


Osher Lifelong Learning Institute
The Economics of Inequality

Olli – Boise State University, Boise, ID
August, 2023

Host: Jon Haveman
National Economic Education Delegation

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- US Economy
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- Federal Budgets
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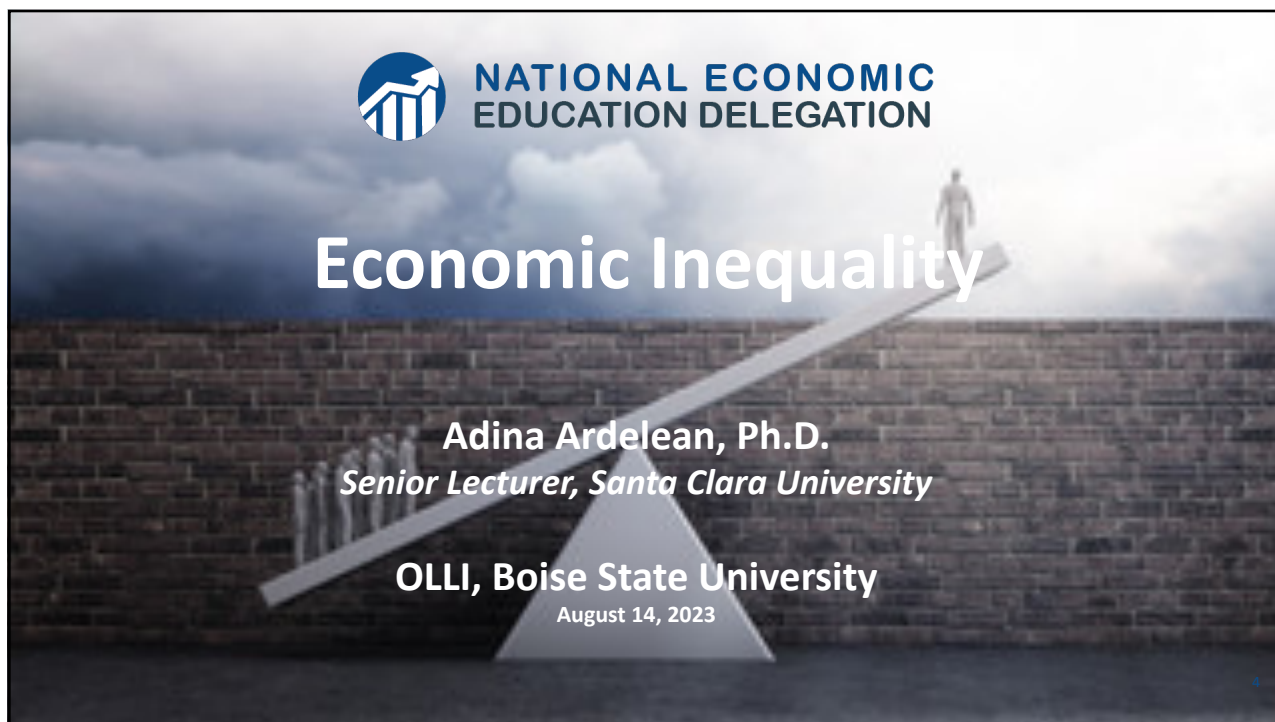
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Submitting Questions

- Please submit questions of clarification in the chat or raise your “digital” hand.
 - I will try to handle them as they come up.
- We will do a verbal Q&A once the material has been presented.
- Slides will be available from the at the course web site later today.
<https://sites.google.com/view/macro-current-issues/home>

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Economic Inequality

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 - Timothy Smeeding, University of Wisconsin
 - Robert Wright, Augustana University
- **Disclaimer**
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Outline

- **Definition**
- **What happened?**
- **Does it matter?**
- **Is it a problem?**
- **What to do about it**



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Income Inequality

- **Definition:**

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



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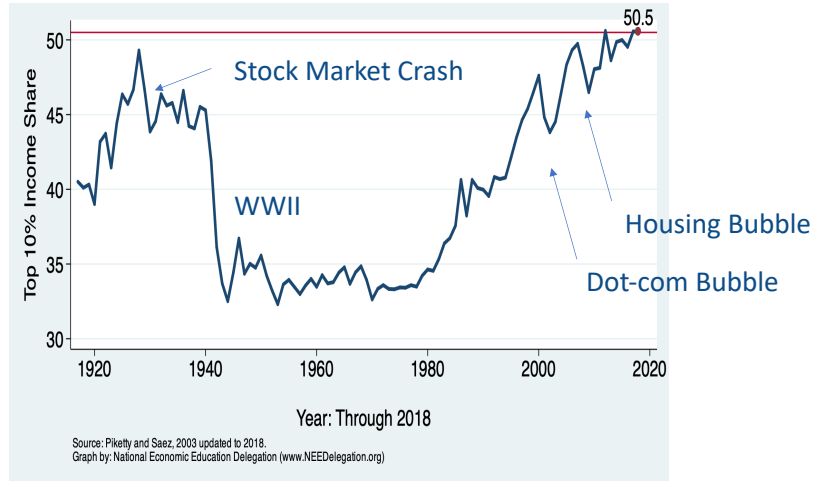
Different Ways of Thinking About Inequality

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



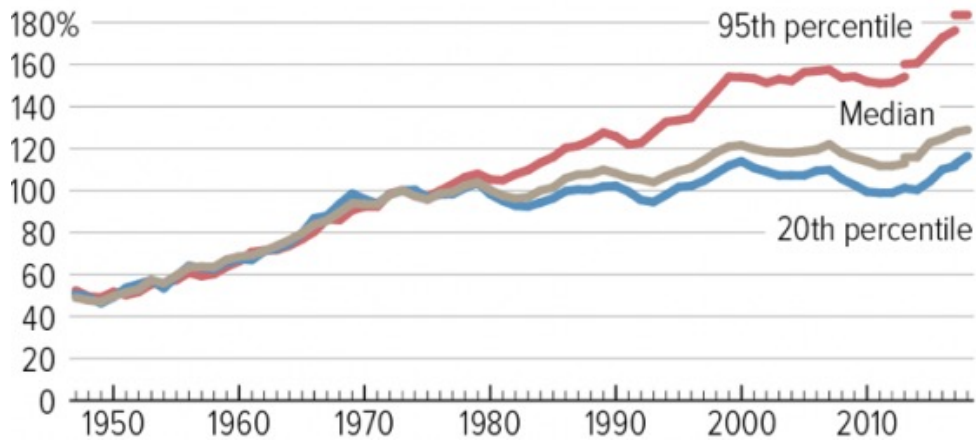
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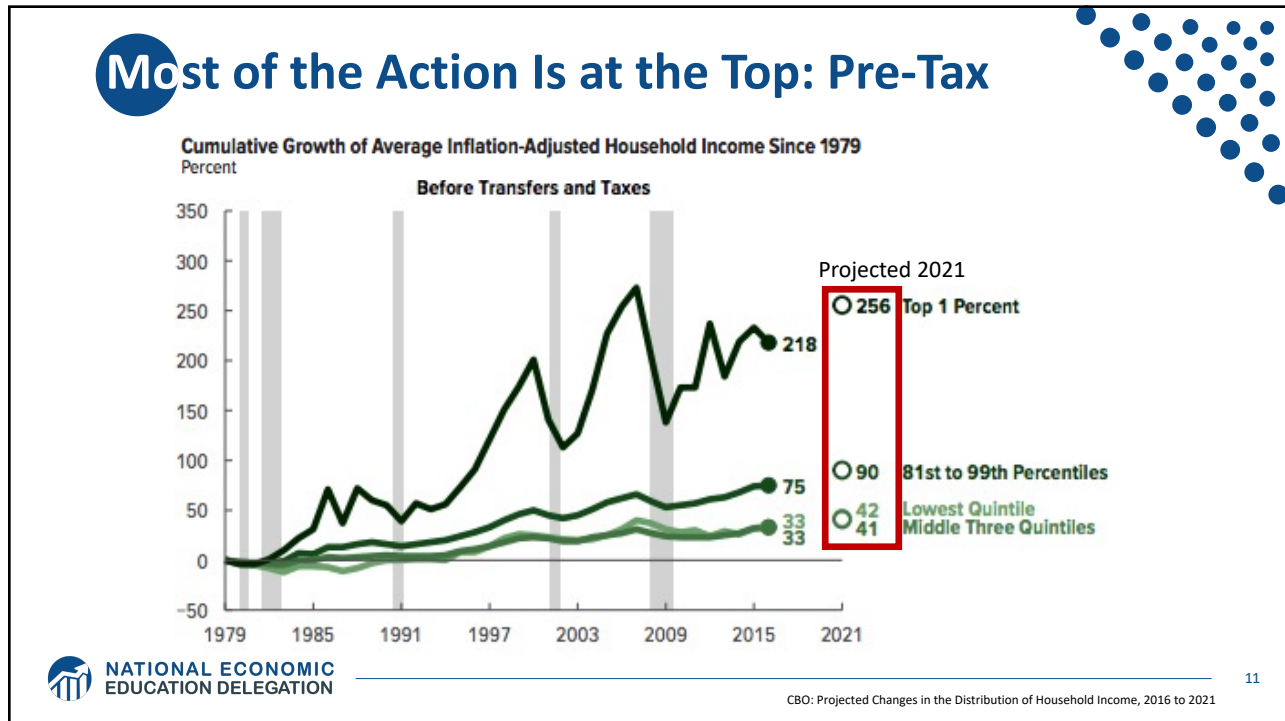
National Income Inequality: Share of Top 10%



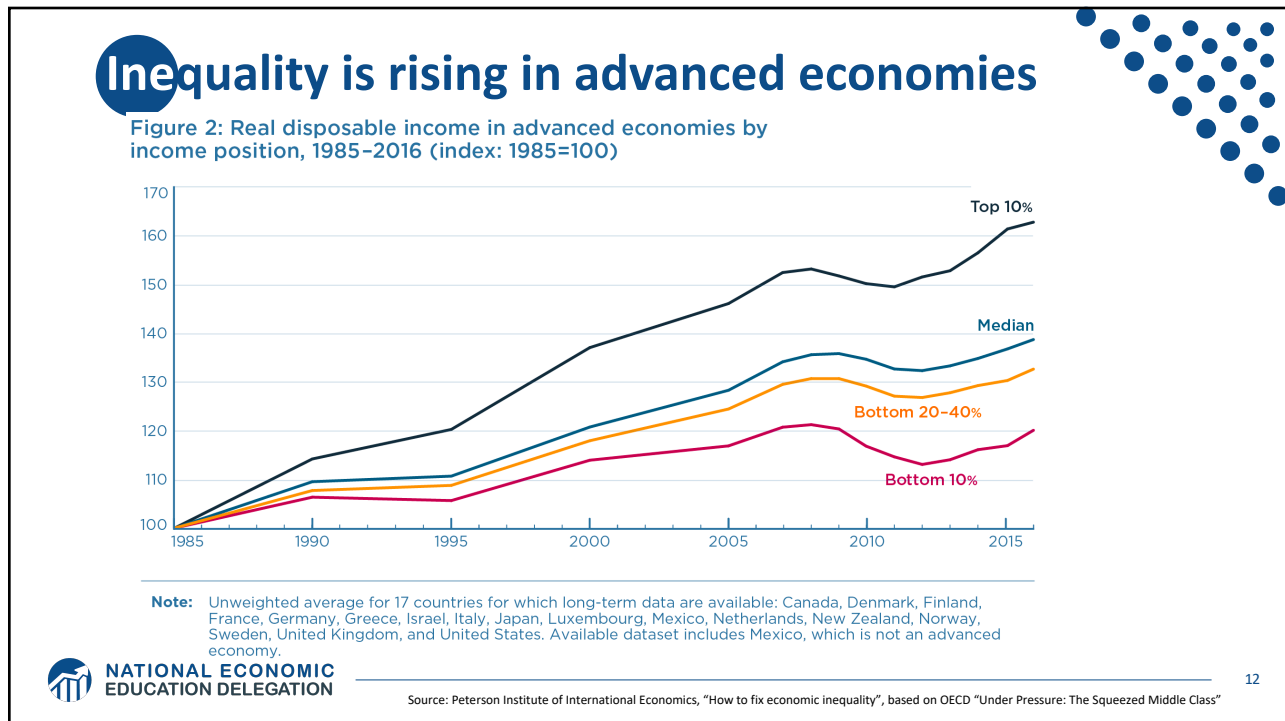
The Abrupt Increase in Inequality

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





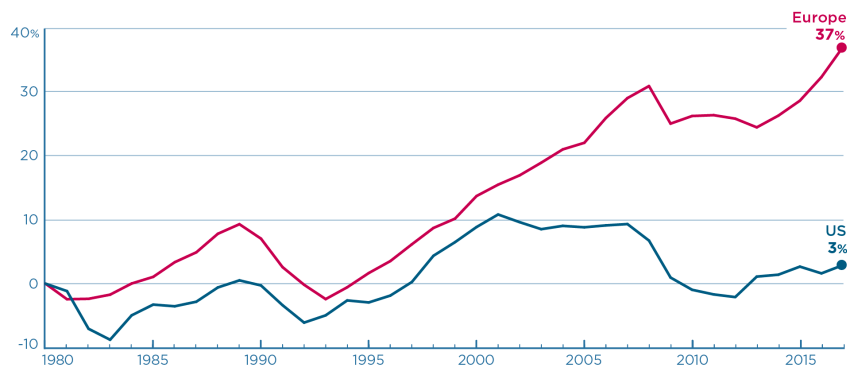
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The bottom half of workers: the U.S. vs. Europe

Figure 3: Average pretax income growth of bottom 50 percent of population relative to 1980



Note: Data for Europe refer to 38 European nations.

Sources: Chancel (2019) based on Blanchet, Chancel, and Gethin (2019); Piketty, Saez, and Zucman (2018).



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Source: Peterson Institute of International Economics, "How to fix economic inequality"

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Gini Coefficient

- Another 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
 - In practice:
 - 0.5 – 0.7 – highly unequal
 - 0.2 – 0.35 – relatively equal



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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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Forming the GINI Coefficient: 2015

Quintile Shares of Income

Income Quintile	Share of Income (%)
1	3.1
2	8.2
3	14.3
4	23.2
5	51.1

CUMULATIVE Quintile Shares of Income

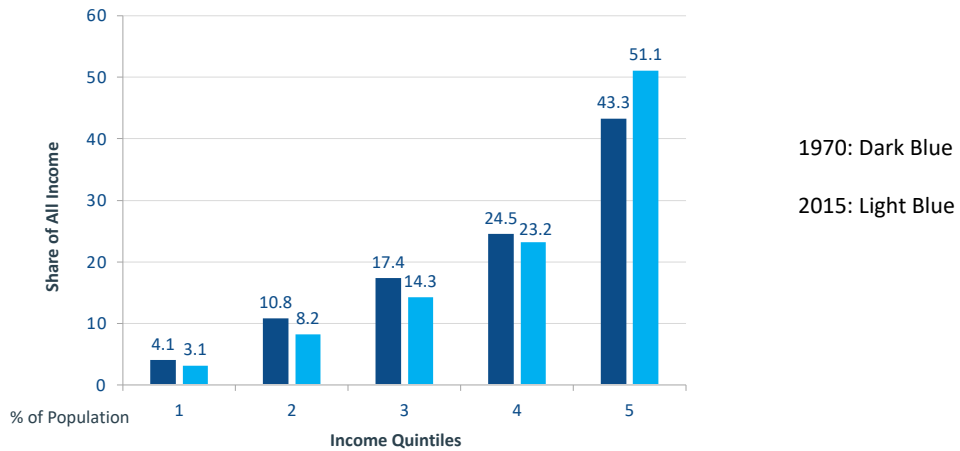
Income Quintile	Cumulative Share of Income (%)
1	3.1
2	11.3
3	25.6
4	48.8
5	100.0

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Source: 2015 1-year American Community Survey, based on pre-tax household income.

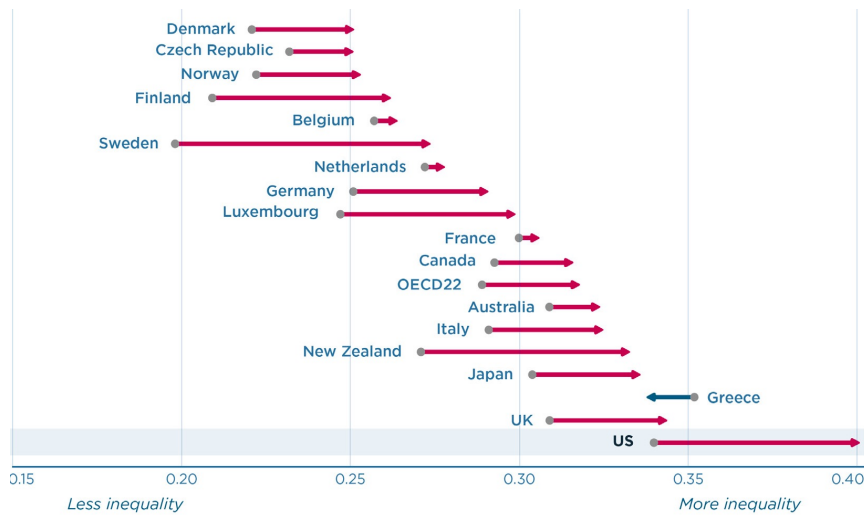
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Income Share Changes Between 1970 and 2015

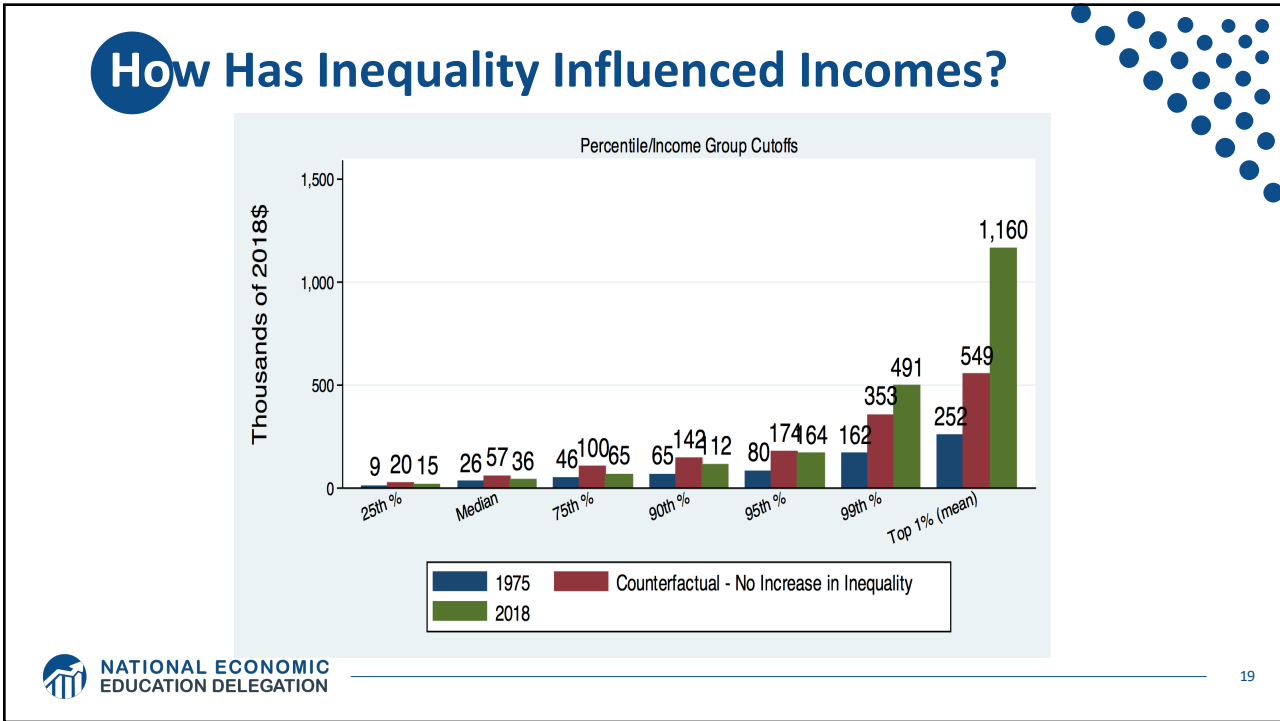


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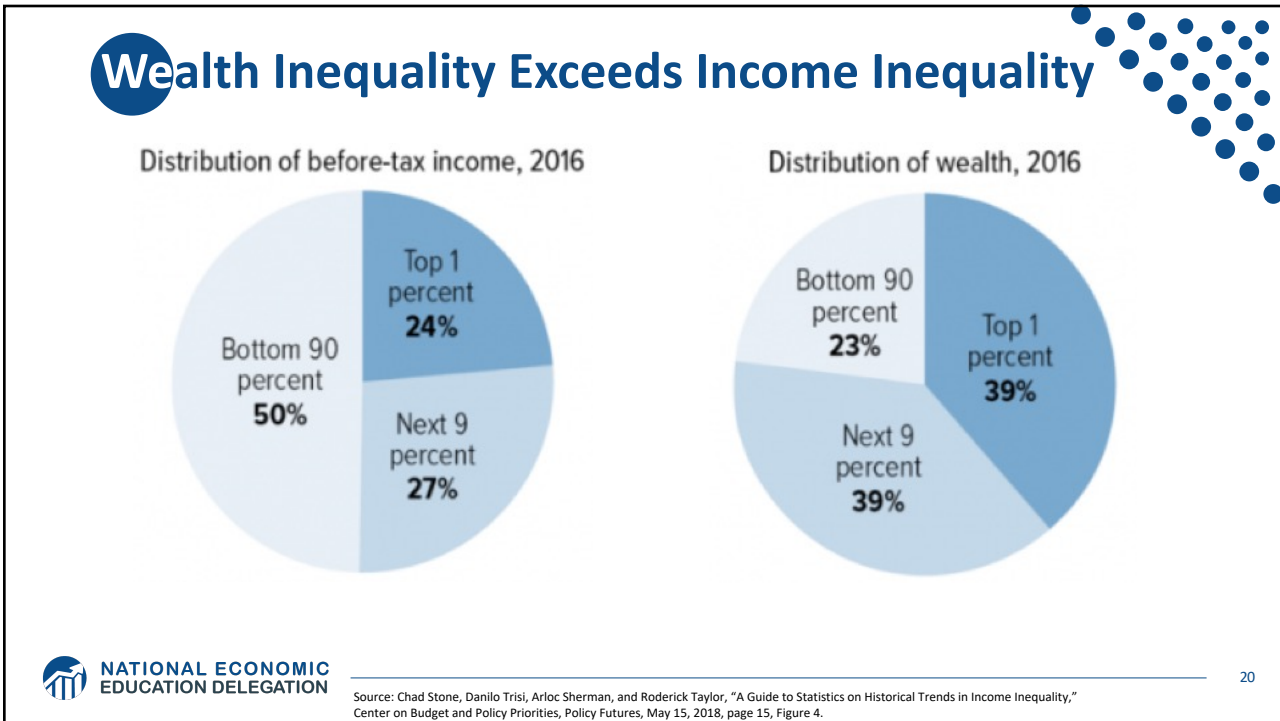
The Gini Coefficient, 1985-2013



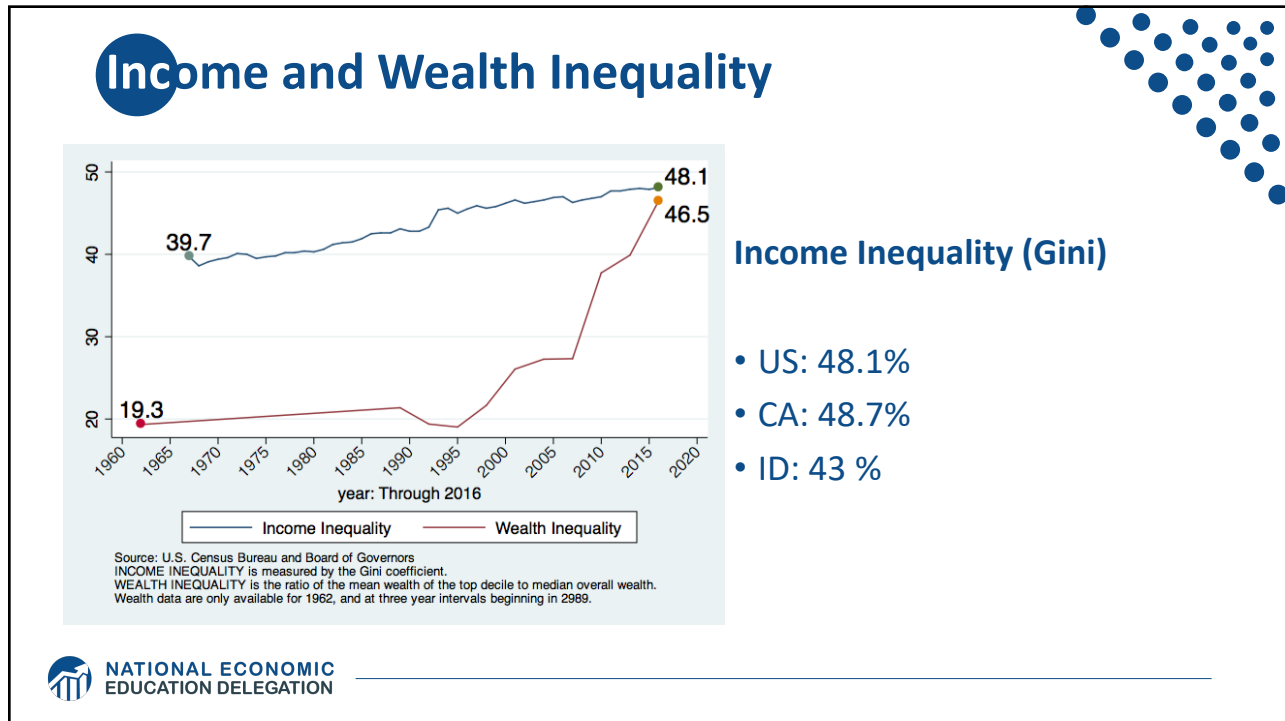
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Outline

- Definition
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Where Does Inequality Come From?

• Labor Characteristics

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

• Market Forces

- Technology
- Globalization
- Competition for labor

• Government Policy

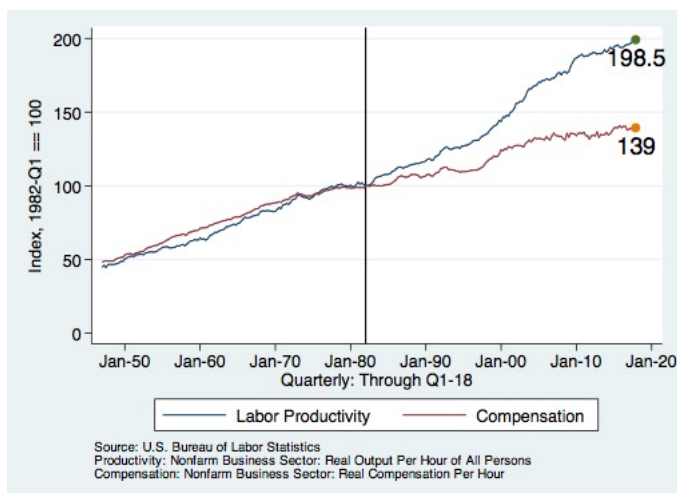
- Market influence
- Redistribution



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Labor Income is Unhinged from Productivity



Why?

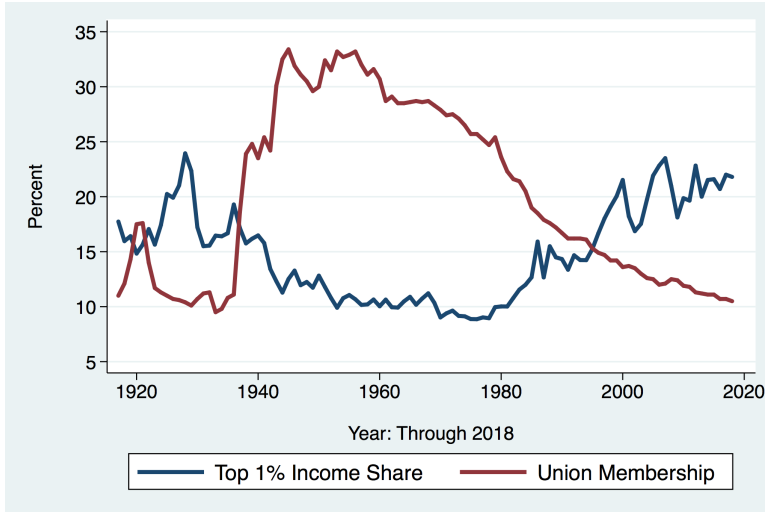
- Declining unionization
- Competition policy
- Immigration
- Globalization
- Cheap technology



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Declining Unionization



Unionization Rates

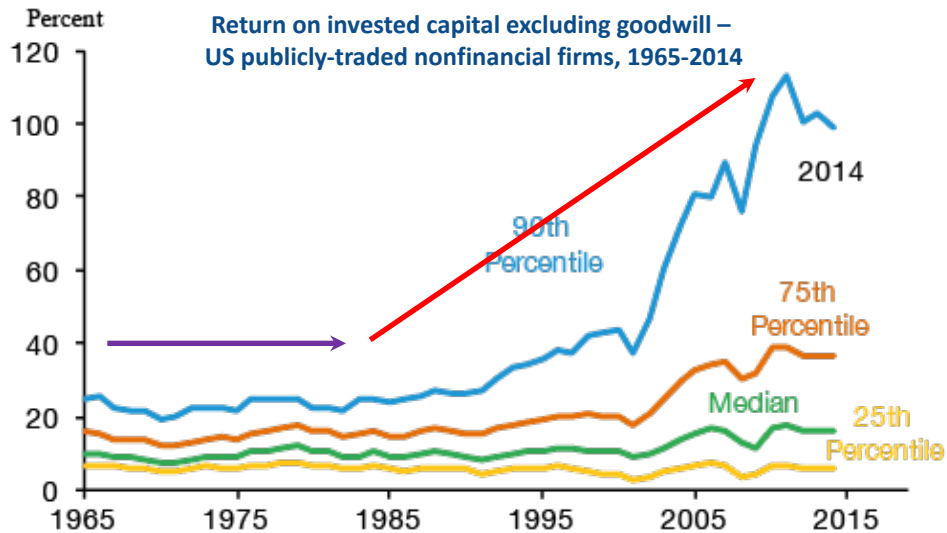
- 1983: 20.1%
- 2020: 10.8%

Unionization Rates

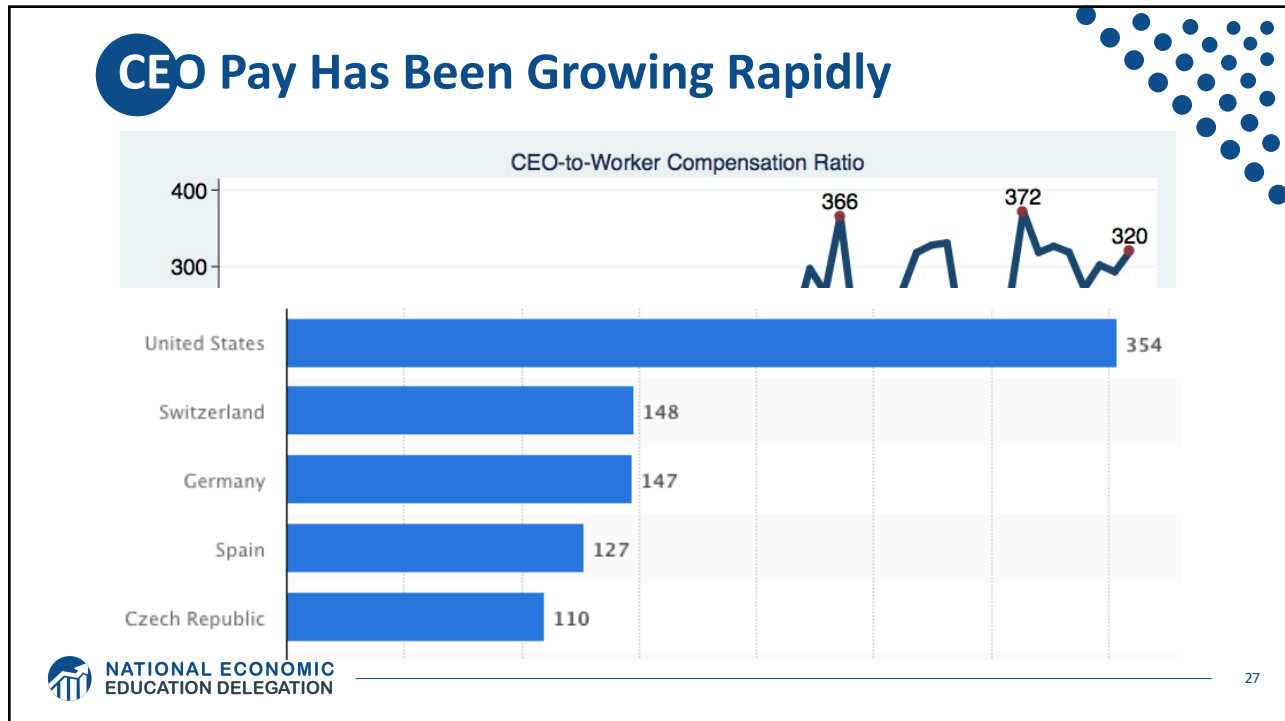
- Public: 34.8%
- Private: 6.3%

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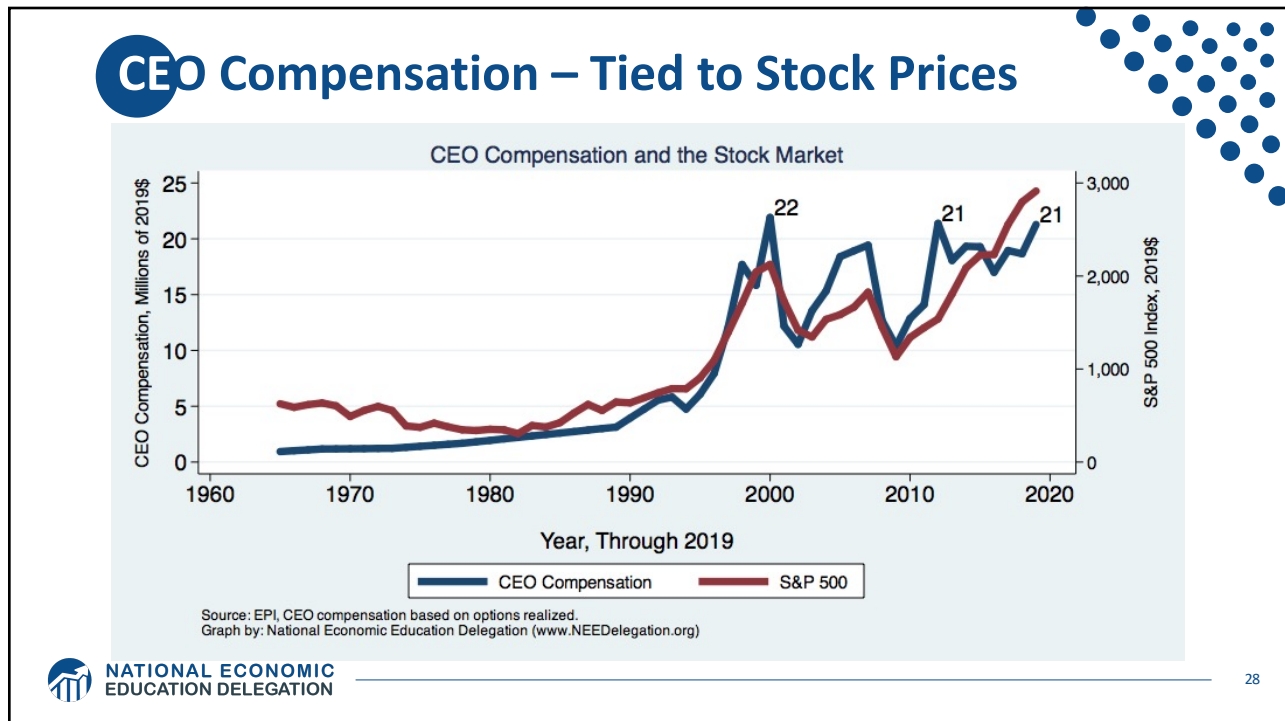
Competition in the Economy



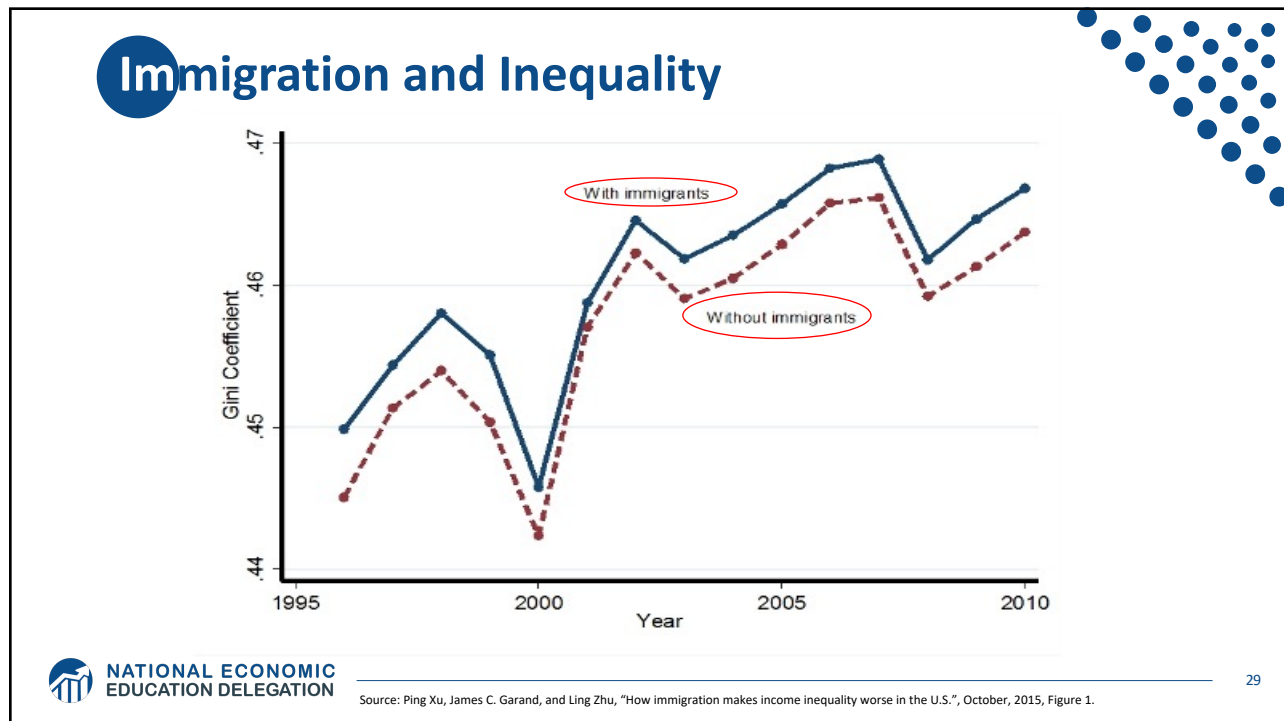
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Globalization

- **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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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 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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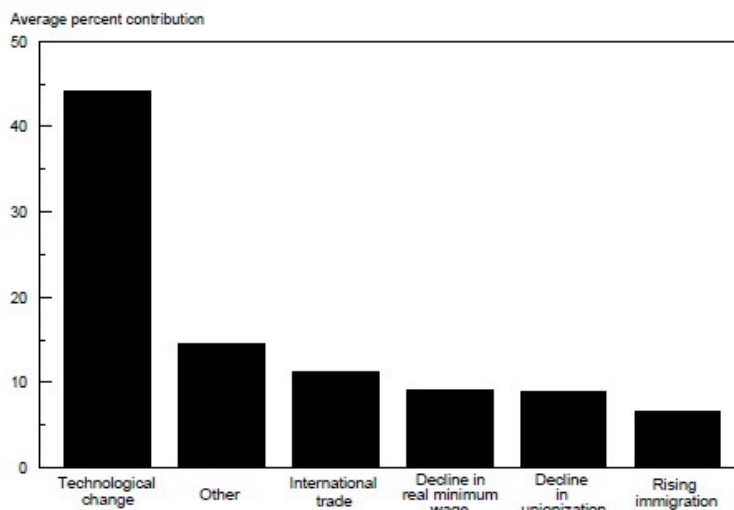
What is driving increasing inequality?

- **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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Government Policy and Inequality

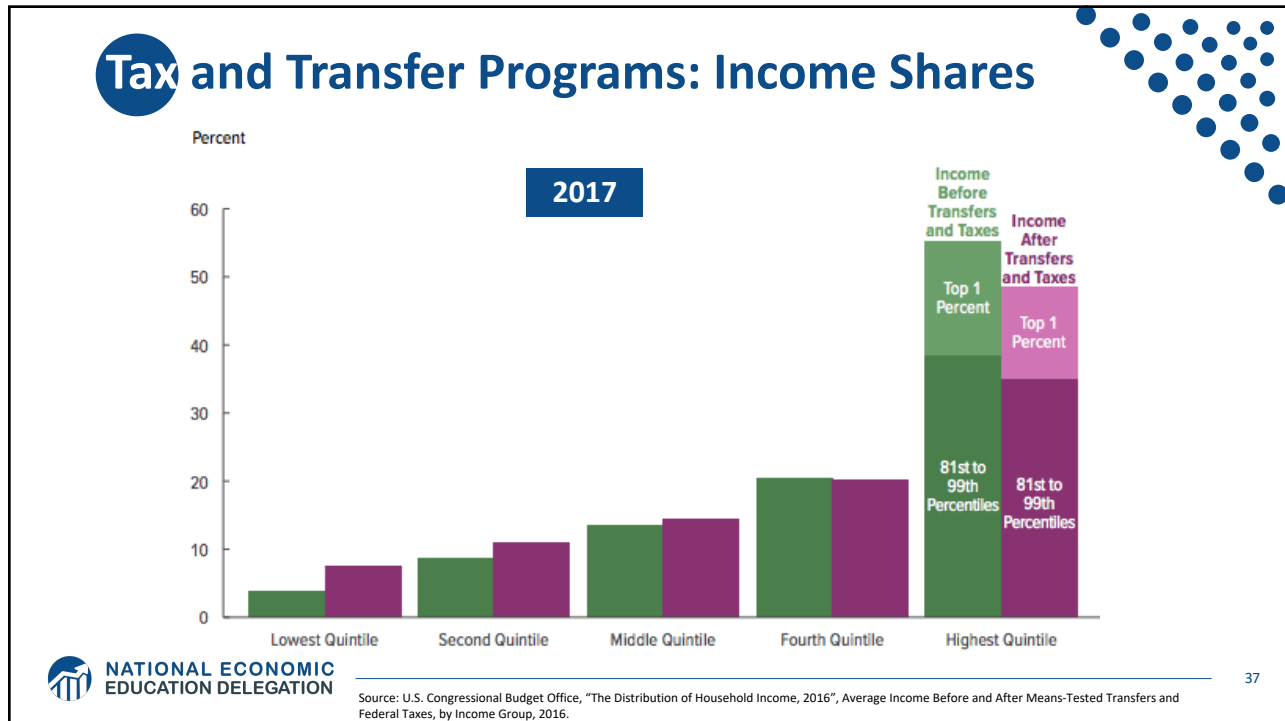
• Market Influence: PRE-distribution

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

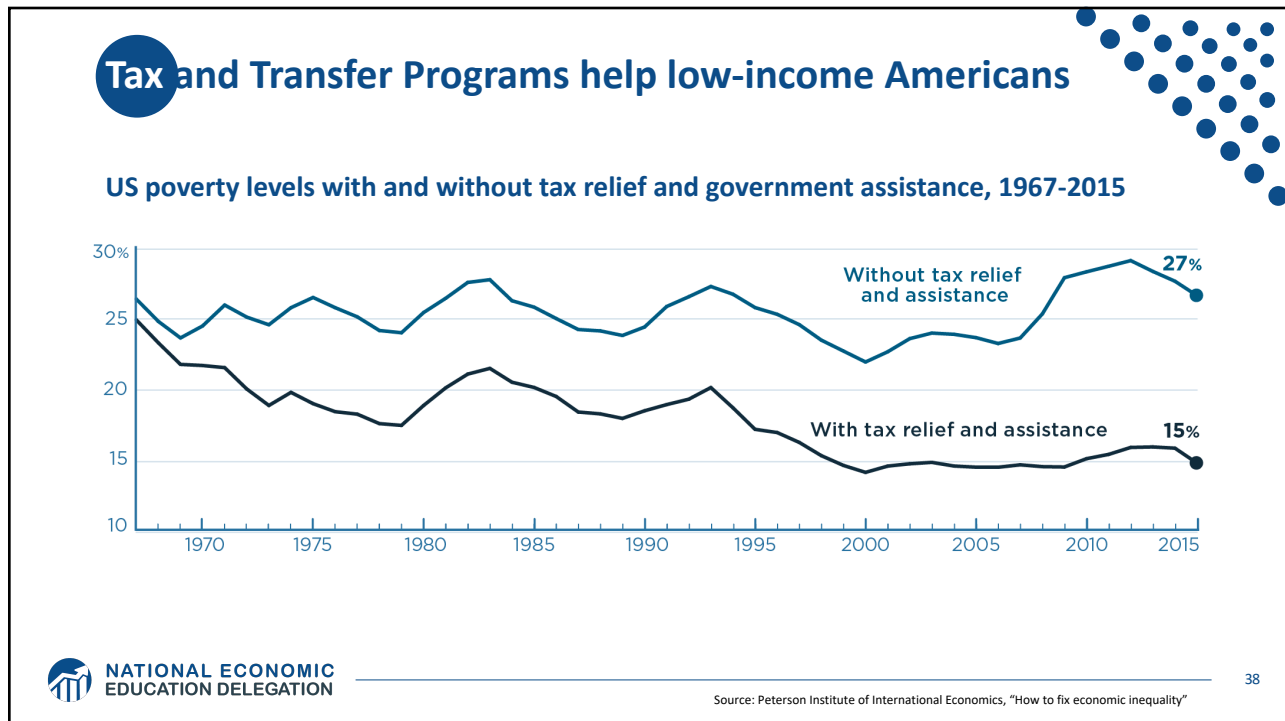
• RE-distribution

- Tax Rates
- Income support
 - Social security
 - Earned Income Tax credit
 - Food stamps
 - Medicaid and Medicare
 - Housing subsidies
 - Trade Adjustment Assistance
 - Child and Dependent Care Tax Relief

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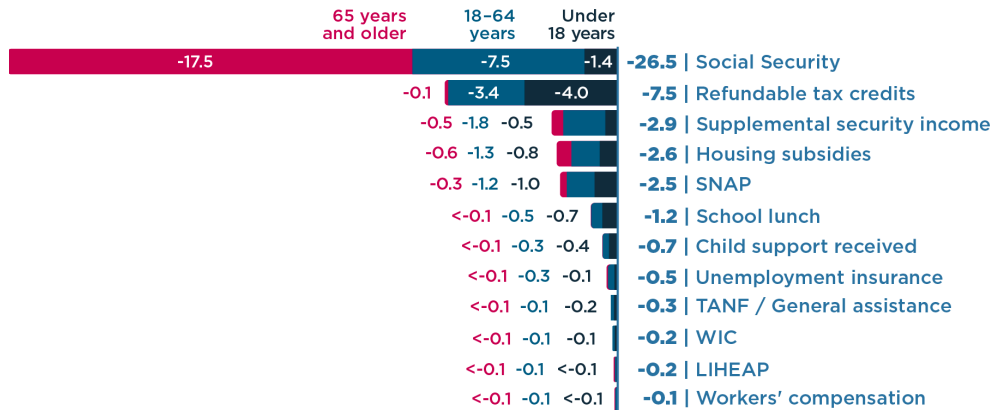
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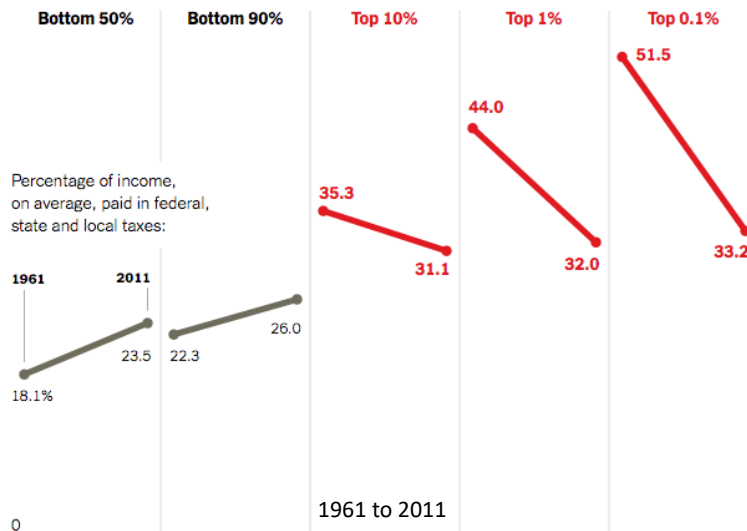
Tax and Transfer Programs help low-income Americans

Change in the number of people in poverty in the US after transfer programs by age group



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Dramatically Less Progressivity in the Tax Code

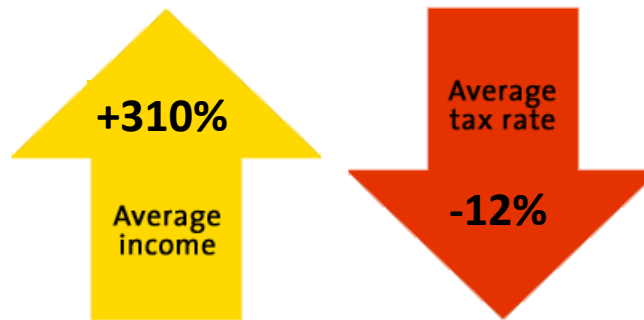


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What About Tax Rates?

400 TAXPAYERS WITH HIGHEST INCOMES

1992-2014



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Source: IRS, Statistics of Income Division, December 2016.

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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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Why Does Inequality Matter?

• Too little inequality can:

- Reduce individual motivation
- Slow economic growth

• Too much inequality can:

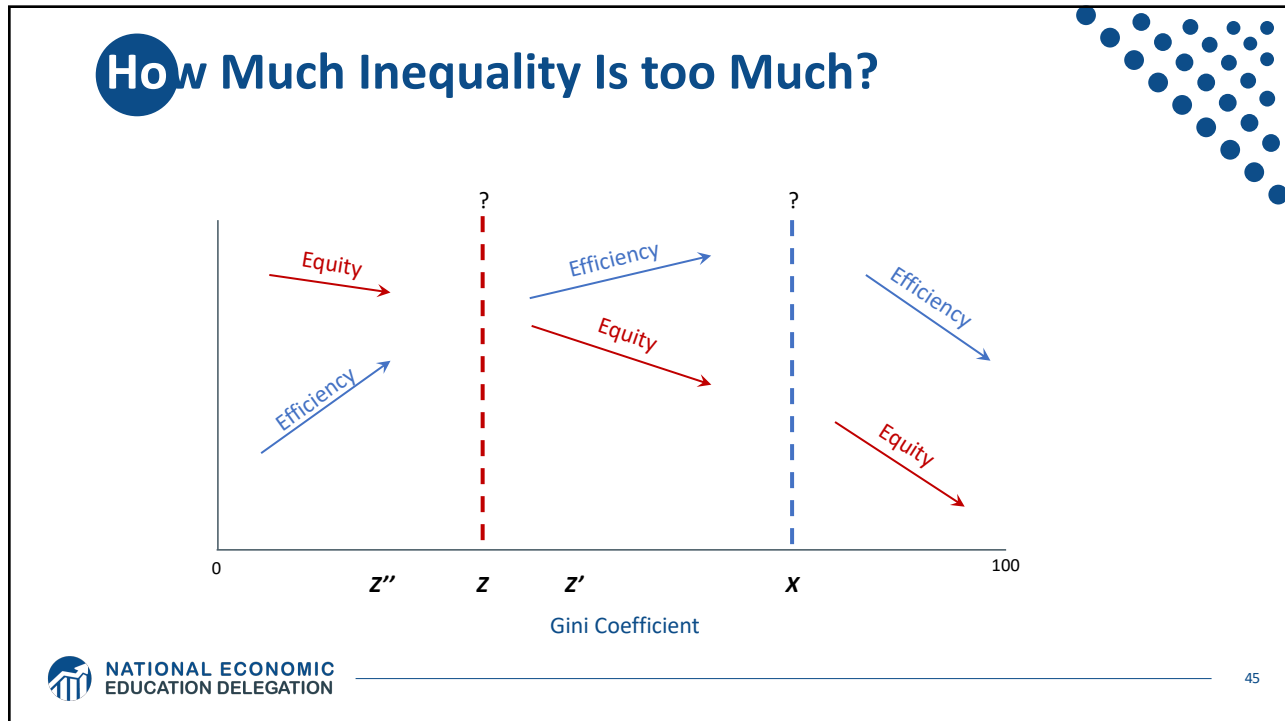
- Reduce individual motivation
- Slow economic growth

• Too much inequality may also:

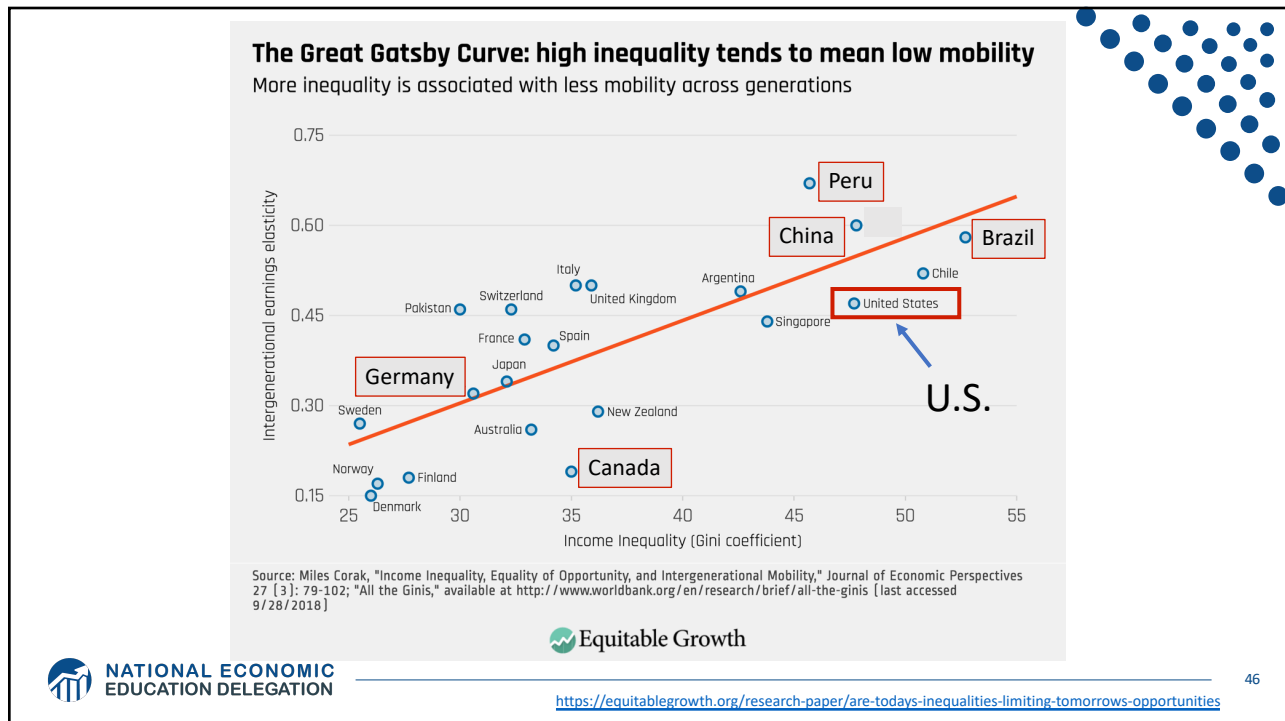
- Divide society
- Distort political environment
- Reduce political participation
- Reduce investments in public goods
 - Education
 - Environmental protections



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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)

1 1950
A child born in 1950 in a household with median income of \$29k was likely to out earn their parents...

2 1980
...even if their household at age 30 had below median income.

3 If their household had income in the middle of the income distribution, they could earn at least \$47k.

6 Households at the top of the middle 20% earn just \$55k, and households in the bottom quintile earn less than \$16k.

Income Distribution (1980):
 Top 20%: > \$85k
 Middle 20%: \$47-63k
 Bottom 20%: < \$28k

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

4 1980
But a child born in 1980 in a household with median income of \$53k had to find a better job than their parents...

5 2010
...just to earn the same amount of money at age 30.

6 Households at the top of the middle 20% earn just \$55k, and households in the bottom quintile earn less than \$16k.

Income Distribution (2010):
 Top 20%: > \$92k
 Middle 20%: \$35-55k
 Bottom 20%: < \$16k

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

Equitable Growth

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An International Perspective: Trends

Share of Income Earned by Top 1 Percent, 1975-2015

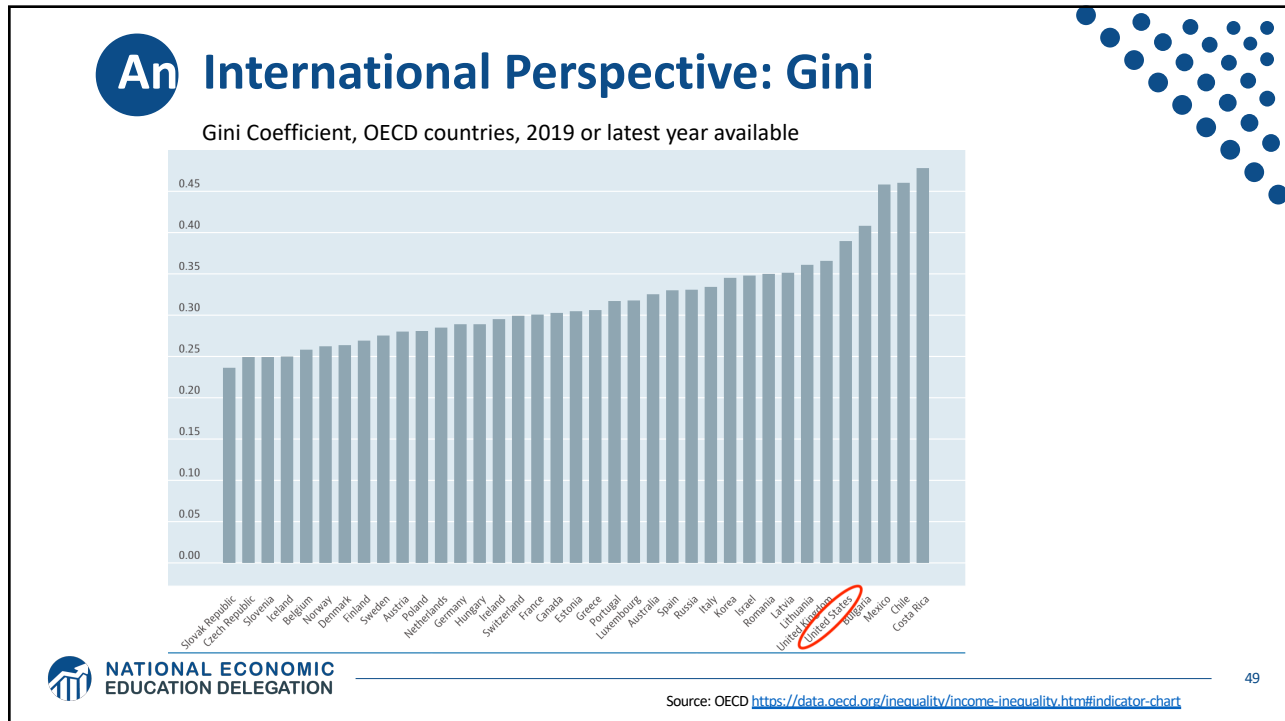
Country	1975	1980	1985	1990	1995	2000	2005	2010	2015
United States	~8%	~8%	~9%	~13%	~13%	~16%	~18%	~17%	17-18%
United Kingdom	~8%	~8%	~9%	~10%	~11%	~13%	~15%	~13%	~12-13%
Canada	~8%	~8%	~9%	~10%	~11%	~13%	~14%	~12%	~12-13%
France	~7%	~7%	~7%	~8%	~8%	~9%	~9%	~8%	~7-9%
Italy	~7%	~7%	~7%	~8%	~8%	~9%	~9%	~9%	~7-9%
Germany	~10%	~10%	~9%	~10%	~10%	~11%	~13%	~12%	~12-13%
Japan	~7%	~7%	~7%	~8%	~8%	~9%	~9%	~9%	~7-9%

Source: World Wealth and Income Database.

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Outline

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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?**

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

- **RE-distribution**
 - Tax and transfer programs
- **PRE-distribution**
 - Access to healthcare and education
 - Strengthen labor unions
 - Collective bargaining
 - Other policies that favor labor over business owners
 - Minimum wages

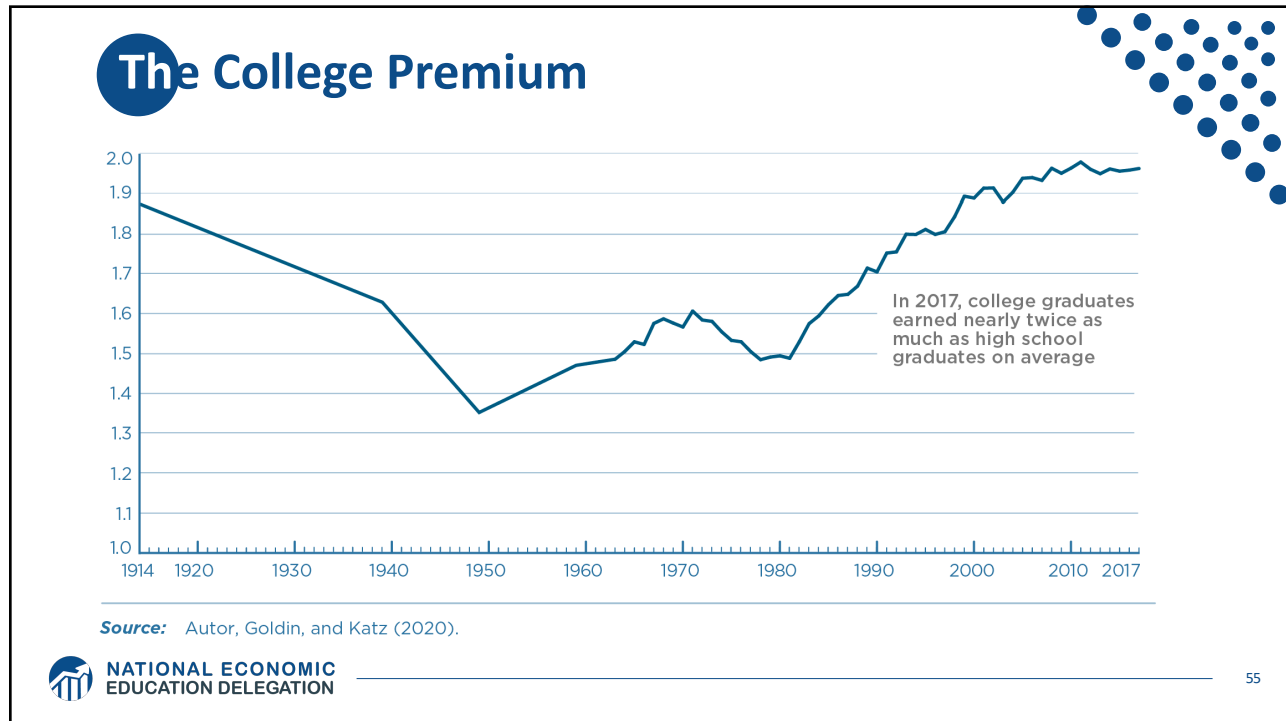


Addressing Inequality: Immediately Available Policy Solutions (2/2)

- **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.

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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Early Child Education

- High-quality birth-five programs for disadvantaged kids can deliver a 13% per year return on investment improving education, employment, health outcomes and savings on later remediation costs.
- Early education has tremendous benefits for kids. Research shows that kids who experience quality early learning:
 - Are 25% more likely to graduate high school (Perry School Project)
 - Are four times more likely to have completed a bachelor's degree or higher (The Abecedarian Project)
 - Earn up to 25% more in wages as an adult (The Jamaican Study)
- Government-provided universal preschool education and childcare could financially benefit low-skilled and low-income workers and keep women in the workforce.

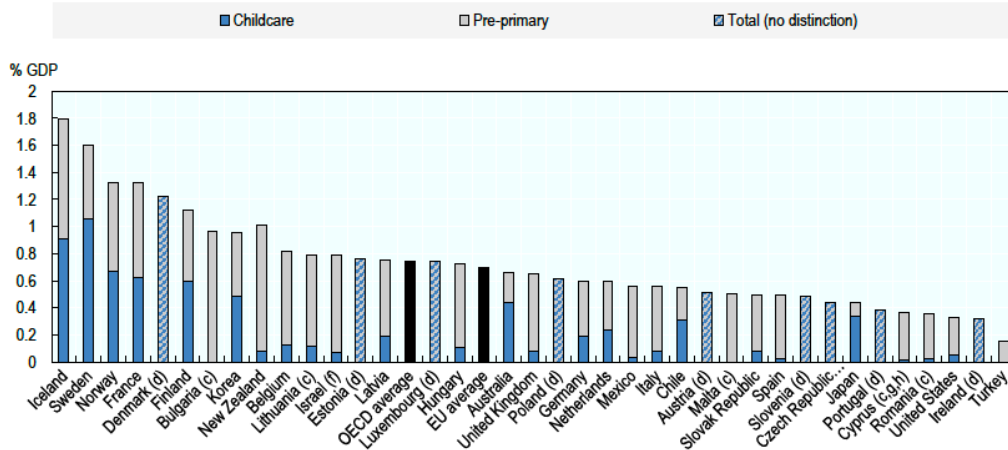
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Source: <https://heckmanequation.org/> and [Start Early](#) website

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Early Education – International Perspective



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What to do About Inequality?

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



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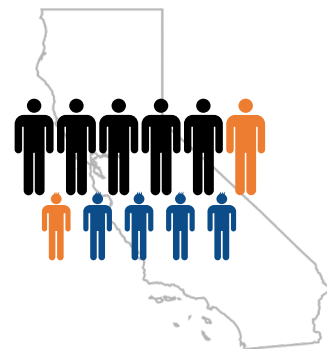
Tension in Policy Solutions

- **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.



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.**



Thank you!

Any Questions?

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