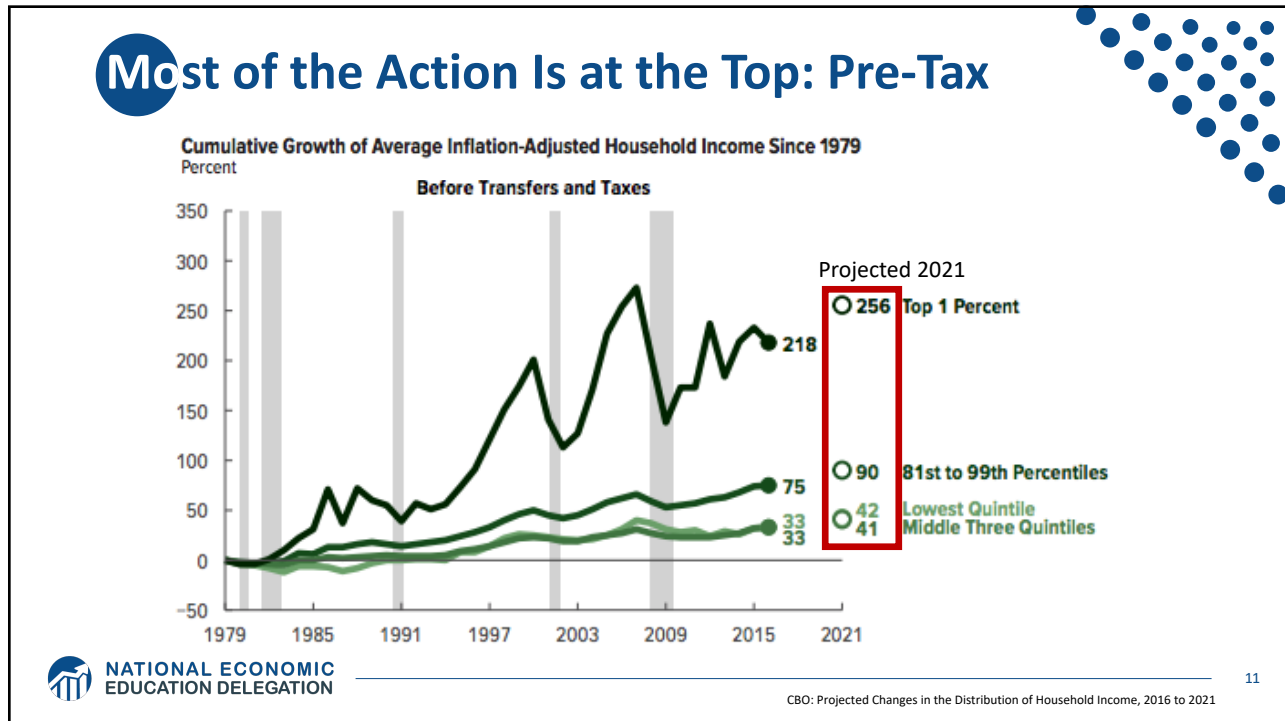
Source: Chad Stone, Danilo Trisi, Arloc Sherman, and Roderick Taylor, "A Guide to Statistics on Historical Trends in Income Inequality," Center on Budget and Policy Priorities, Policy Futures, May 15, 2018.

The Abrupt Increase in Inequality

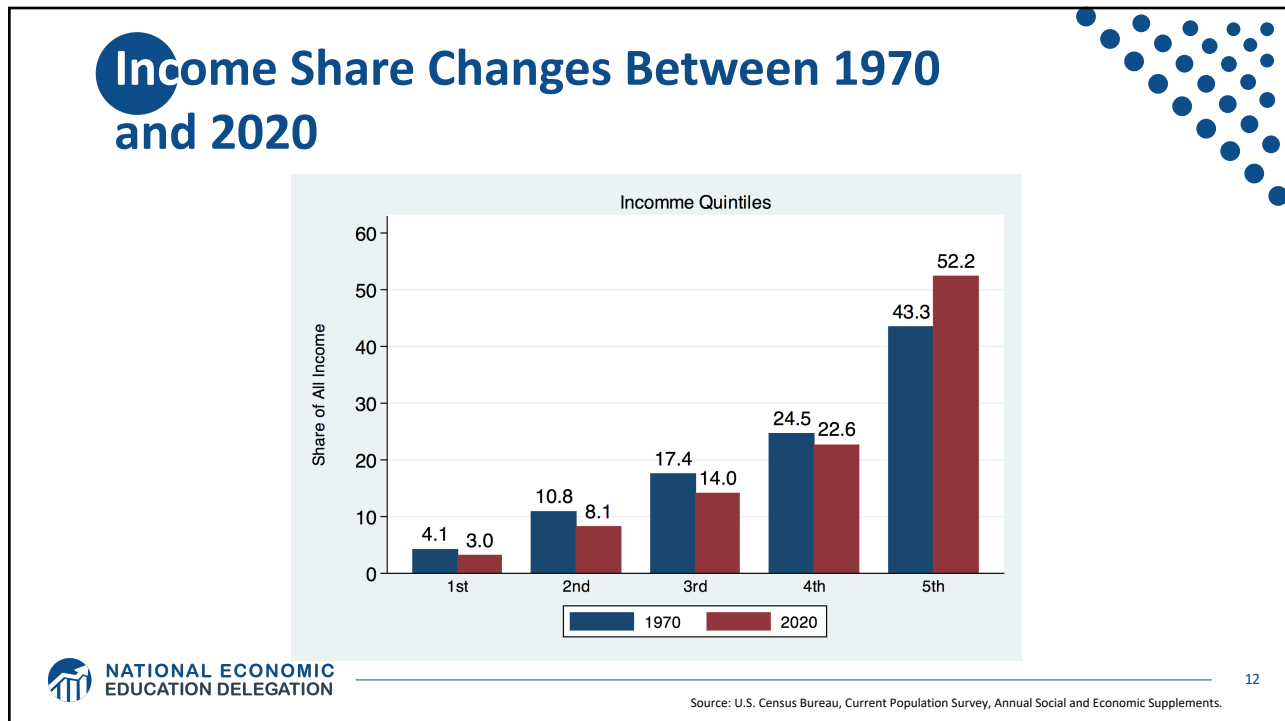
Real family income between 1947 and 2018, as a percentage of 1973 level



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.



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Income Changes from Growing Inequality

Bottom 90% of Households

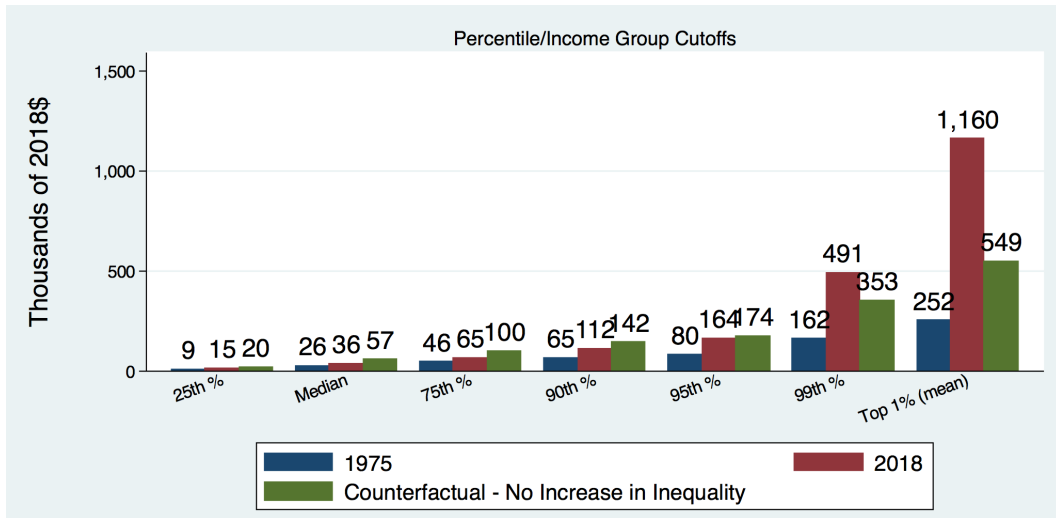
INCOME GROUP	TOTAL LOSS/GAIN IN ANNUAL INCOME*	AVERAGE LOSS/GAIN PER HOUSEHOLD PER YEAR*
TOP 1%	\$673 billion more	\$597,241 more
96-99	\$140 billion more	\$29,895 more
91-95	\$29 billion more	\$4,912 more
81-90	\$43 billion less	\$3,733 less
61-80	\$194 billion less	\$8,598 less
41-60	\$224 billion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

* 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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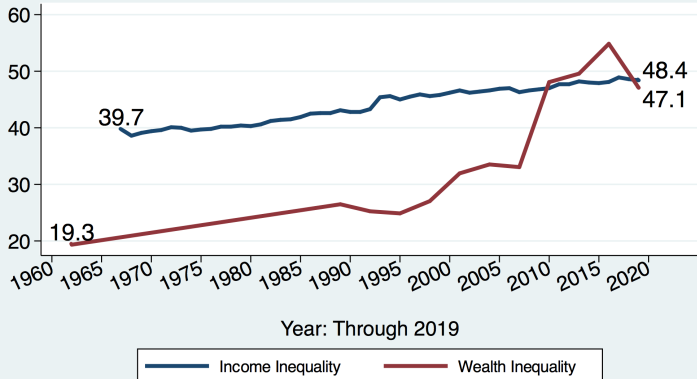
How Has Inequality Influenced Incomes?



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Income and Wealth Inequality



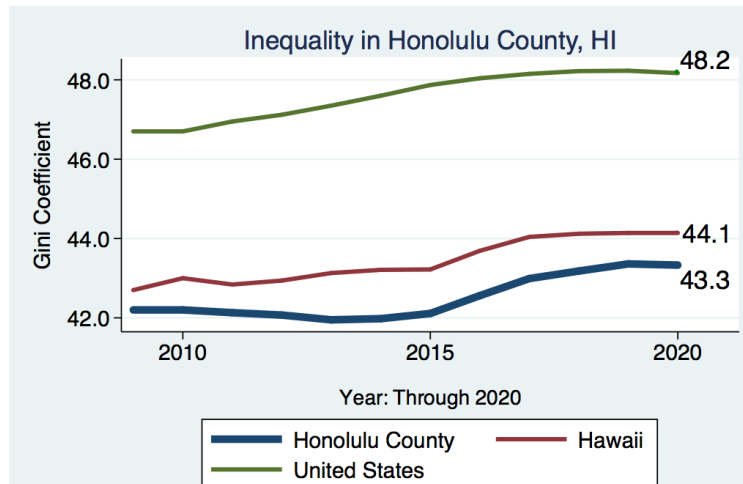
Income Inequality (Gini)

- US: 48.4%
- HI: 44.1%
- Honolulu: 43.3%

Source: U.S. Census Bureau and Board of Governors
 INCOME INEQUALITY is measured by the Gini coefficient.
 WEALTH INEQUALITY is the ratio of the mean wealth of the top decile to median overall wealth.
 Wealth data are only available for 1962, and at three year intervals beginning in 1989.
 Graph by: National Economic Education Delegation (www.NEEDelegation.org)



Inequality in Hawaii

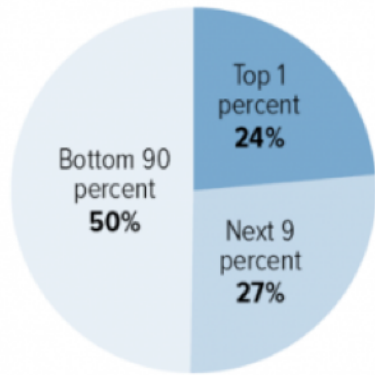


Source: American Community Survey, 5-yr Summary Files
 Produced by: National Economic Education Delegation (www.NEEDelegation.org)

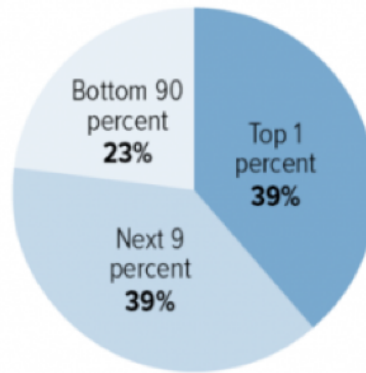


Wealth Inequality Exceeds Income Inequality

Distribution of before-tax income, 2016



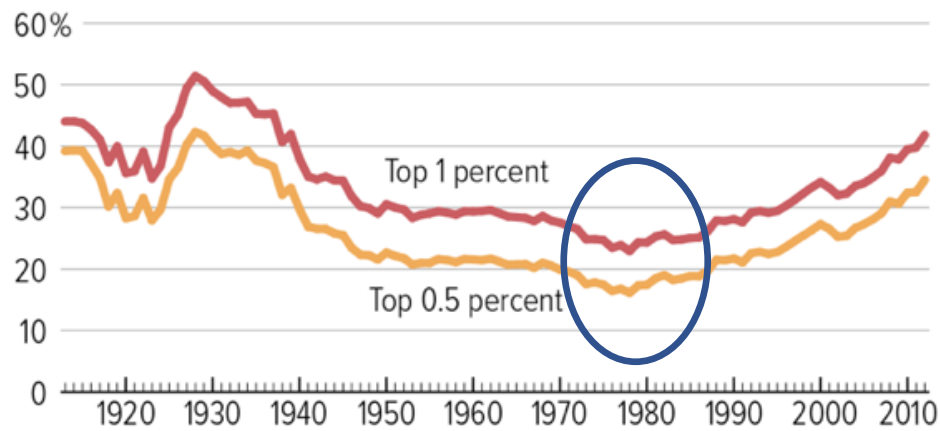
Distribution of wealth, 2016



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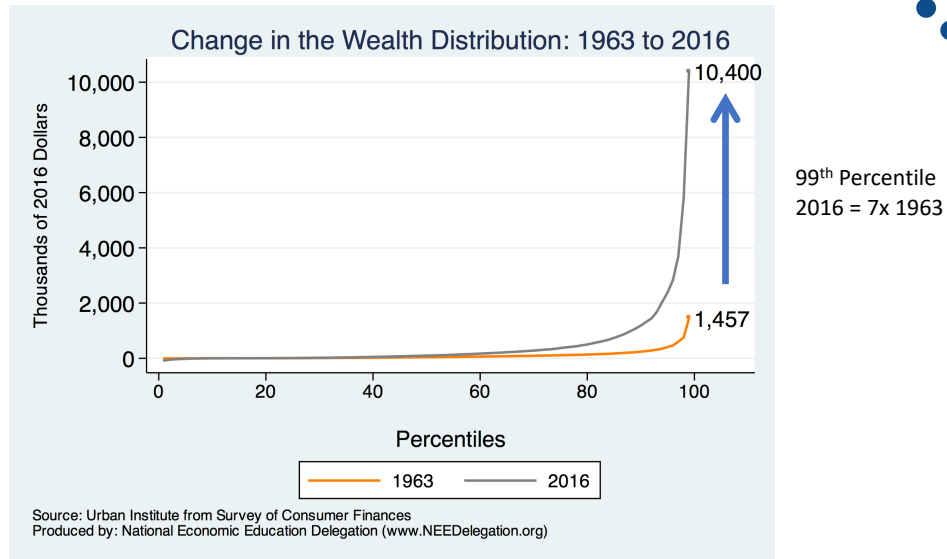
Wealth Concentration Has Been Rising

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



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Wealth is More and More Concentrated



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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

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Government Policy and Inequality

- **Market Influence: PRE-distribution**

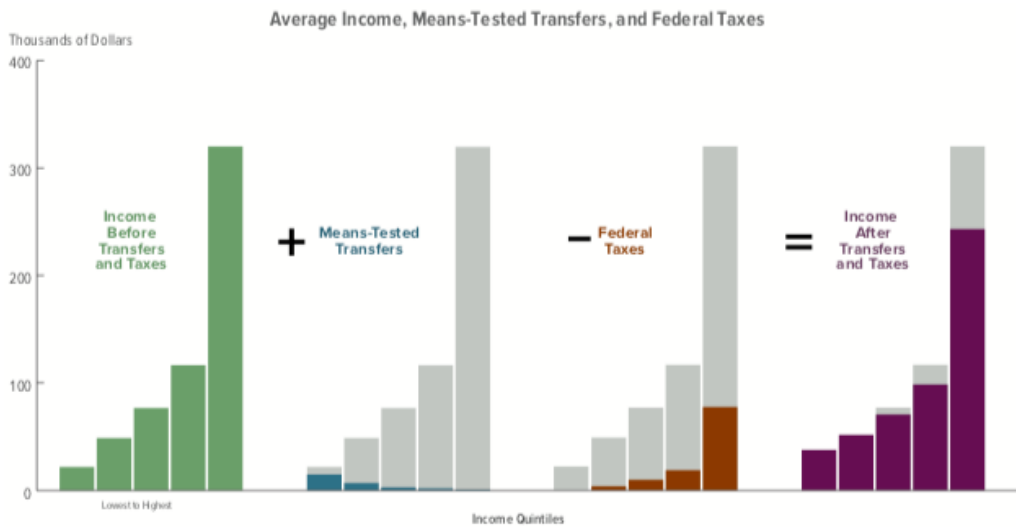
- Characteristics of labor
 - o Access to education
- Effects on labor demand
 - o Market regulation
 - Competition policy
 - o Labor regulations
 - Minimum wage, overtime, health insurance, etc.

- **RE-distribution**

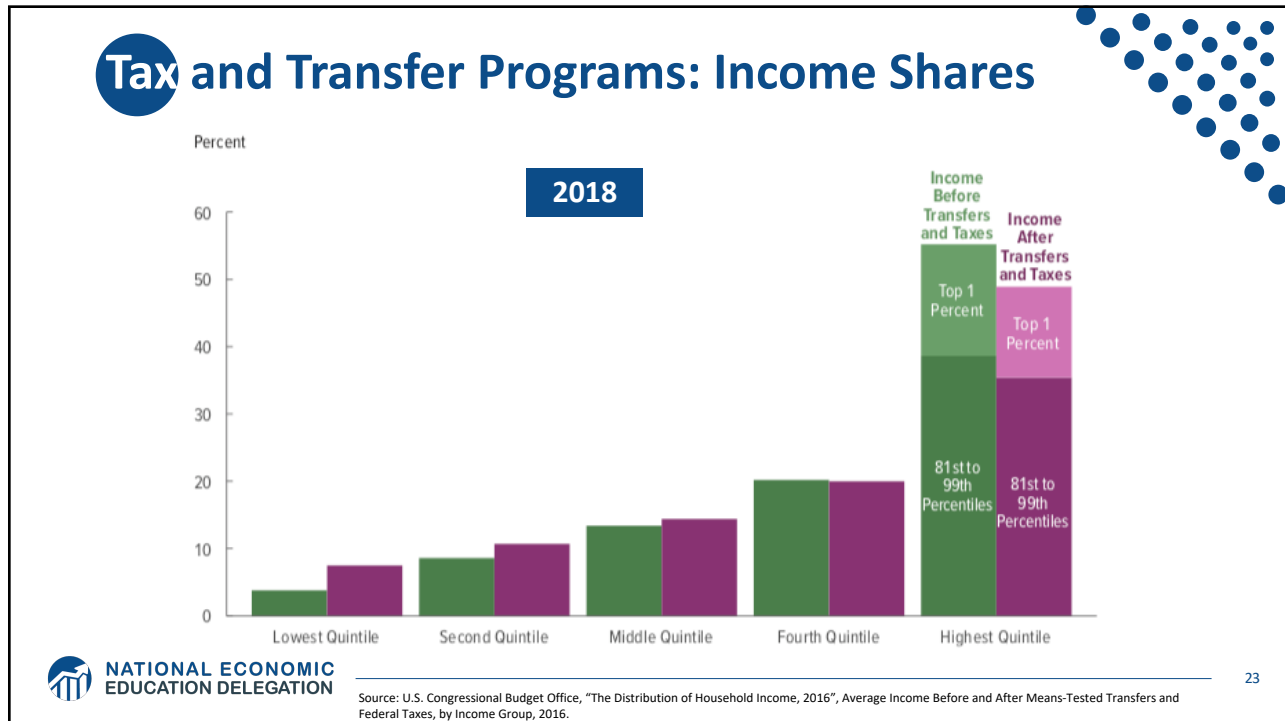
- Tax Rates
- Income support
 - o Direct aid
 - o Food stamps

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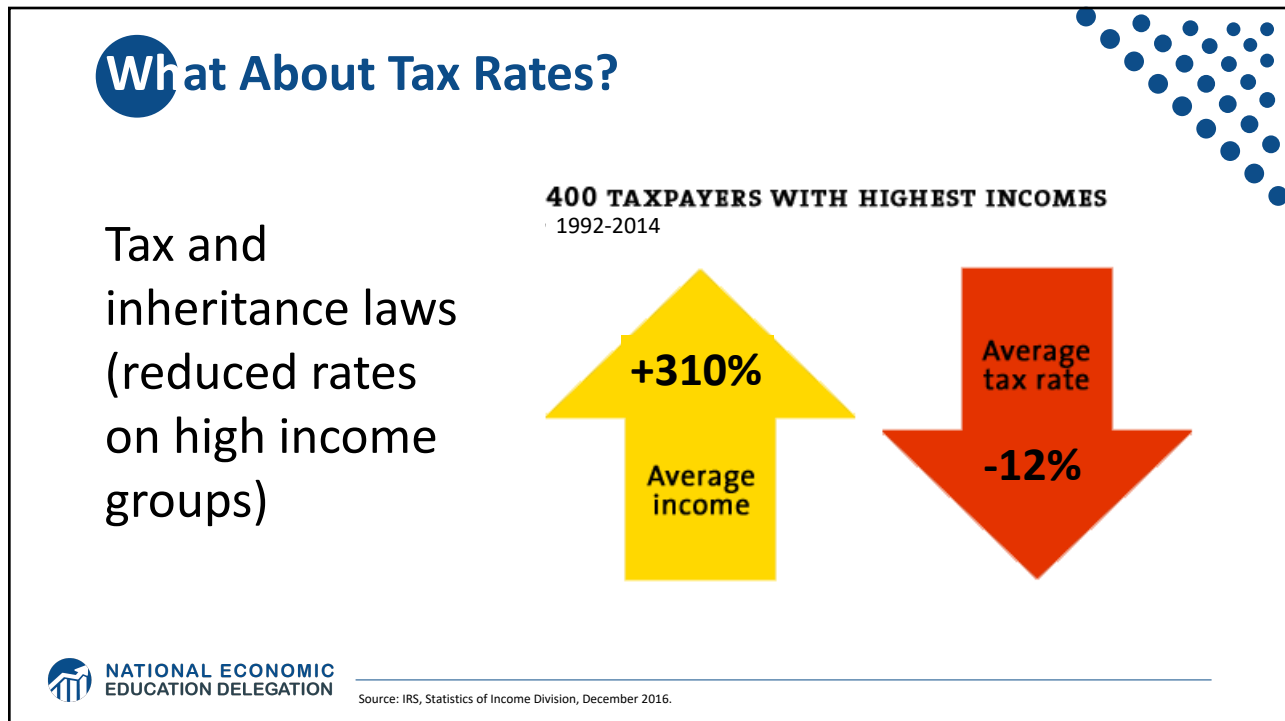
Taxes, Transfers, and Income: 2018



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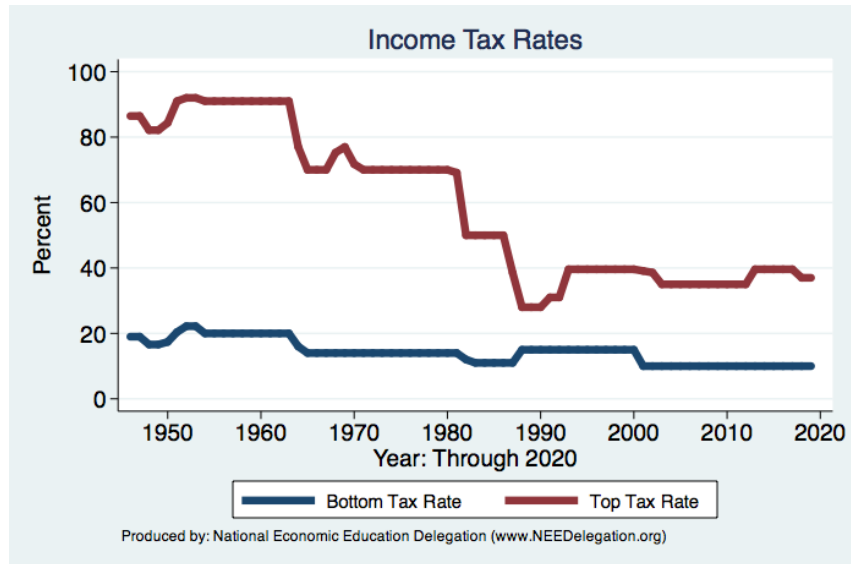


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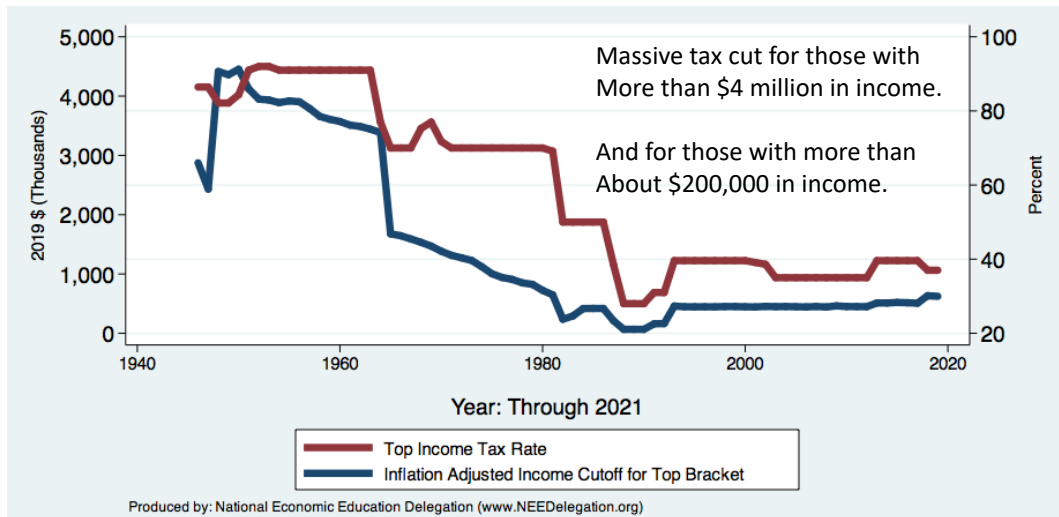
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Tax Rates Over Time

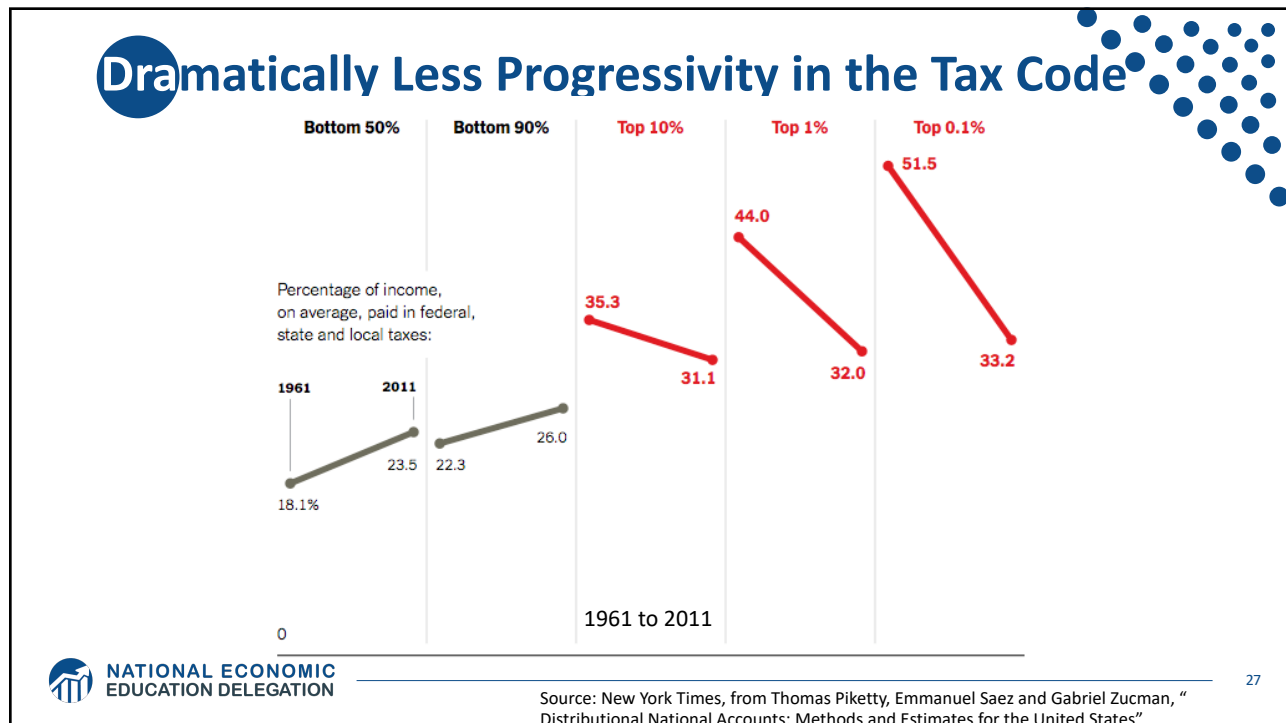


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The Top Tax Rate and Income Cutoff



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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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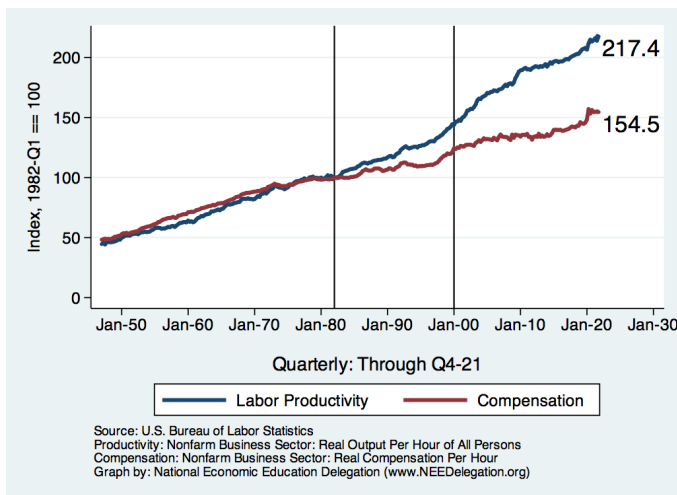
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Where Does Inequality Come From? Summary

- **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



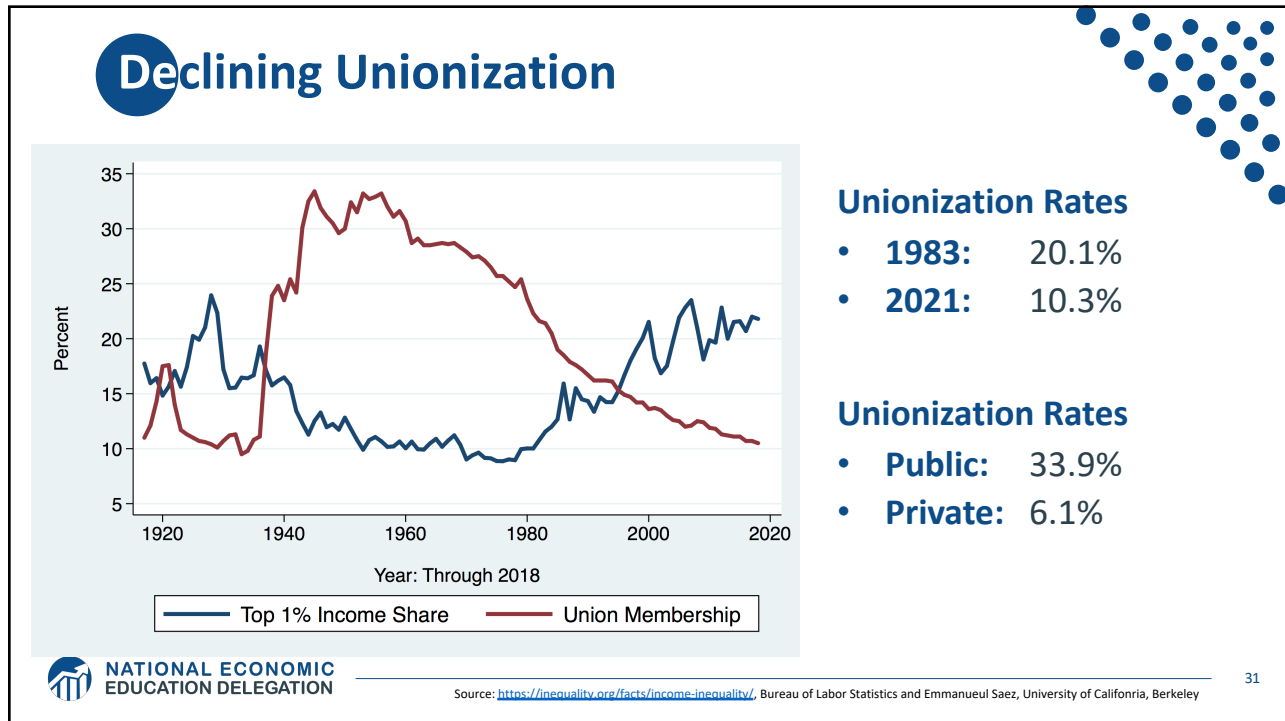
Labor Income is Unhinged from Productivity



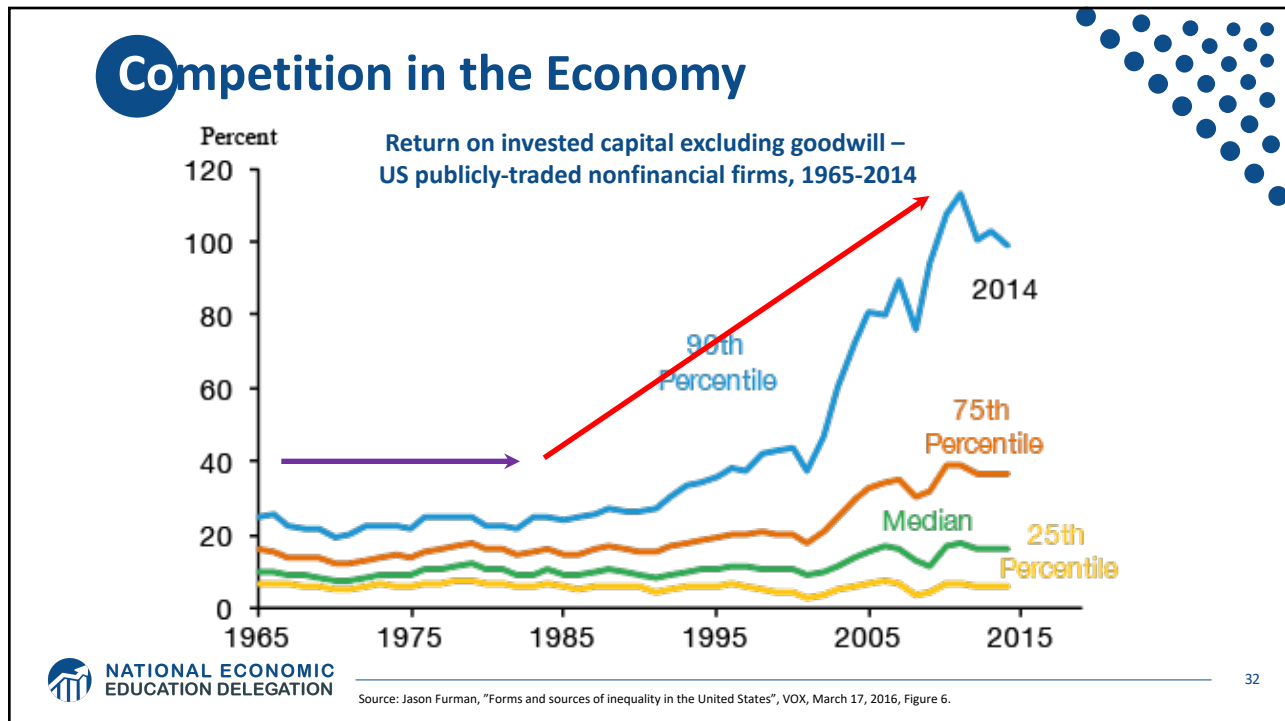
Why?

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





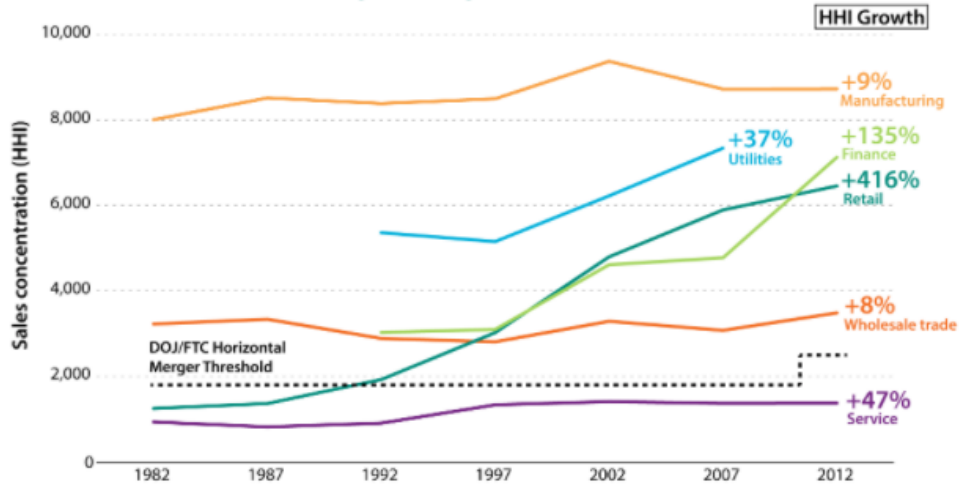
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Growing Revenue Concentration

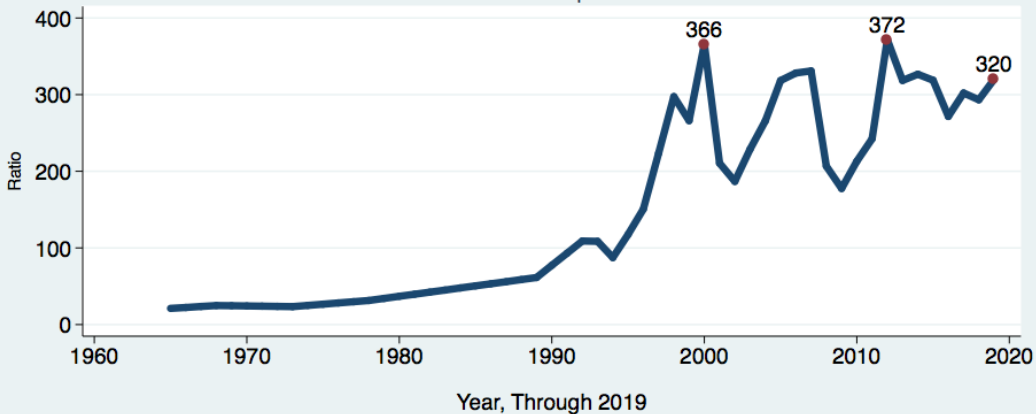
Market Concentration and Growth by Industry, 1982–2012



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CEO Pay Has Been Growing Rapidly

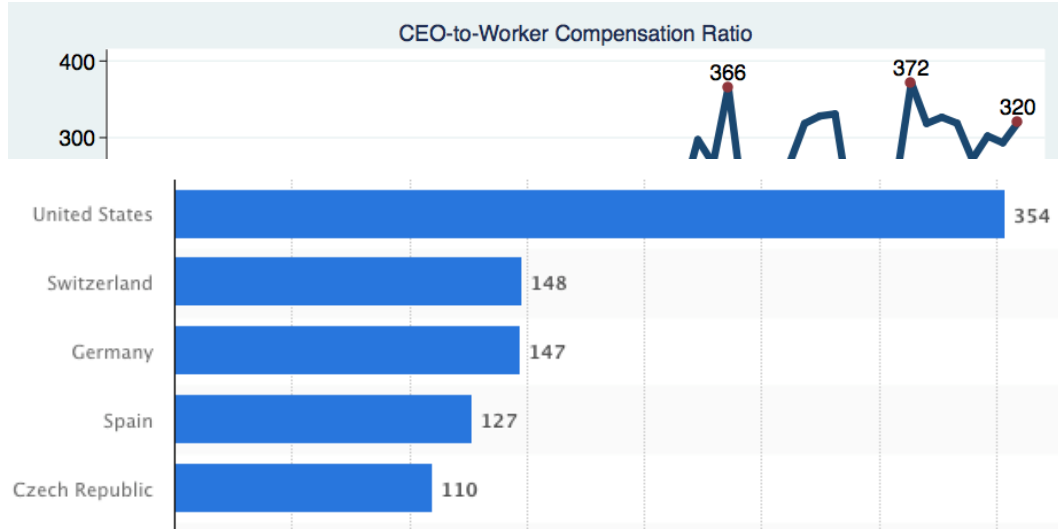
CEO-to-Worker Compensation Ratio



Source: EPI, CEO compensation based on options realized.
 Ratio is CEO compensation relative to average worker compensation.
 Graph by: National Economic Education Delegation (www.NEEDelegation.org)

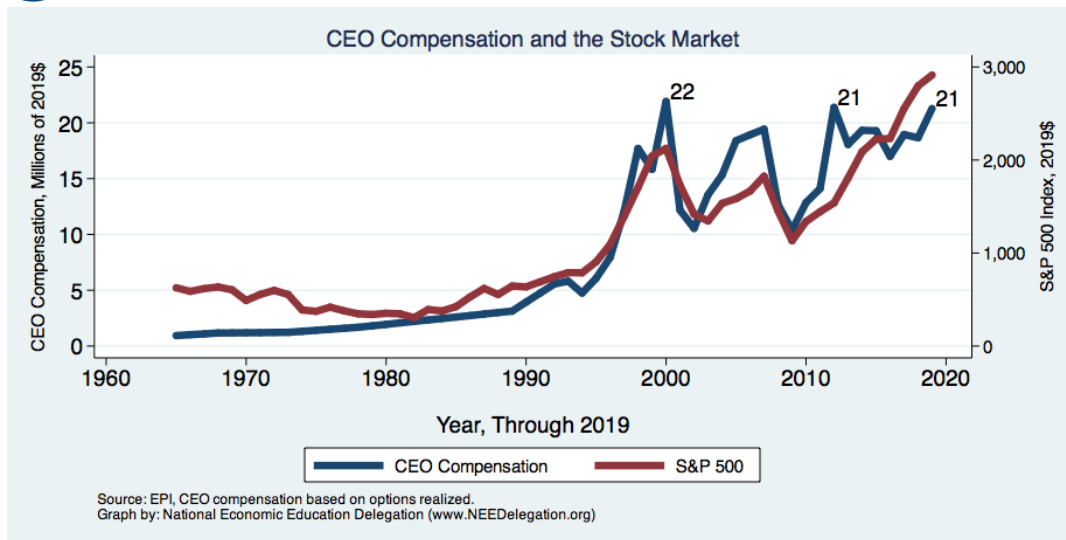
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CEO Pay Has Been Growing Rapidly

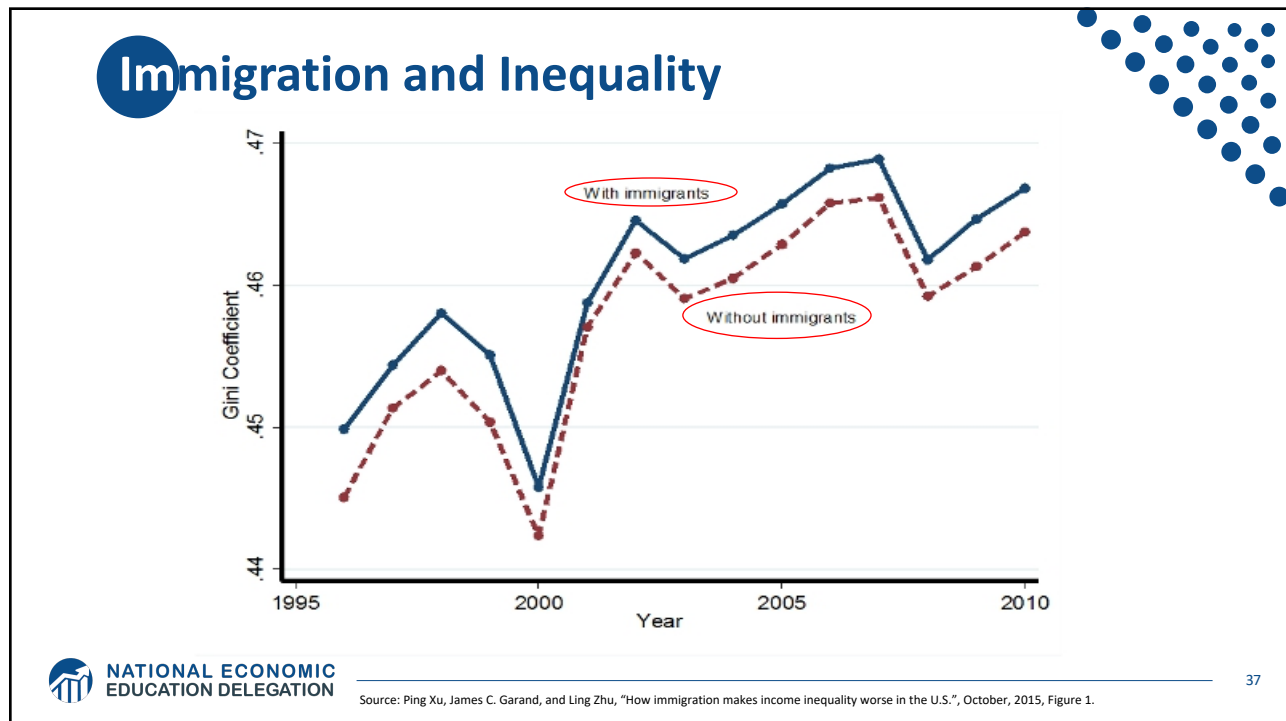


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CEO Compensation – Tied to Stock Prices



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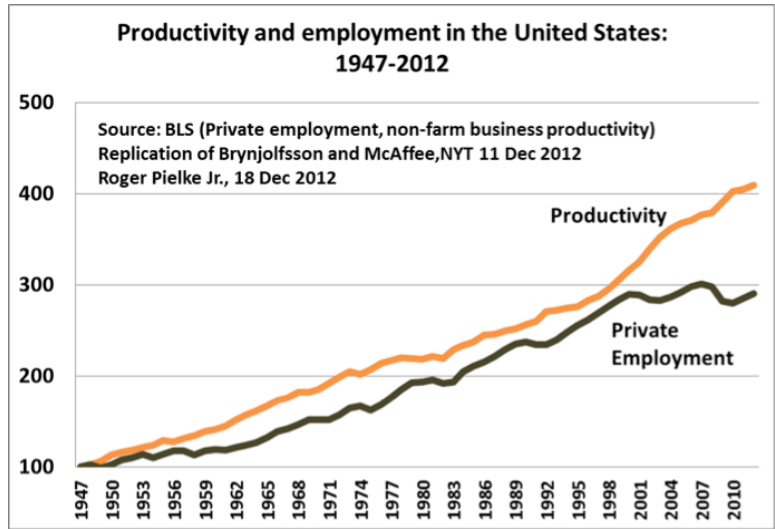
Technological Change and Inequality

- **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



Technology can Hurt Low Income Workers



Early on, technology was good to low income workers



Until it was bad for them....

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.



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



What is driving increasing inequality?

- **Primary drivers:**

- Technology
- Globalization
- Institutions

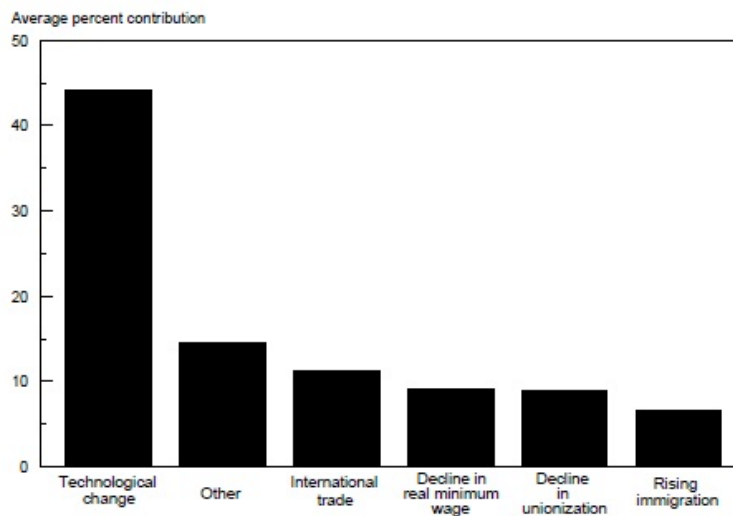
- **These drivers can also influence personal choices in ways that affect measured income inequality.**

- 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:**

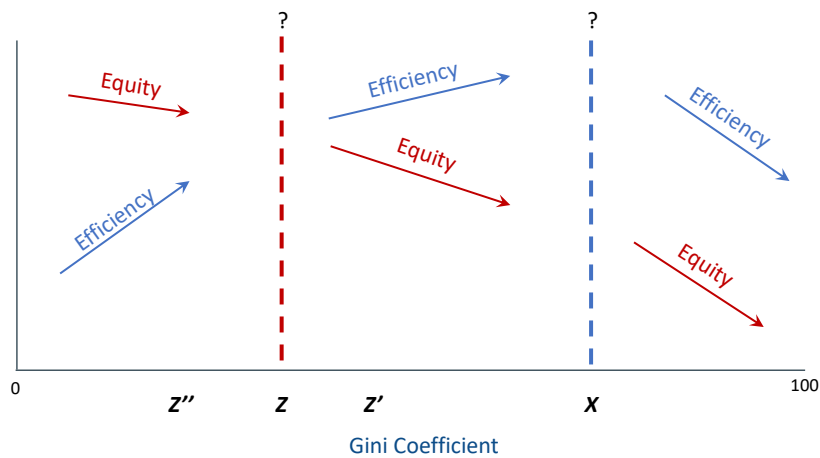
- Reduce individual motivation
- Slow economic growth

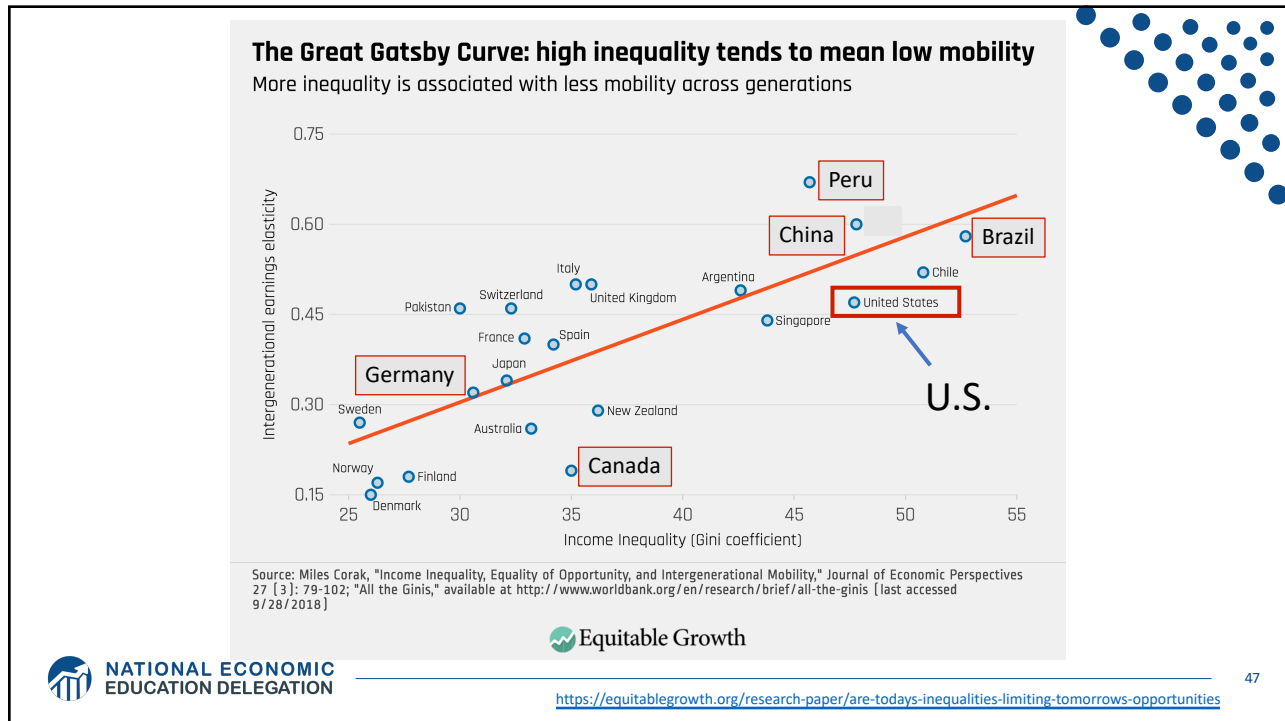
- **Too much inequality may also:**

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

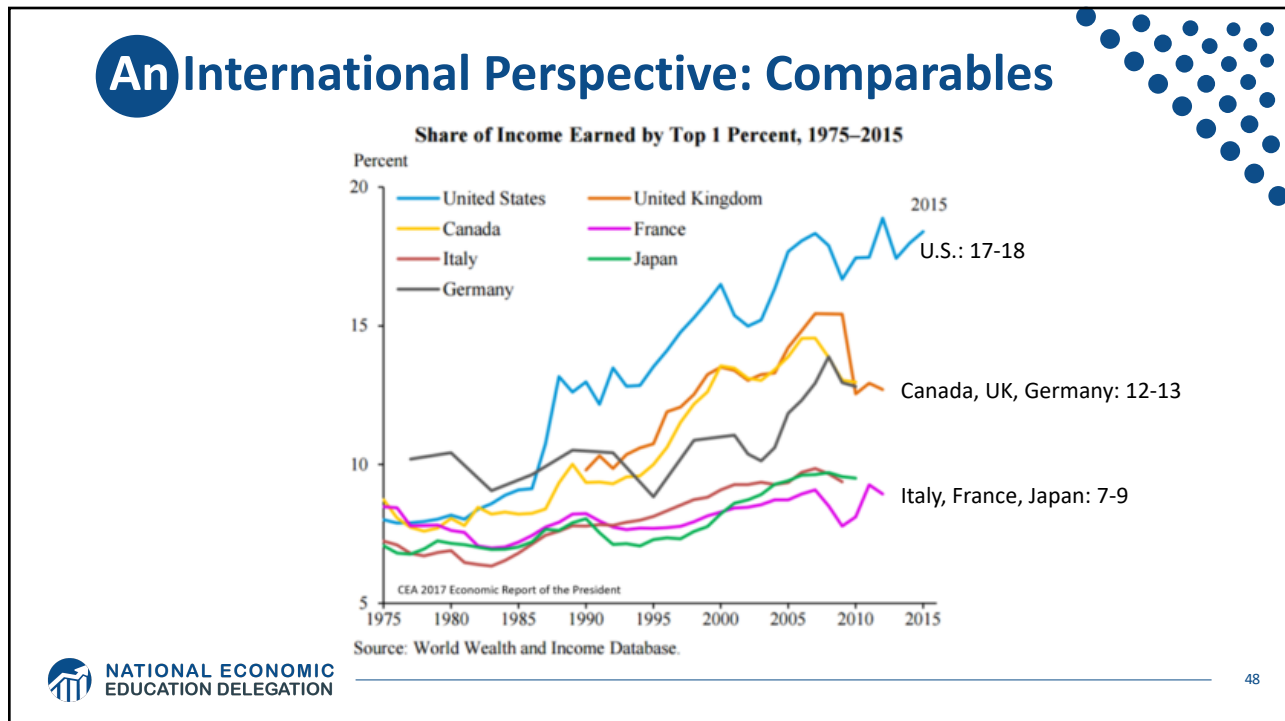


How Much Inequality Is too Much?



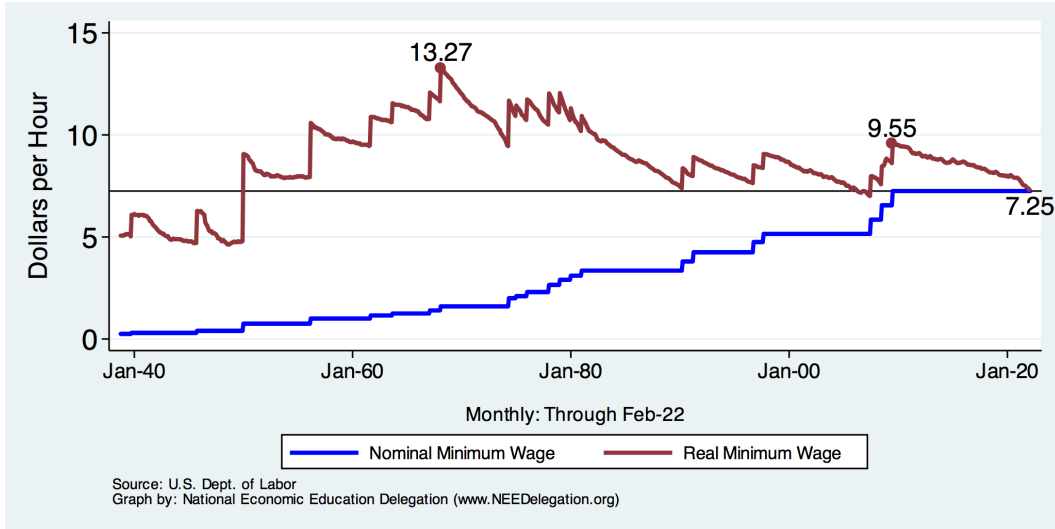


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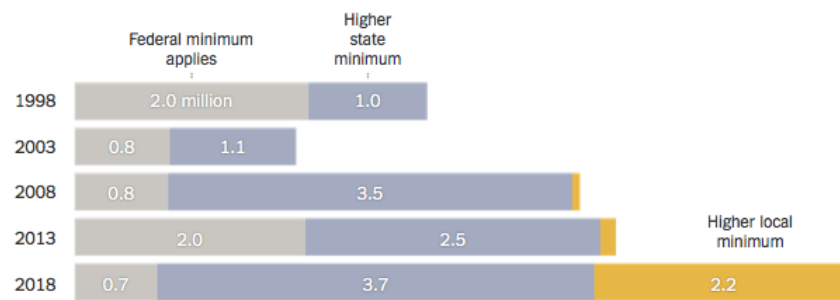
History of the Federal Minimum Wage



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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).

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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:**
 - 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.

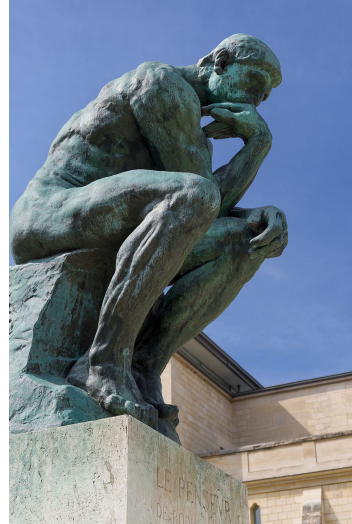


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What to do About Inequality?

- Nothing?
- Redistribution?
- PRE-distribution?
- Access to resources?



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Tension in Policy Solutions

- **Is it possible to increase growth 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.



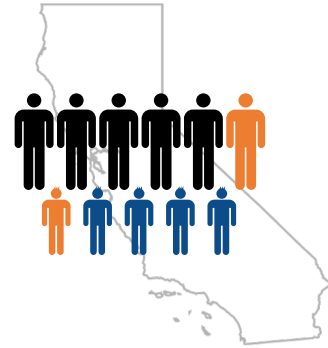
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Summary

- **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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