



# *Osher Lifelong Learning Institute, Winter 2022*

## Contemporary Economic Policy

University of Alaska, Anchorage  
September-October, 2022

National Economic Education Delegation



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## Course Outline

- **Contemporary Economic Policy**

- Week 1 (9/15): US Economy (Geoffrey Woglom, Amherst College)
- **Week 2 (9/22): Economic Inequality (Christopher Herrington, VCU)**
- Week 3 (9/29): The Black-White Wealth Gap (Jon Haveman, NEED)
- Week 4 (10/6): Federal Debt (Joseph Carolan, Oakland University)

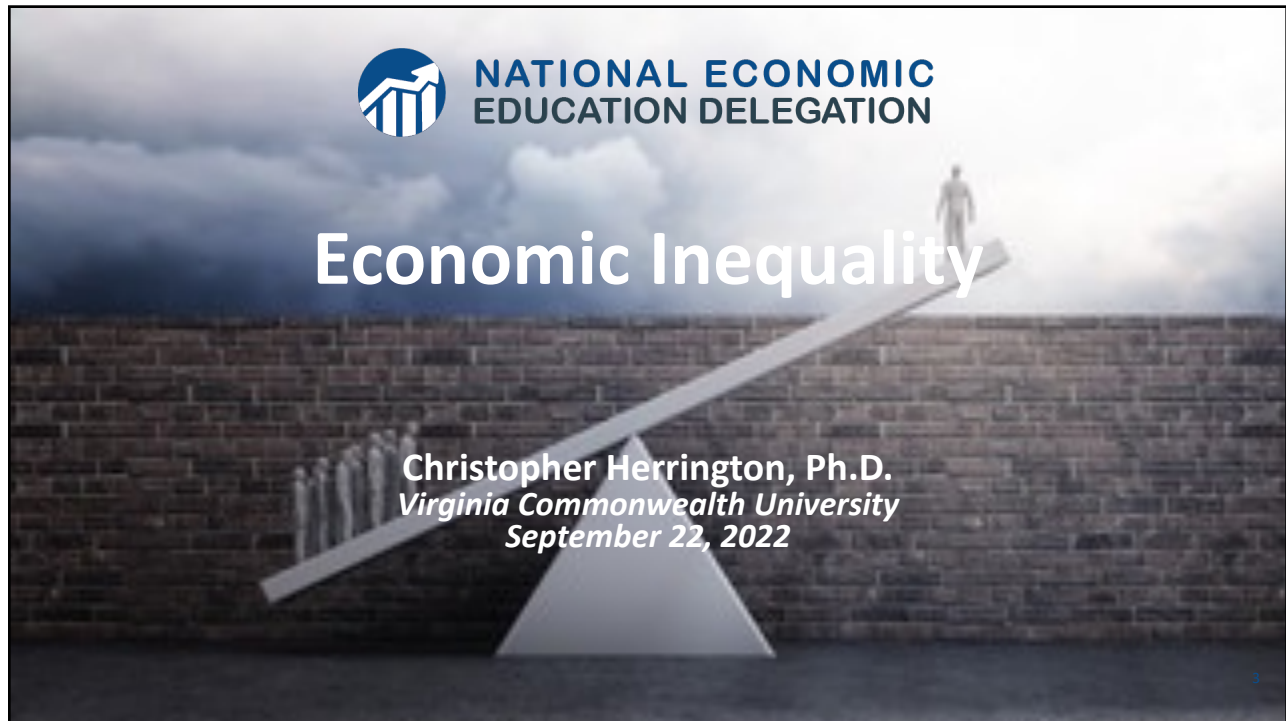


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- **This slide deck was reviewed by:**
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## Outline

- 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

**Inequality**

How evenly income/wealth is divided across 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).

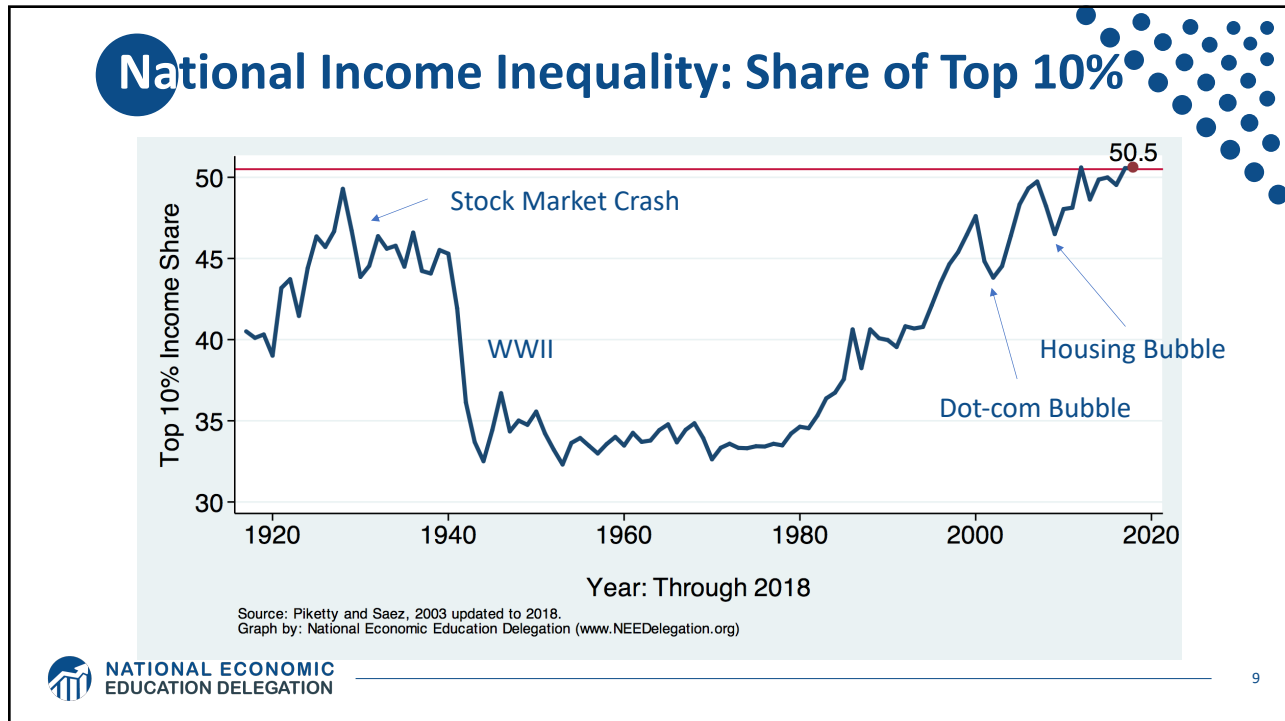


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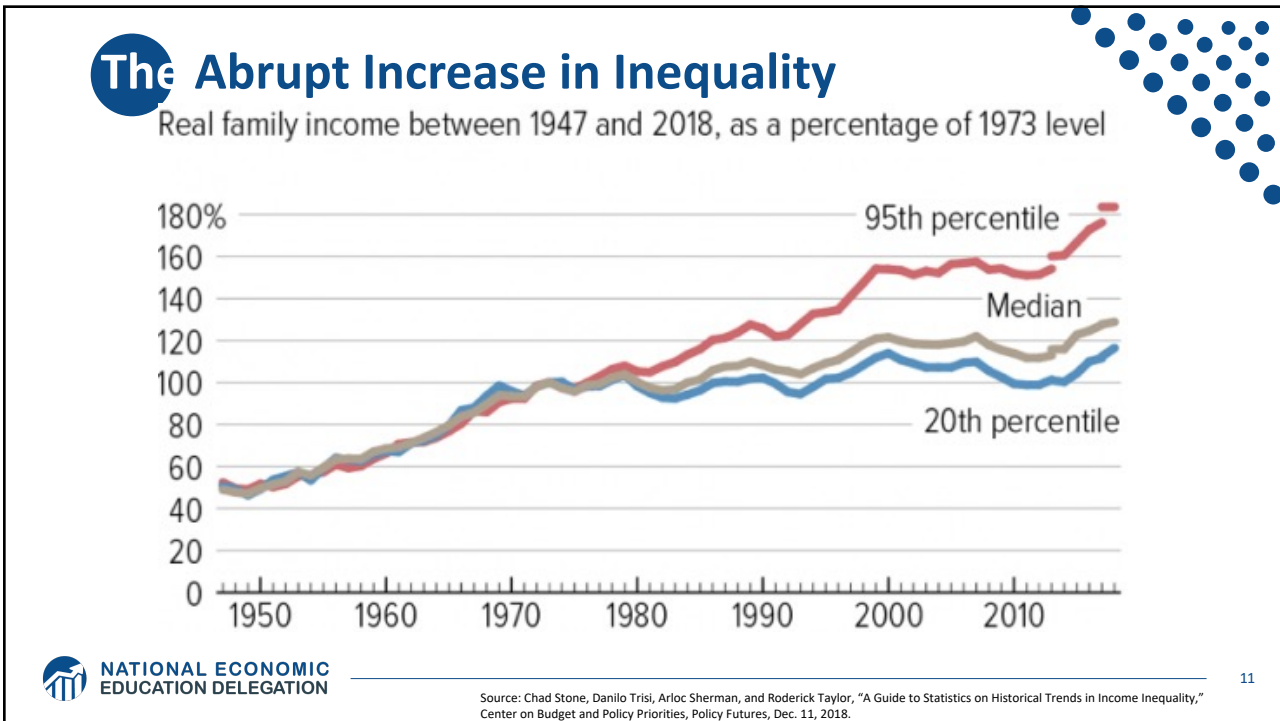
## Recent Facts on Income Inequality

- **Beginning in the 1970s, income gaps widened.**
  - Income growth in the middle and lower parts of the distribution slowed.
  - Incomes at the top continued to grow strongly.

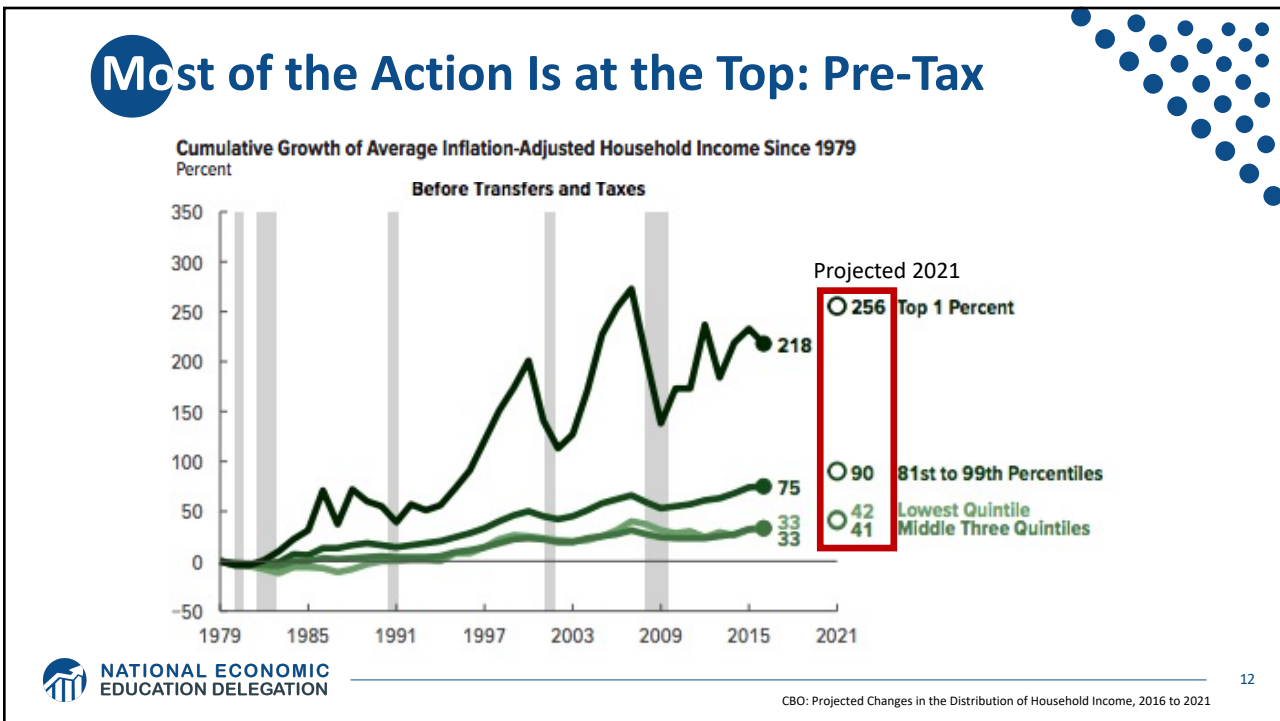
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Source: Chad Stone, Danilo Trisi, Arloc Sherman, and Roderick Taylor, "A Guide to Statistics on Historical Trends in Income Inequality," Center on Budget and Policy Priorities, Policy Futures, May 15, 2018.

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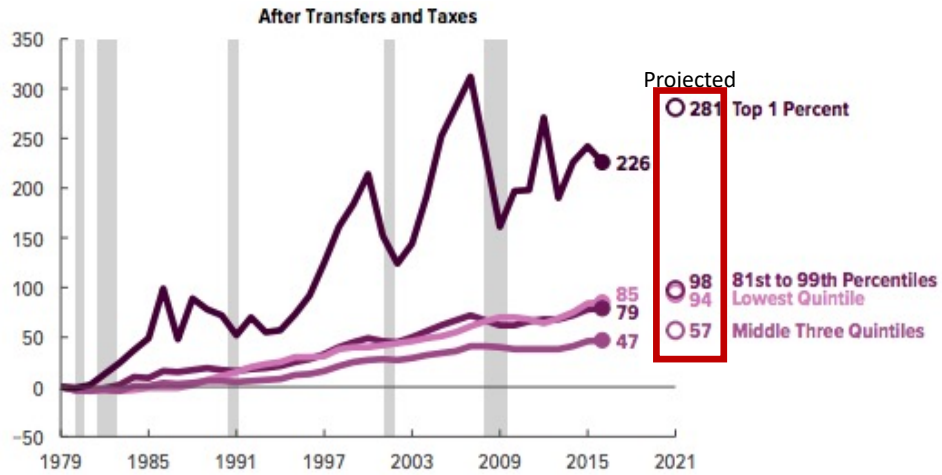
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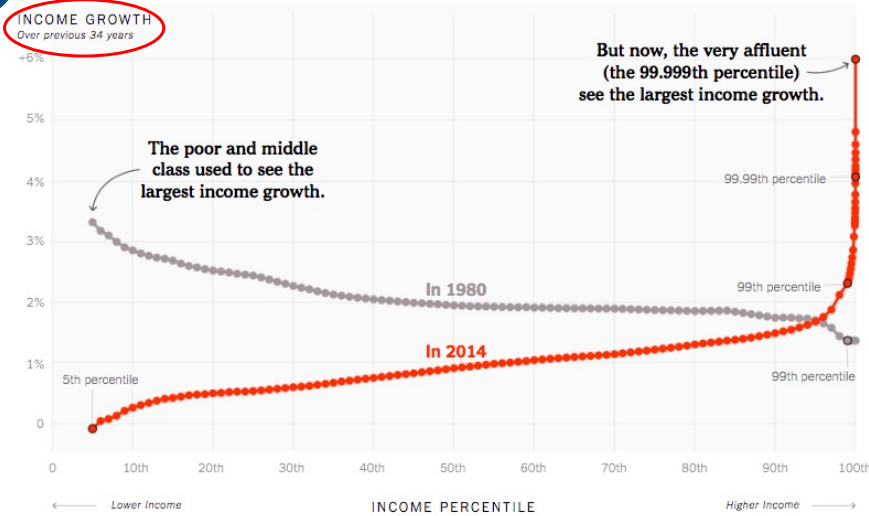
# Most of the Action Is at the Top: Post-Tax

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



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# Wage Growth Patterns Have Changed!



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

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## Gini Coefficient

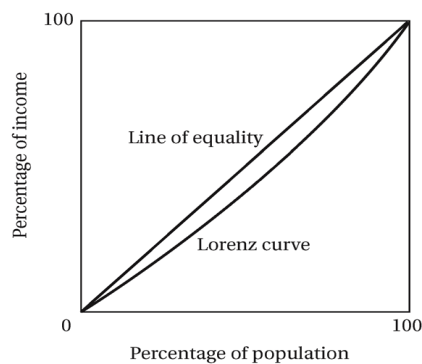
- **Gini coefficient – a numerical measure that summarizes the overall dispersion of income**
  - Ranges from 0 – 1
    - 0 = perfect equality – everyone has the same income
    - 1 = perfect inequality – one person has all the income
  - In practice:
    - 0.5 – 0.7 – highly unequal
    - 0.2 – 0.35 – relatively equal



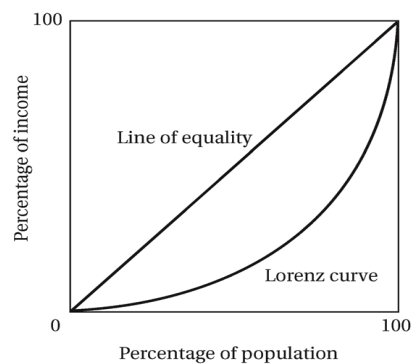
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## Lorenz Curve of Income Distribution



(a) A relatively equal distribution



(b) A relatively unequal distribution

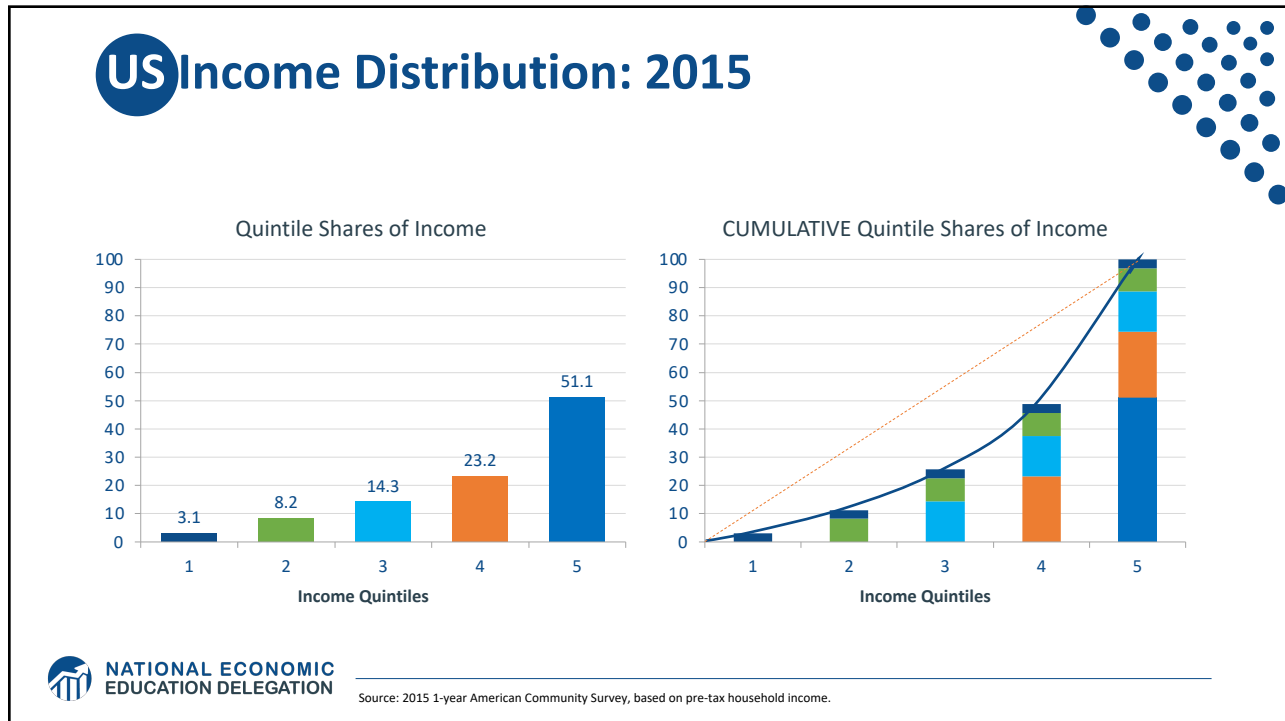
The greater the curvature of the Lorenz Curve, the greater is the degree of income inequality



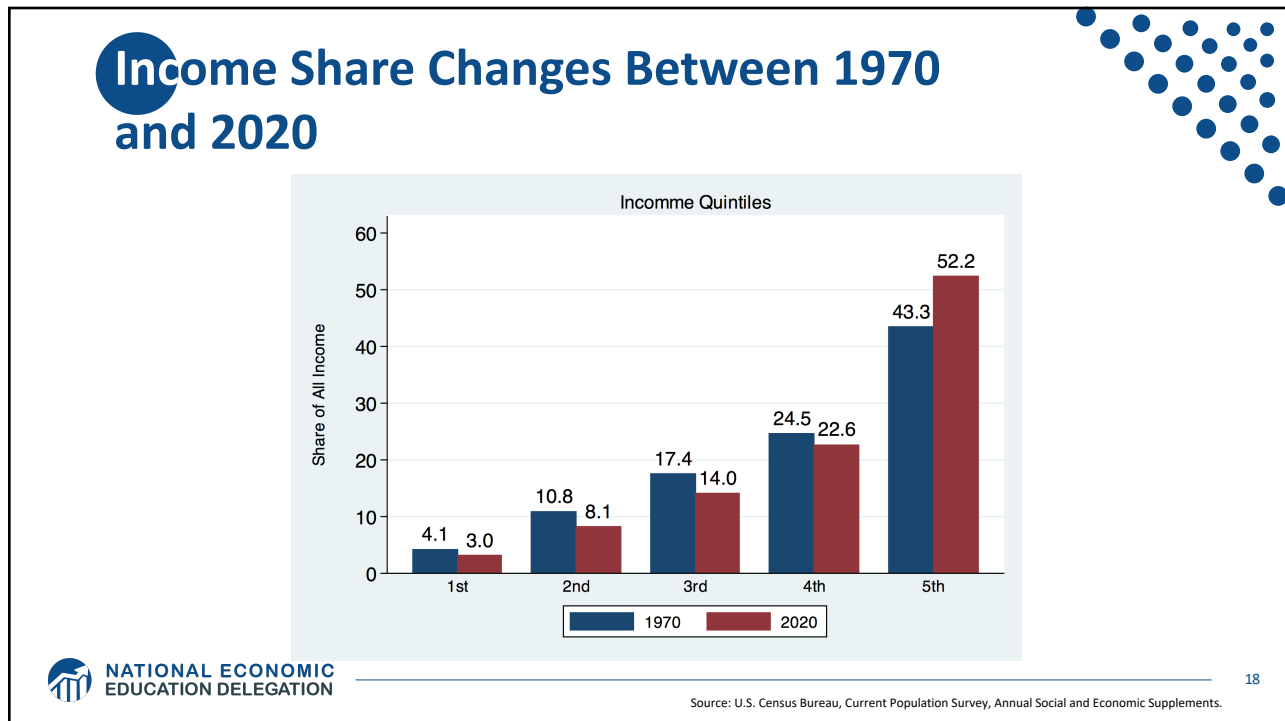
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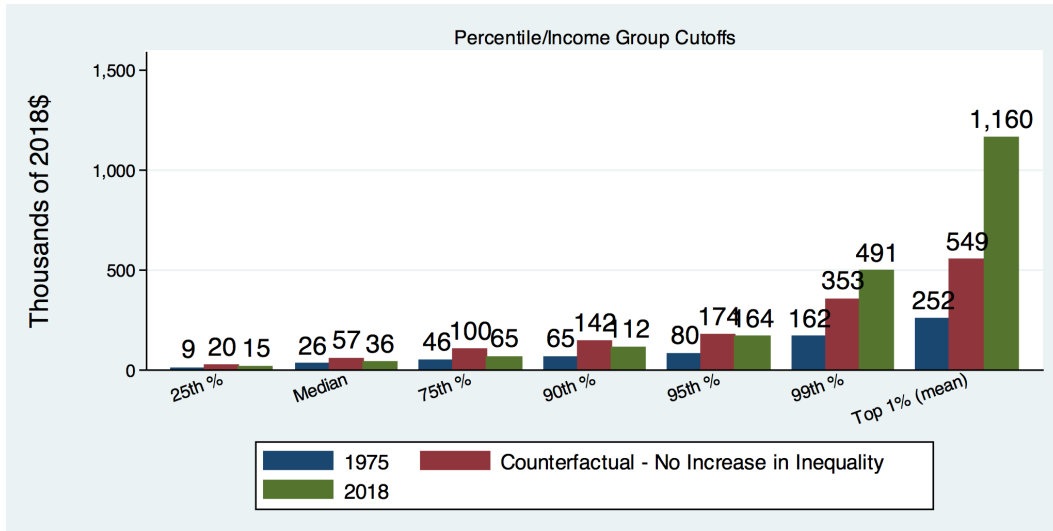


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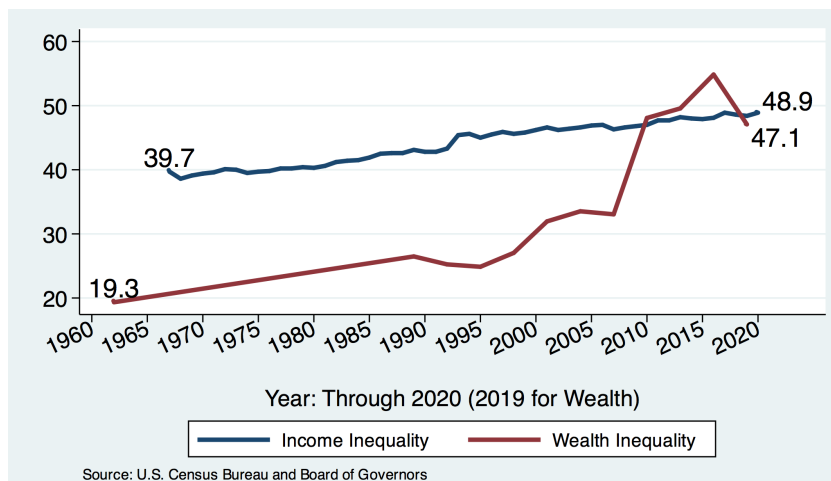
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## How Has Inequality Influenced Incomes?



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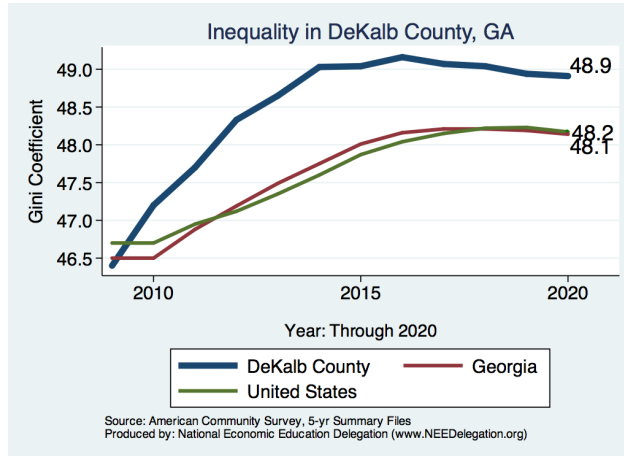
## Income and Wealth Gini Coefficients



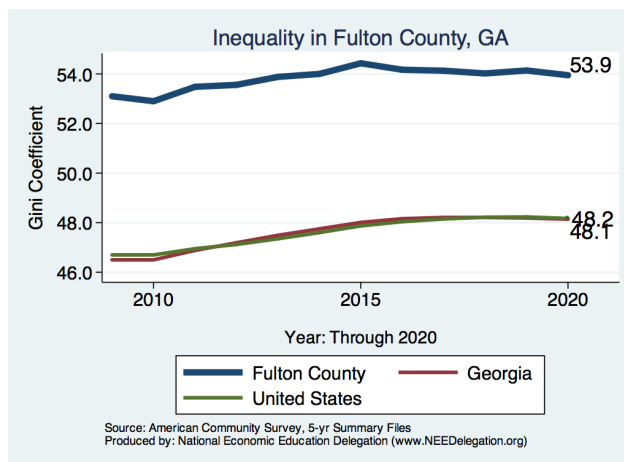
Source: U.S. Census Bureau and Board of Governors

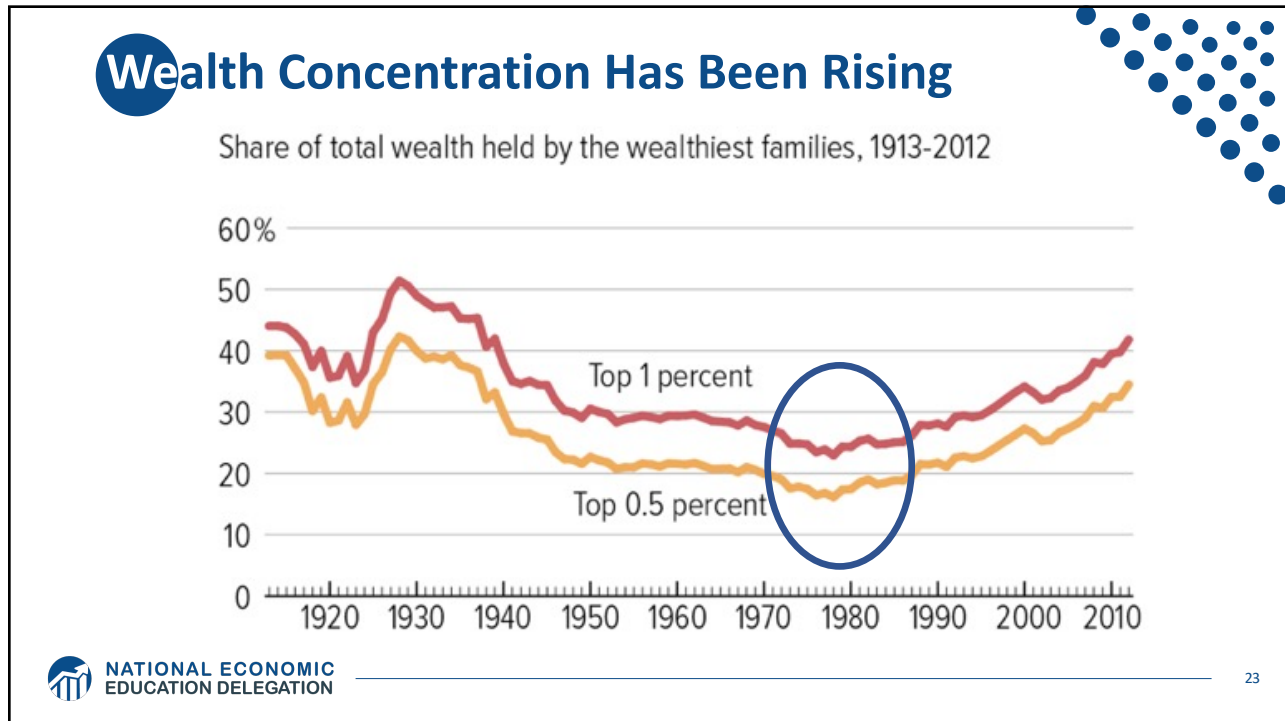
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## Your Local Inequality Trend

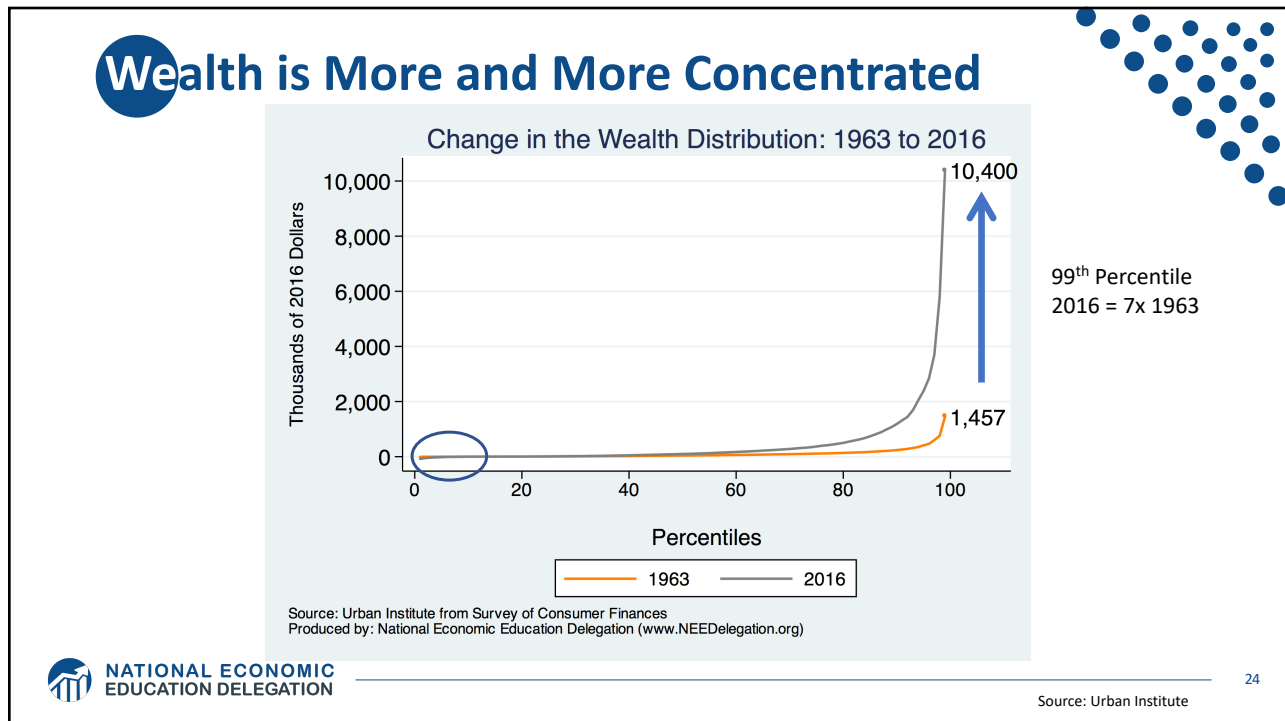


## Your Local Inequality Trend





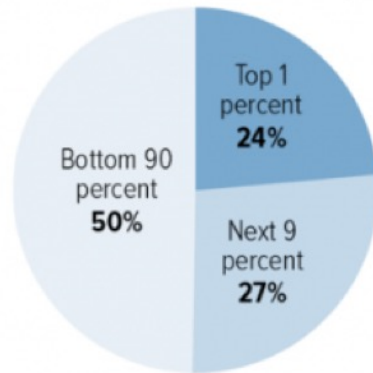
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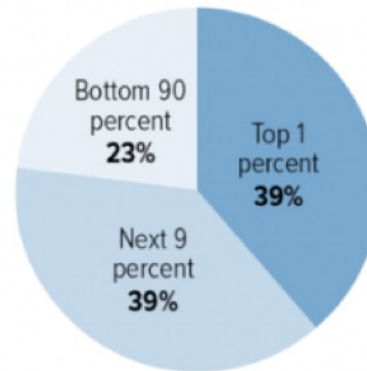
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## Wealth Inequality Exceeds Income Inequality

Distribution of before-tax income, 2016



Distribution of wealth, 2016



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## Where Does Income Inequality Come From?

### • Labor Characteristics

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

### • 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**

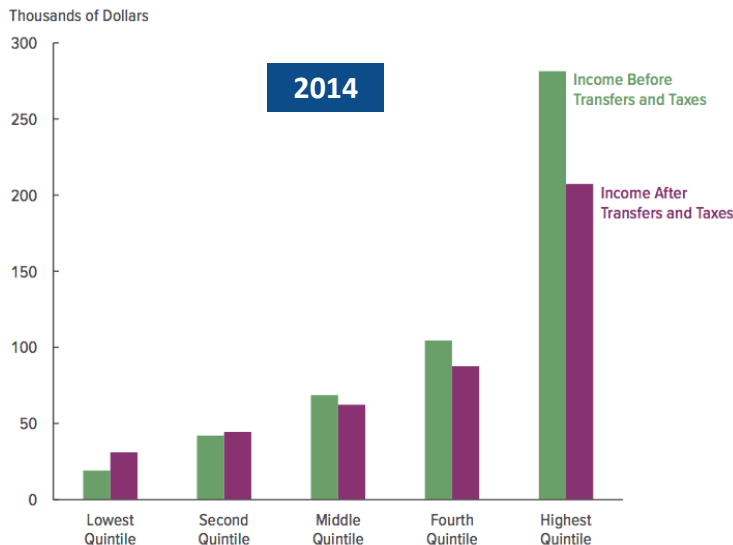
- Characteristics of labor
  - o Access to education
- Effects on labor demand
  - o Market regulation
    - Competition policy
  - o Labor regulations
    - Minimum wage, overtime, health insurance, union regulations, etc.

- **RE-distribution**

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

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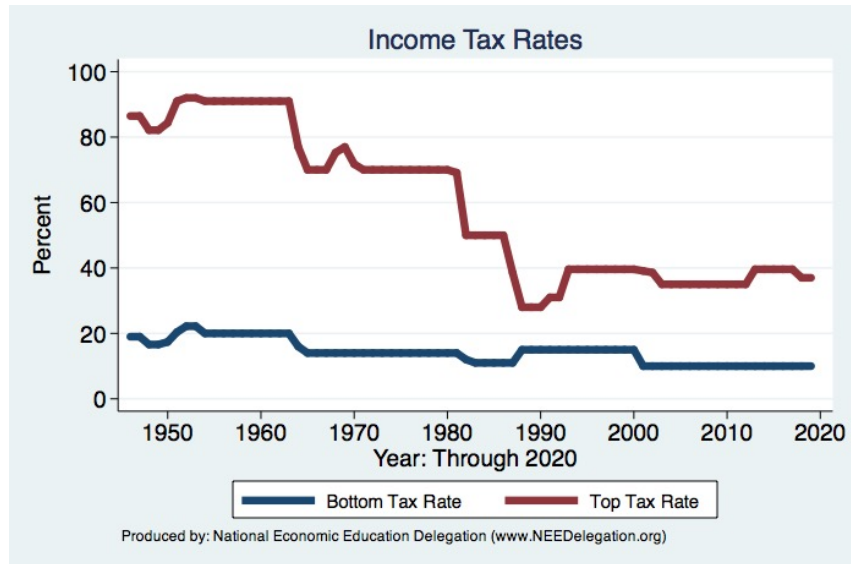
# Tax and Transfer Programs and Inequality



Source: U.S. Congressional Budget Office, "The Distribution of Household Income, 2014", Average Income Before and After Means-Tested Transfers and Federal Taxes, by Income Group, 2014.

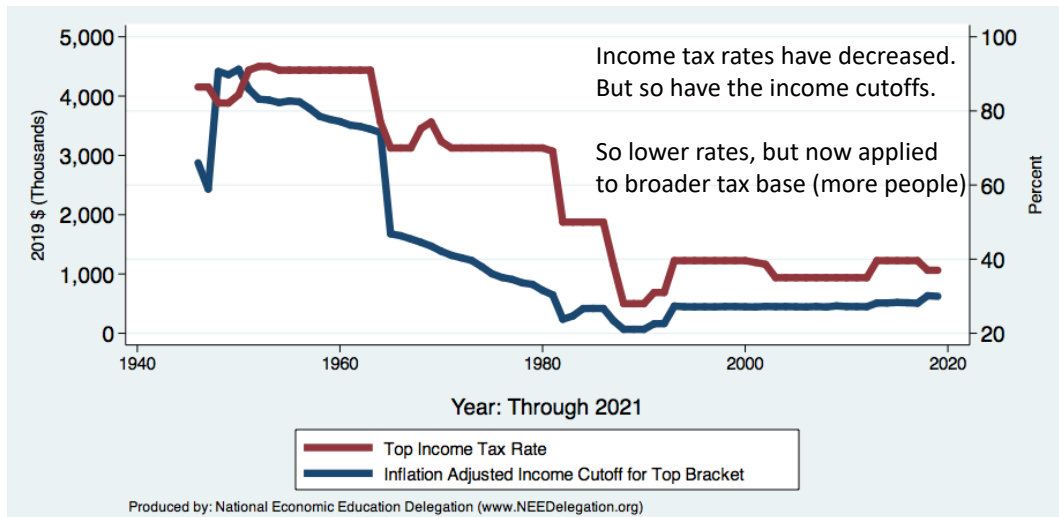
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## Tax Rates Over Time

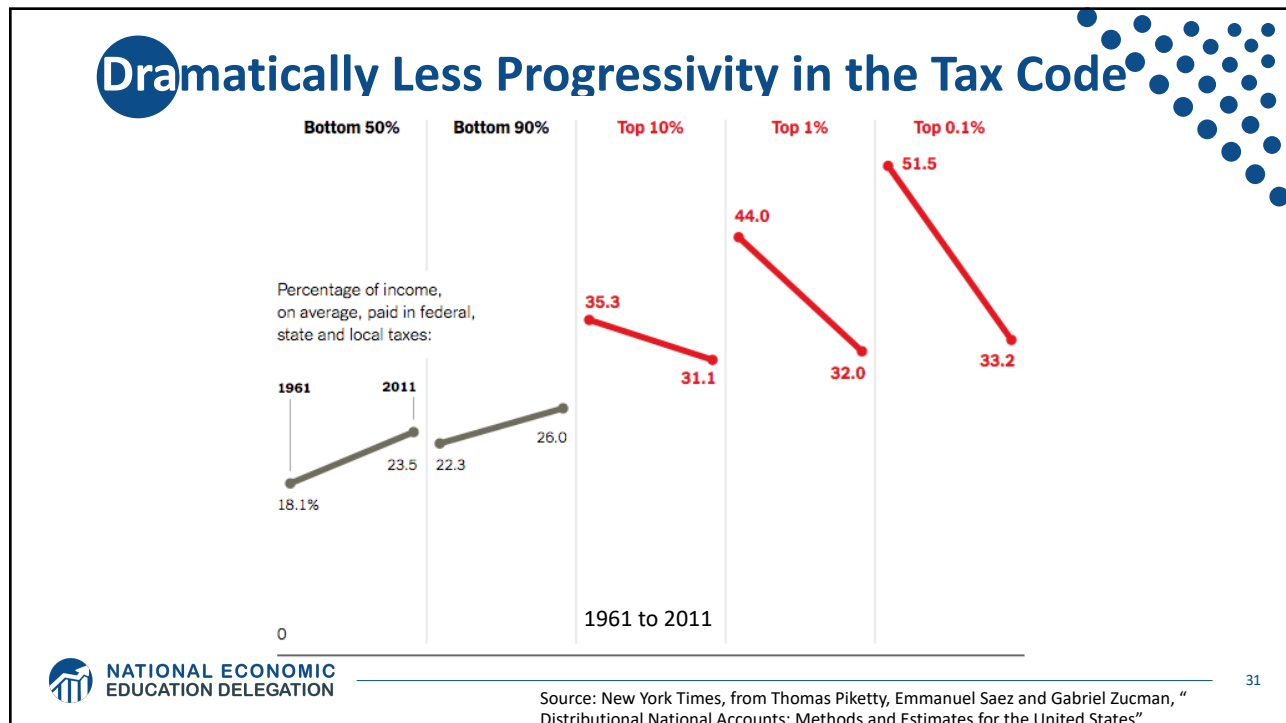


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## The Top Tax Rate and Income Cutoff



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## Market Forces and Inequality

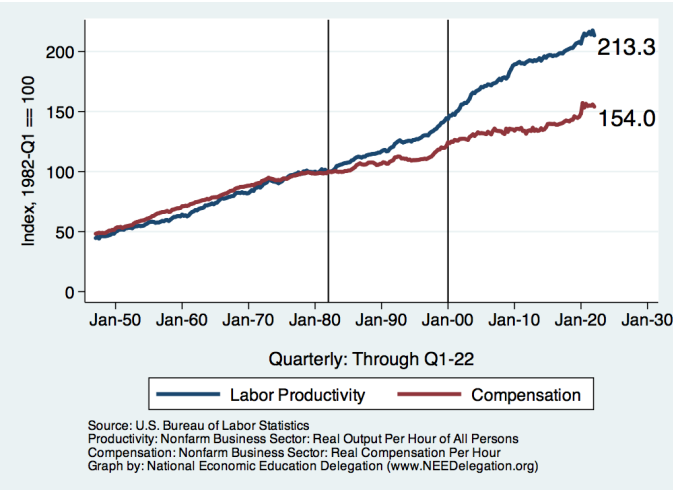
- **Changing demand patterns**
  - Technology and "skill-biased technological change"
  - Increased Trade and Globalization
  - Industry composition
    - PCs instead of typewriters
    - Services instead of goods
    - Professional services instead of personal services
- **Competition in labor markets**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

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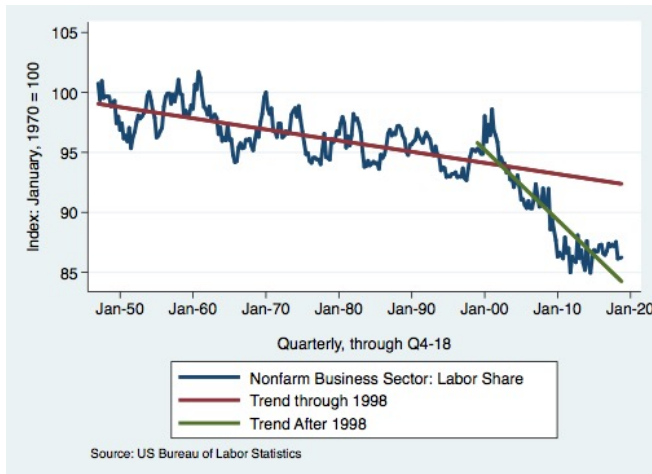
# Labor Income is Unhinged from Productivity



## Why? Some theories:

- Declining unionization
- Competition policy
- More “superstar” firms/workers
- Immigration
- Technological change
- Globalization

# Effects of the Unhinging?



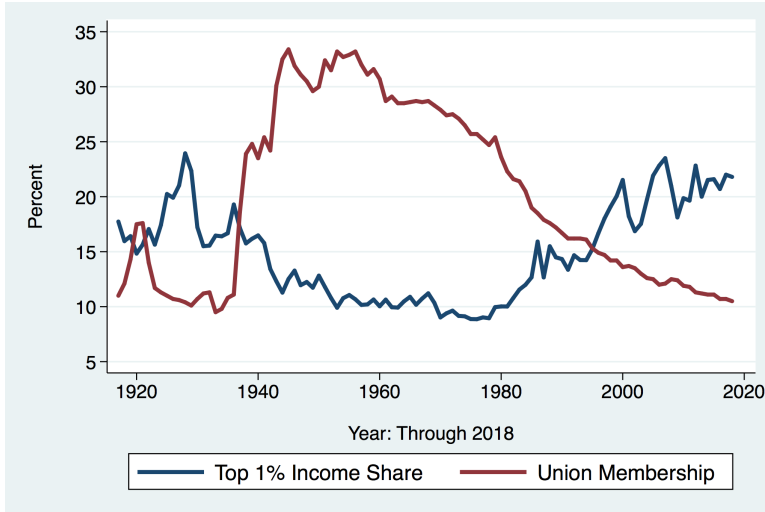
## Labor’s Share of Income

1960: 66%

2011: 56%

2016: 58%

## Declining Unionization



### Unionization Rates

- **1983:** 20.1%
- **2021:** 10.3%

### Unionization Rates

- **Public:** 33.9%
- **Private:** 6.1%



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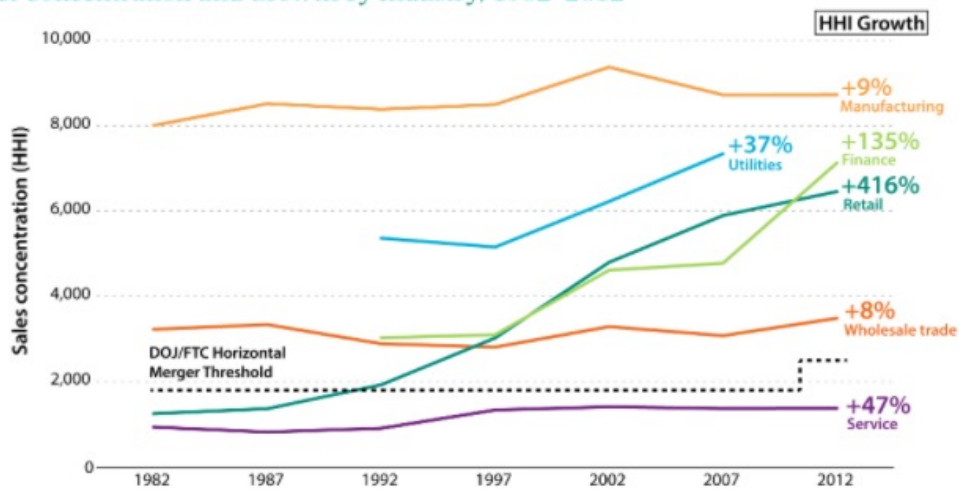
Source: <https://inequality.org/facts/income-inequality/>, Bureau of Labor Statistics and Emmanuel Saez, University of California, Berkeley

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## Growing Concentration within Industries

Market Concentration and Growth by Industry, 1982–2012

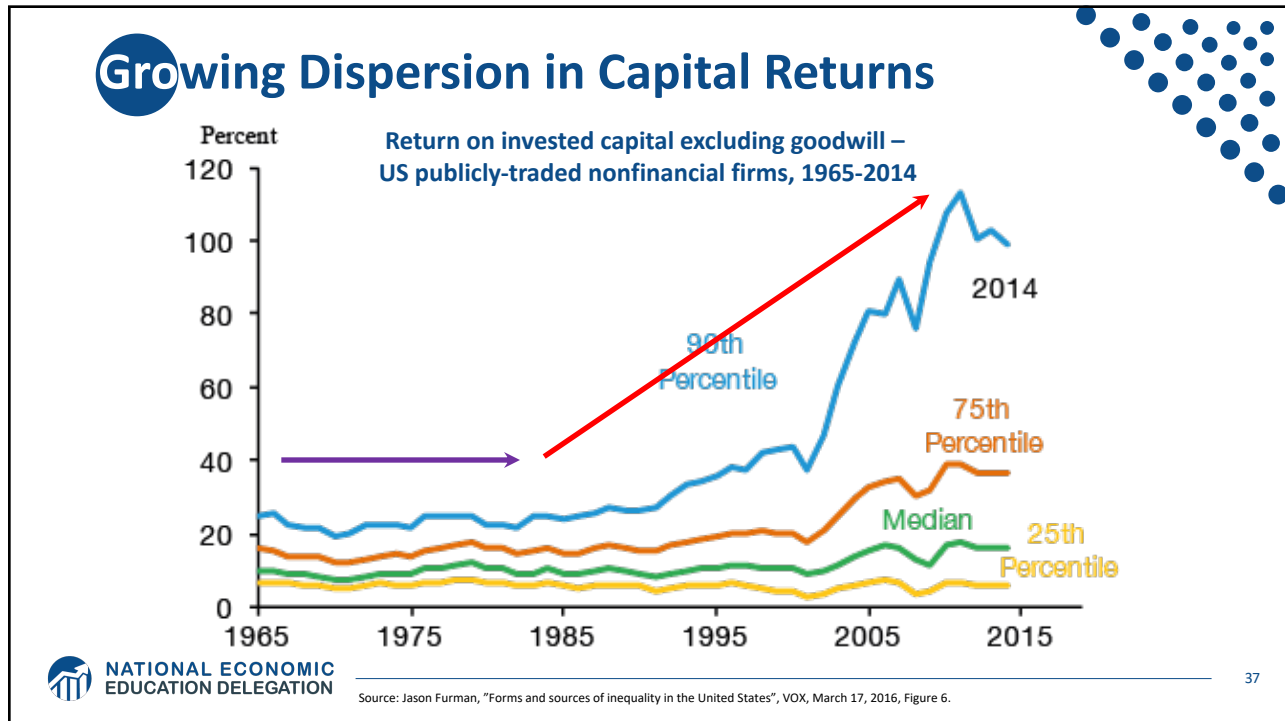


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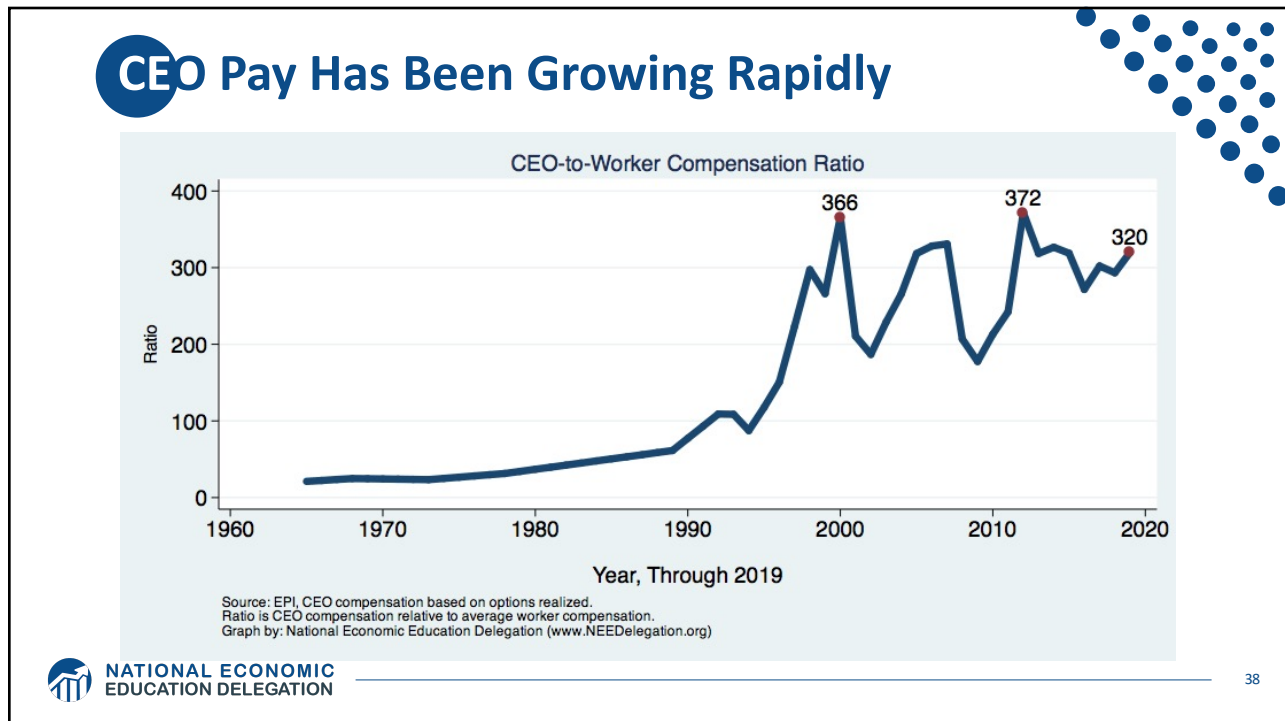
Source: The Hamilton Project, Brookings: The State of Competition and dynamism.

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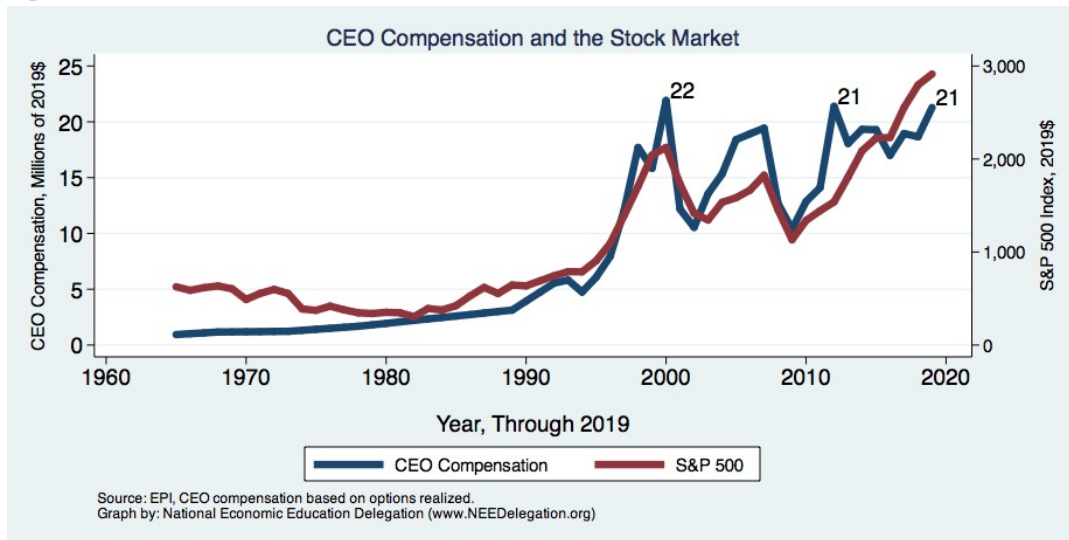


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## CEO Compensation – Tied to Stock Prices



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## Immigration and Inequality

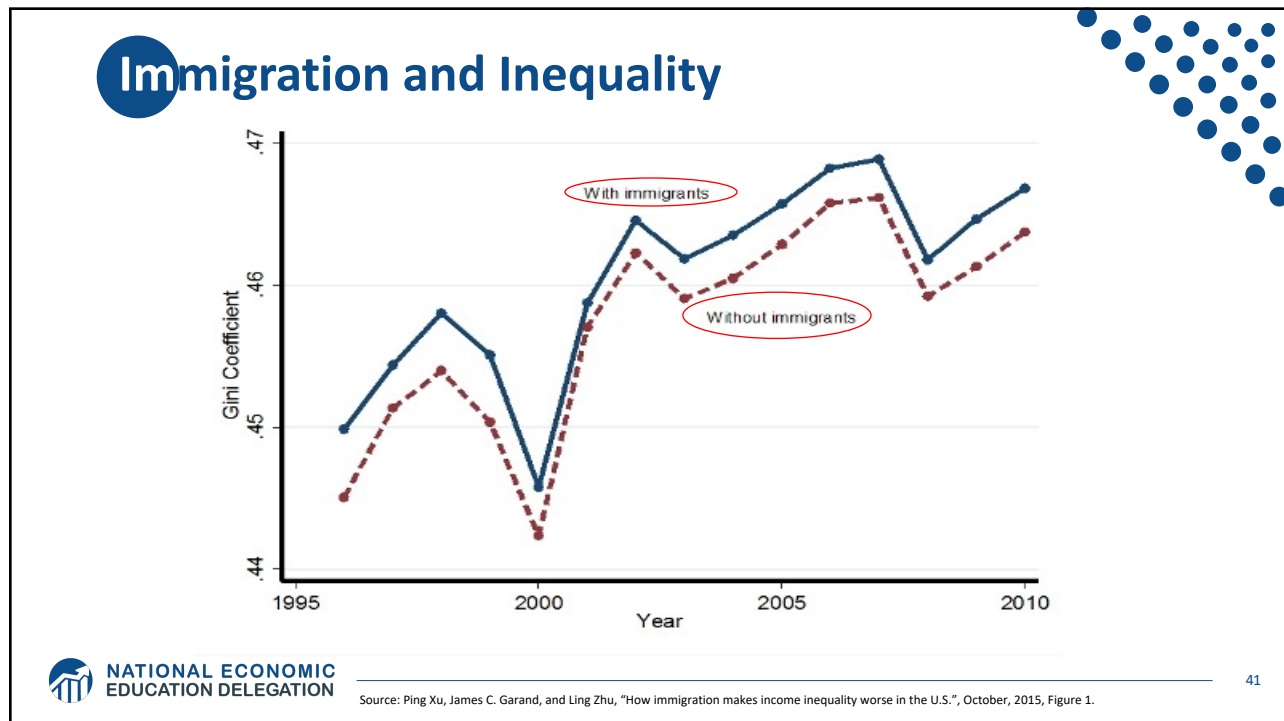
- **Beginning in about 1970, the immigrant share of the U.S. Population increased dramatically.**
  - 5% in 1970 and 14% in 2016
- **Immigration tends to happen most often among:**
  - Low-skilled low-wage workers
  - High-skilled high-wage workers
- **Immigration has likely increased income inequality.**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



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## 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.
  - Owners over workers

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## Technology Effects on Low Income Workers



Technology can improve worker productivity and create jobs



But technology can also displace jobs



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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 high-skill workers not immune to effects of globalization



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## What is driving increasing inequality?

- **Primary drivers:**
  - Technological change
  - Increased globalization and trade
  - Institutions and policy choices
- **These drivers can also influence personal choices in ways that affect measured income inequality.**
  - For example, educational choices or labor force participation



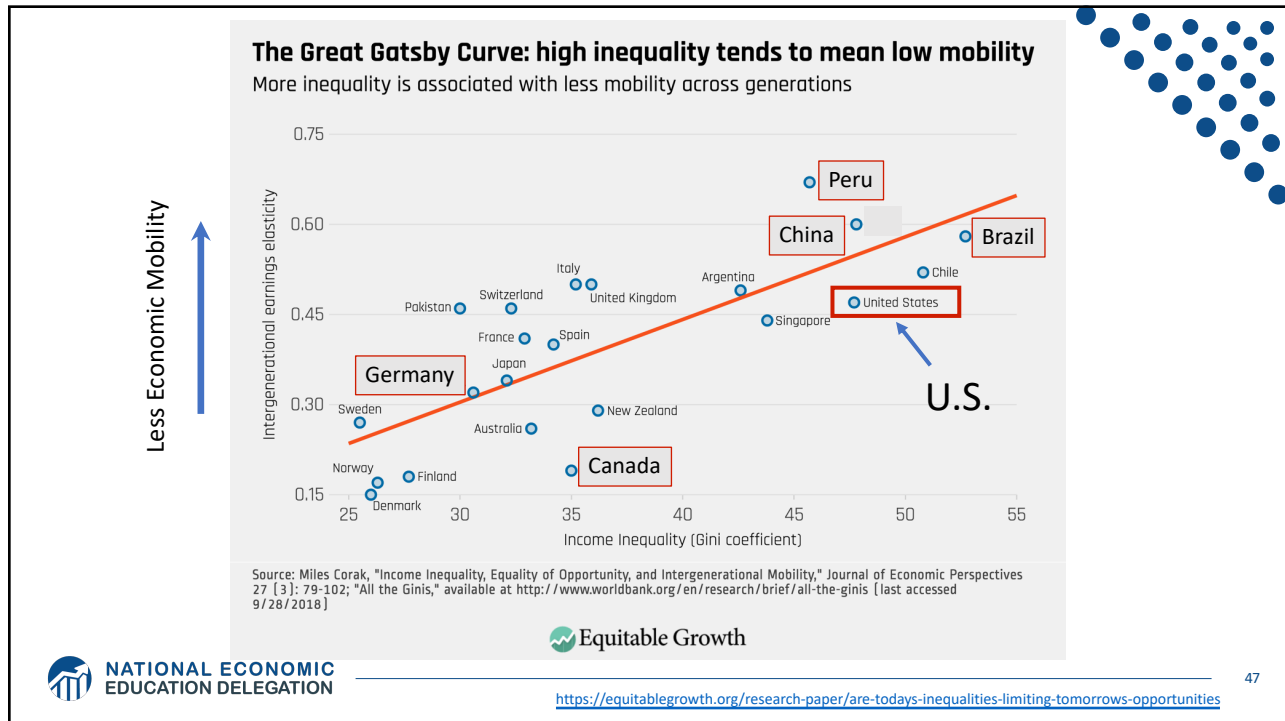
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## Why Does Inequality Matter?

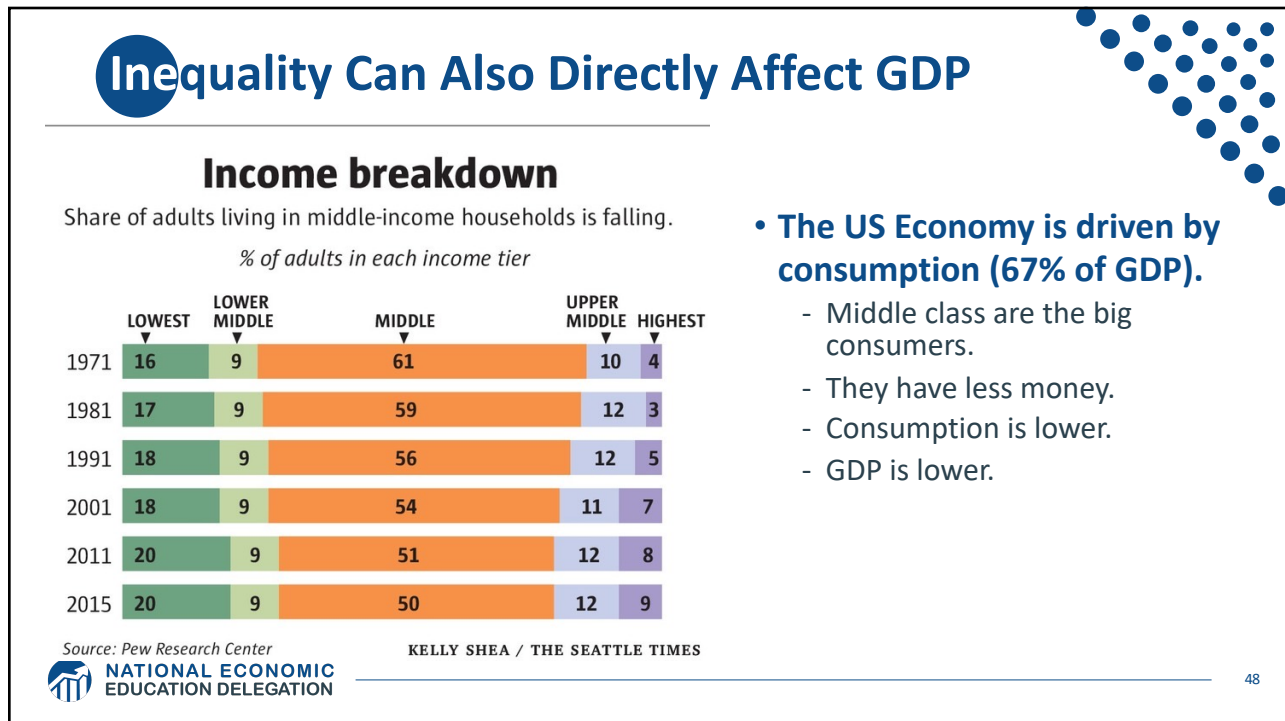
- **Too little inequality can:**
    - Reduce individual motivation
    - Slow economic growth
  - **Too much inequality can:**
    - Reduce individual motivation
    - Slow economic growth
- 
- **Too much inequality may also:**
    - Divide society
    - Distort political environment
    - Reduce political participation
    - Affect public goods spending and distribution
      - Education
      - Environmental protections



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## Addressing Inequality: Long Term

- **It's all about access to resources:**

- Improve public education and reduce quality disparities across schools
- Improve counseling - paths to higher ed and funding for low-income students
- Invest in early childhood education, not later (e.g. universal pre-k)
- Promote opportunities for wealth-building
- Increase housing supply, especially in high-price, high-opportunity cities

- **Focus on most affected groups:**

- Mentoring programs for minority youth
- Programs to address racial bias and discrimination in work and criminal justice
- Efforts to desegregate and facilitate greater interaction across racial groups

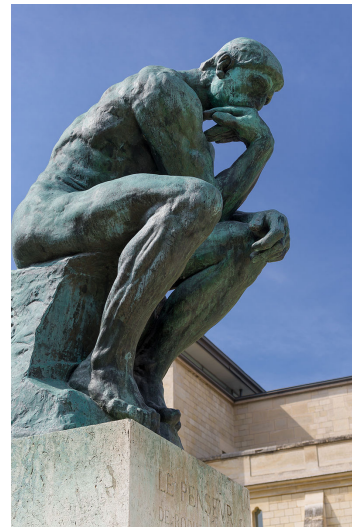


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## What to do About Inequality?

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



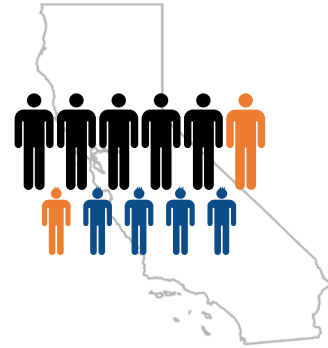
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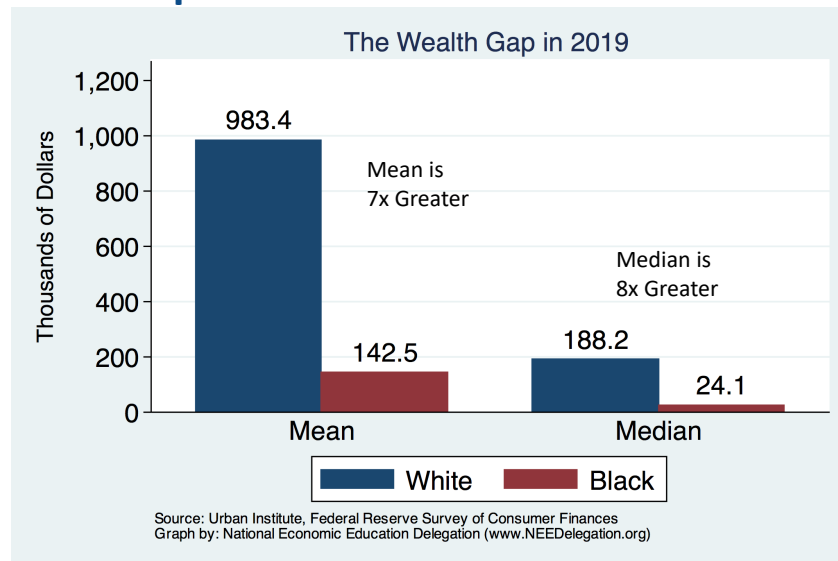
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## Summary

- **Income inequality is clearly increasing.**
  - Owners of productive resources seeing greater income growth than workers reliant on labor income only.
- **The causes appear to be largely driven by:**
  - Technology, competition, and trade
  - Institutions and public policies
- **Open questions are:**
  - To act or not to act?
  - If so, how?
- **The level of inequality is a policy choice necessarily involving complex tradoffs.**



## B-W Wealth Gap: Jon Haveman



**Thank you!**

## Any Questions?

[www.NEEDelegation.org](http://www.NEEDelegation.org)

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## Extra Slides

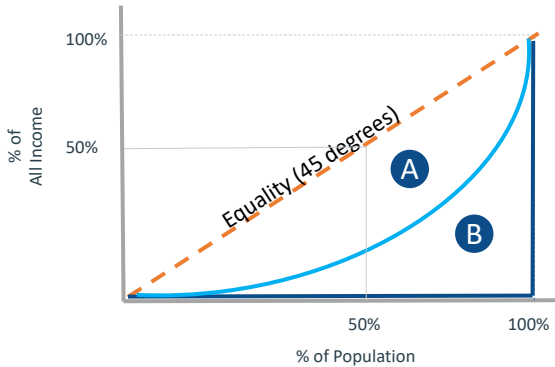


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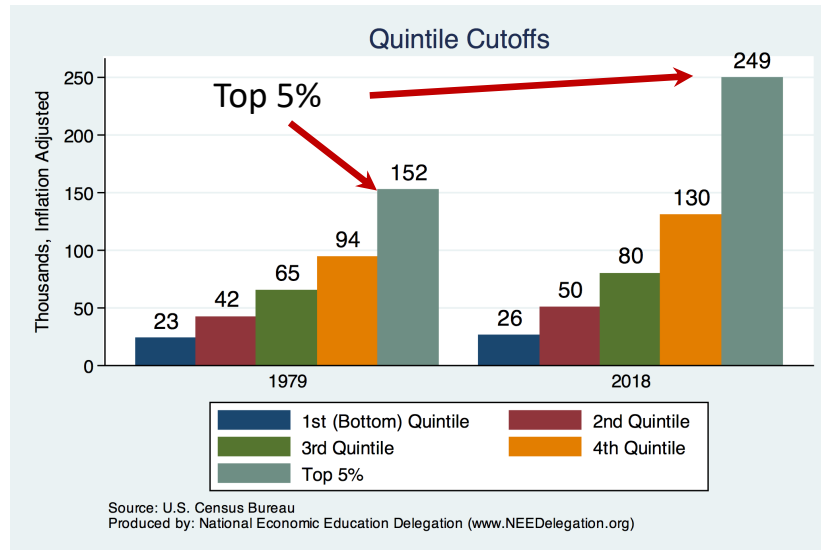
# Calculating the Gini Coefficient



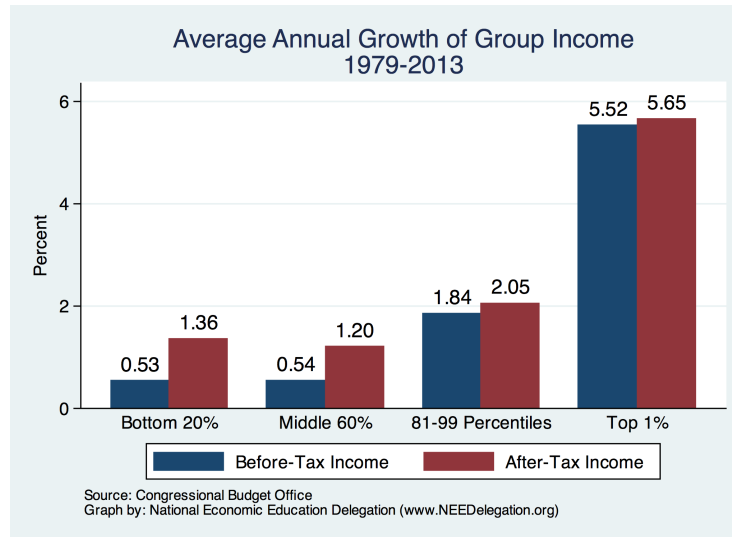
$$\text{Gini} = \frac{A}{A + B}$$

Bigger A: More inequality  
Smaller A: Less inequality

# Quintile Income Cutoffs



## Growth Has Been Primarily at the Very Top



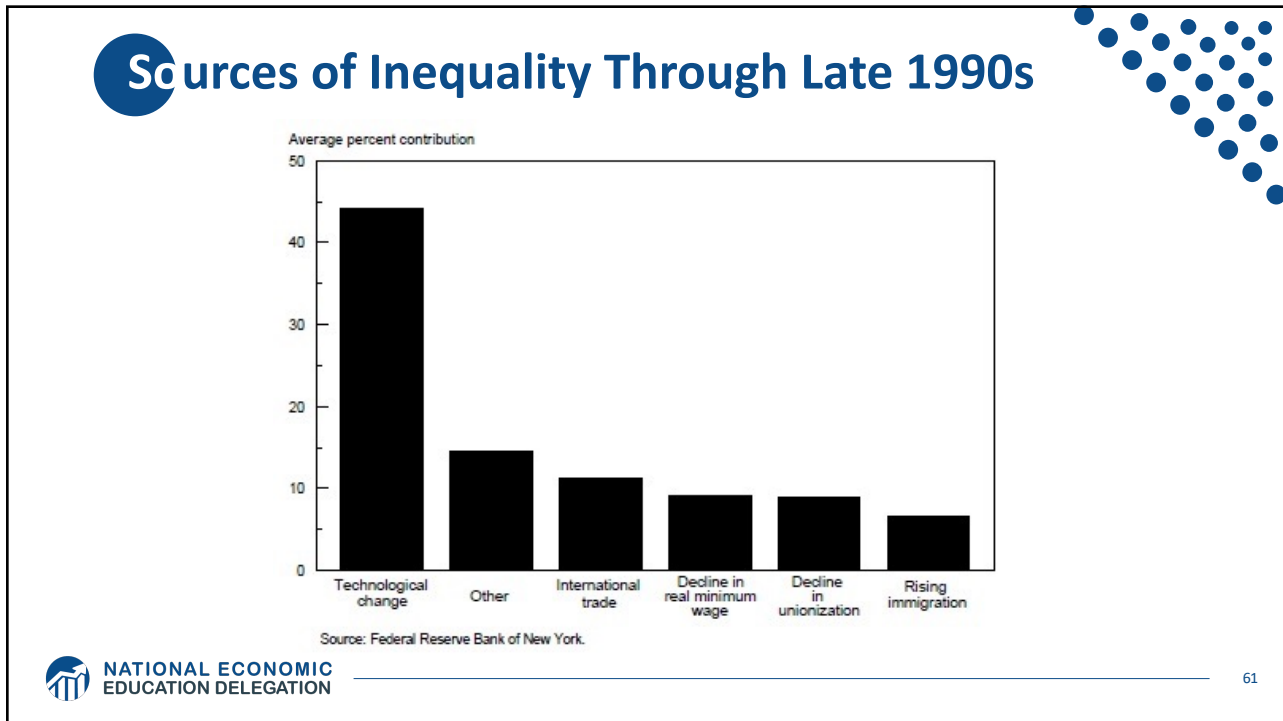
## A Modern Example: Uber & Lyft

### • Ride-Share Technology:

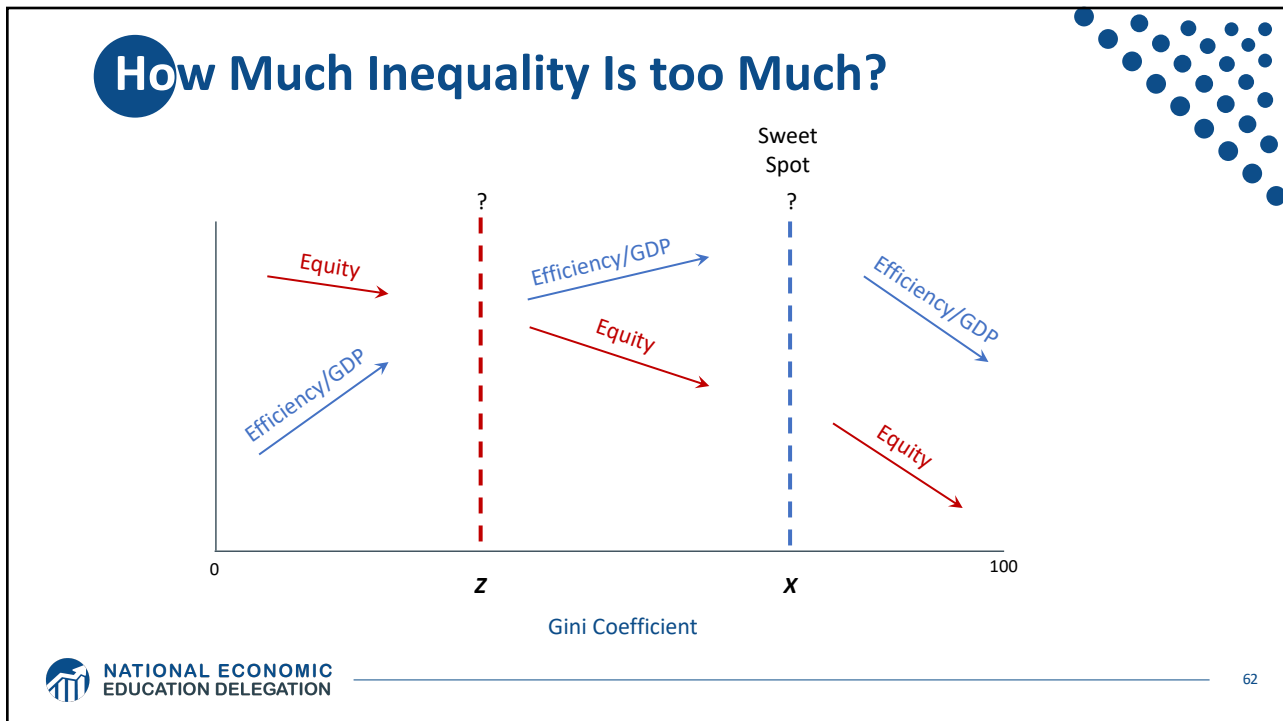
- May be more efficient: less idle time, supplying drivers to meet rider demand
- But may also reduce labor's bargaining power and shift more costs to drivers

### • Other trade-offs and considerations:

- Increased flexibility for drivers (of course, difficult to value)
- Cost and convenience improvements for riders

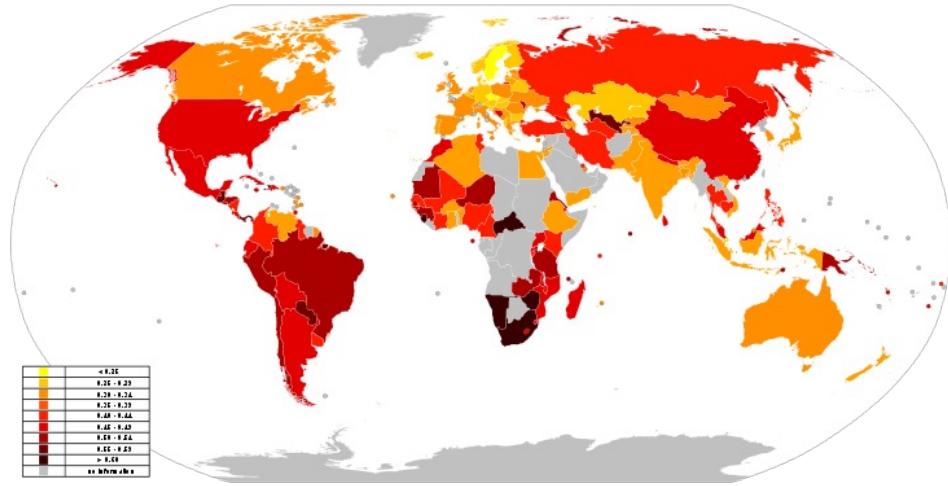


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# An International Perspective



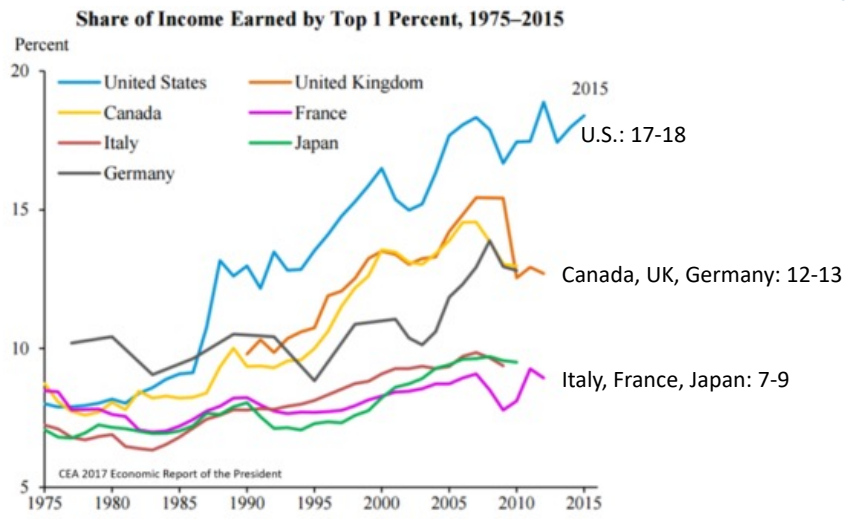
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Source: Data taken from the 2014 CIA World Factbook.

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# An International Perspective: Comparables



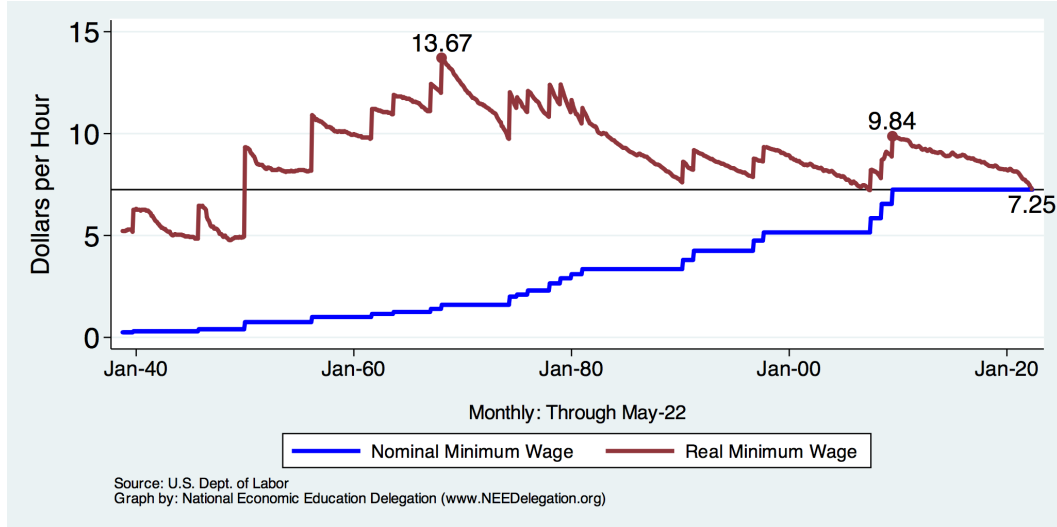
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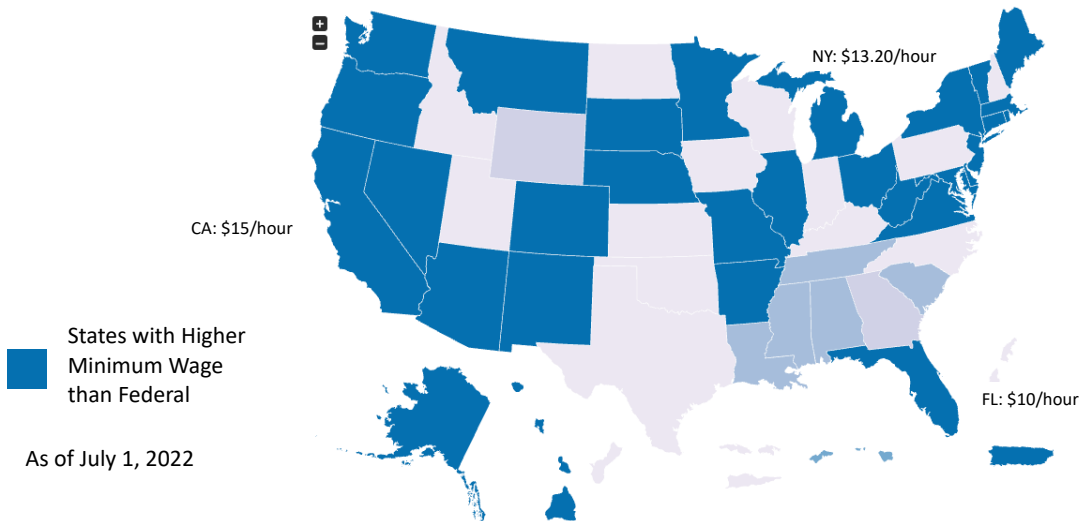


## Historical Values of Minimum Wages



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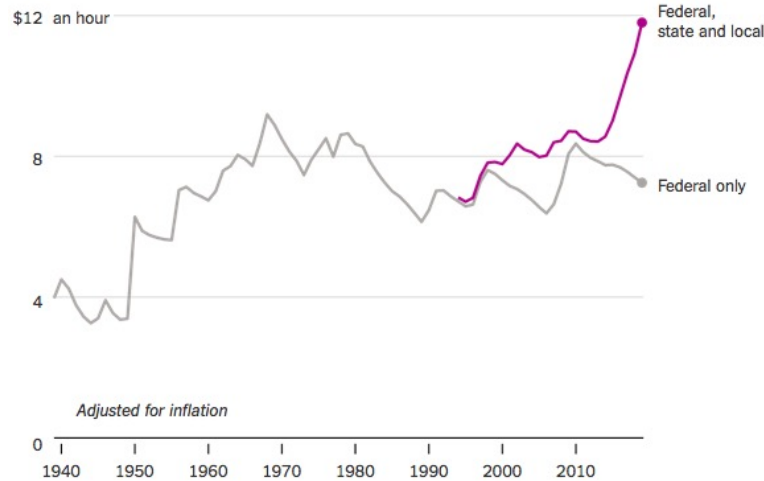
## Many States Have A Higher Min Wage



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## States and Local Gov'ts are Raising Min Wages

The average job at the federal, state or local minimum wage pays almost \$12 an hour.



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## Tension in Policy Solutions

- Is it possible to both increase growth and reduce income inequality?
- **Possibly: equality of access promotes the full resource utilization**
  - Expanding equality of access requires resources, likely from higher income/wealth
- **Possibly: encouraging competition promotes a more efficient economy**
  - Companies with too much market power (monopolies) can stagnate economies



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