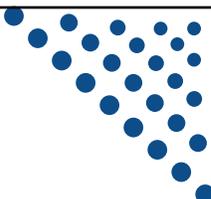


# *Osher Lifelong Learning Institute, Fall 2022* **Contemporary Economic Policy Issues**

California State University, Dominguez Hills  
Fall, 2022

Ryan Herzog, Ph.D.  
National Economic Education Delegation

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## **Available** NEED Topics Include:

- US Economy
- Healthcare Economics
- 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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## Course Outline

- **Contemporary Economic Policy**

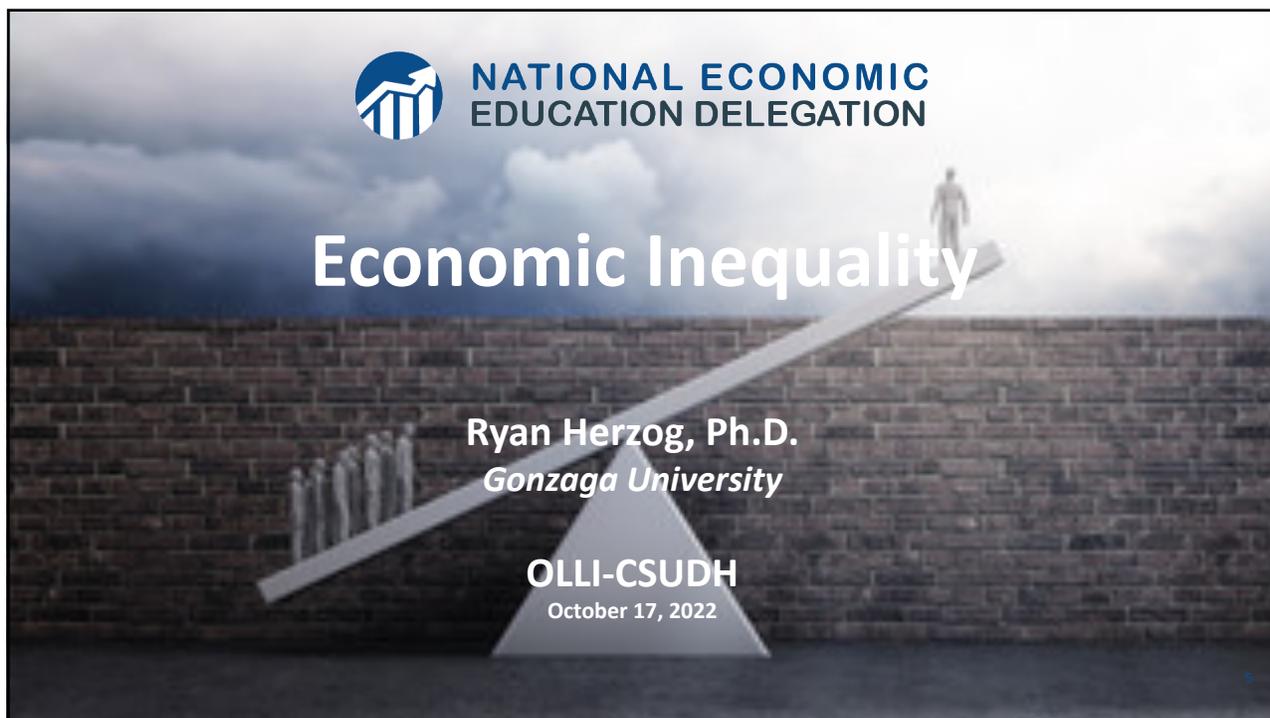
- Week 1 (9/19): Economic Update (Jon Haveman, NEED)
- Week 2 (9/26): Trade and Globalization (Alan Deardorff, University of Michigan)
- Week 3 (10/3): Cryptocurrencies (Geoffrey Woglom, Amherst College)
- Week 4 (10/10): The Federal Debt (Ryan Herzog, Gonzaga University)
- **Week 5 (10/17): Economic Inequality (Ryan Herzog, Gonzaga University)**
- Week 6 (10/24): Trade Deficit and Exchange Rates (Alan Deardorff, Univ. of Michigan)

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## Submitting Questions

- **Please submit questions of clarification in the chat.**
  - 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 on NEED's website( [www.NEEDelegation.org](http://www.NEEDelegation.org))**

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A seesaw is shown on a brick wall. On the left side, several people of varying heights are standing, causing the seesaw to tilt downwards. On the right side, a single person is standing on the high end of the seesaw. The background is a cloudy sky.

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# Economic Inequality

Ryan Herzog, Ph.D.  
*Gonzaga University*

OLLI-CSUDH  
October 17, 2022

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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

A world map is shown with the words 'WEALTH' and 'GAP' written in large, block letters over the continents. The letters are arranged in two rows: 'W E A L T H' on top and 'G A P' on the bottom.

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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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# Different Ways of Thinking About Inequality

Inequality

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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

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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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## National Income Inequality: Share of Top 10%



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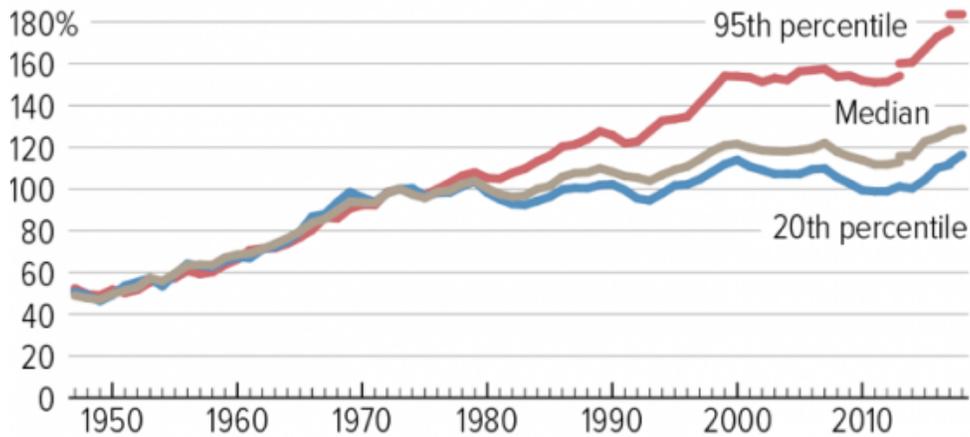
## Recent Facts on Income Inequality

- **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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## An Abrupt Increase in Inequality

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



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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, Dec. 11, 2018.

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## Gini Coefficient

- **Gini coefficient – a numerical measure that summarizes the overall dispersion of income**

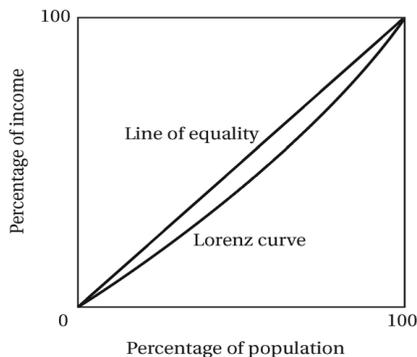
- Ranges from 0 – 1
  - 0 = perfect equality – everyone has the same income
  - 1 = perfect inequality – one person has all the income
- In practice:
  - 0.5 – 0.7 – highly unequal
  - 0.2 – 0.35 – relatively equal



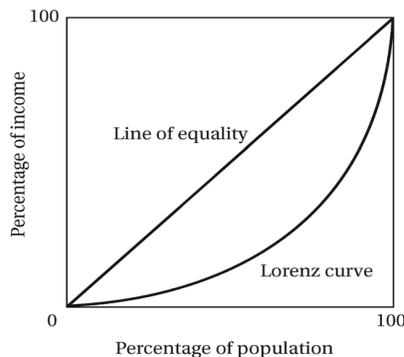
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# Lorenz Curve of Income Distribution



(a) A relatively equal distribution

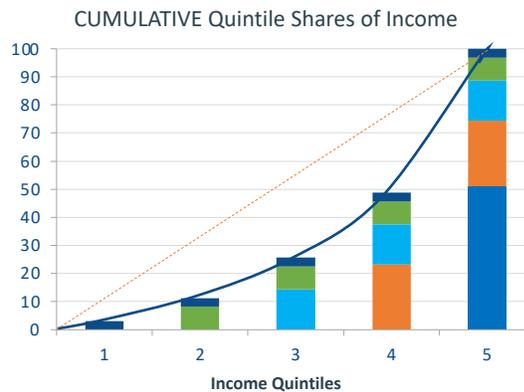


(b) A relatively unequal distribution

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

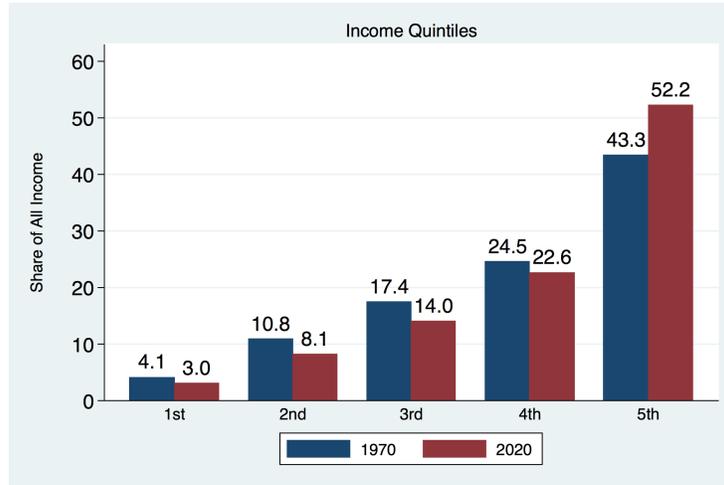


# US Income Distribution: 2015



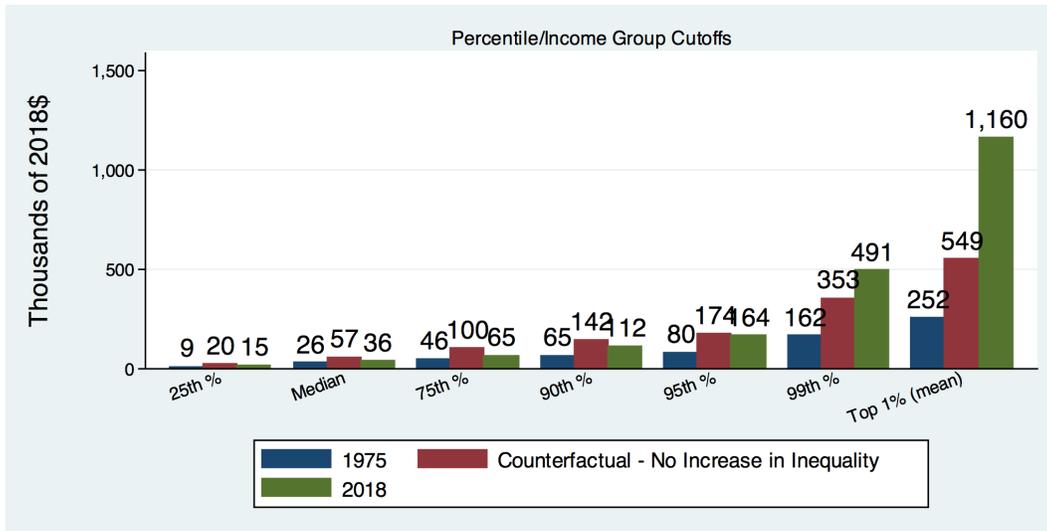
Source: 2015 1-year American Community Survey, based on pre-tax household income.

## Income Share Changes Between 1970 and 2020



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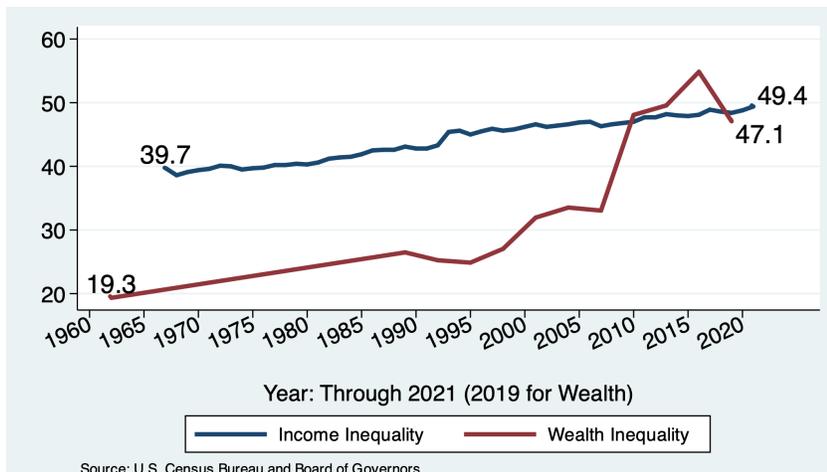
## How Has Inequality Influenced Incomes?



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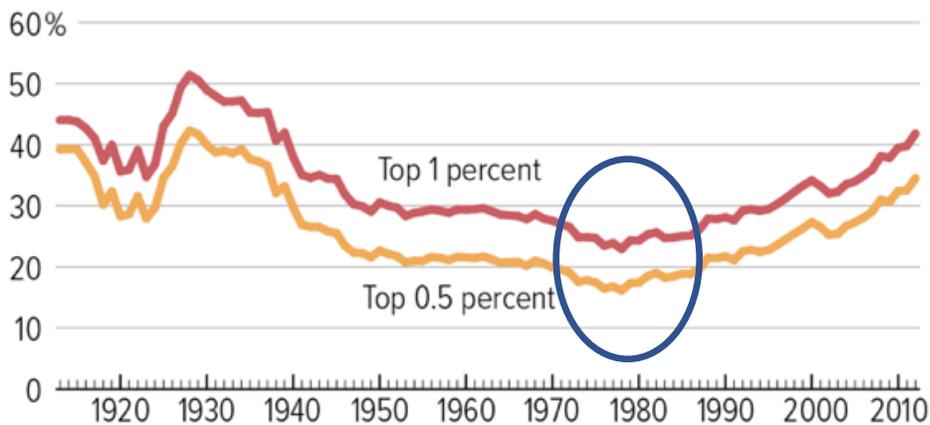


## Income and Wealth Gini Coefficients

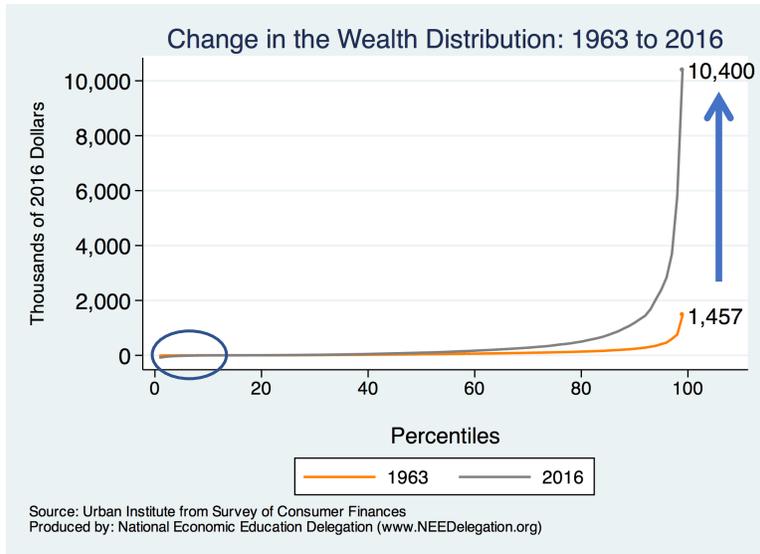


## Wealth Concentration Has Been Rising

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

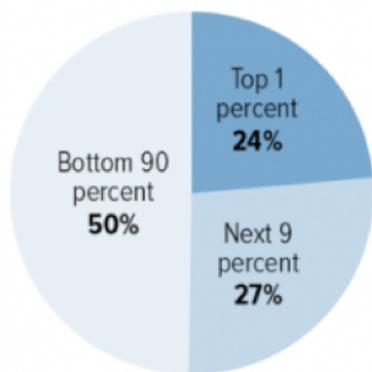


## Wealth is More and More Concentrated

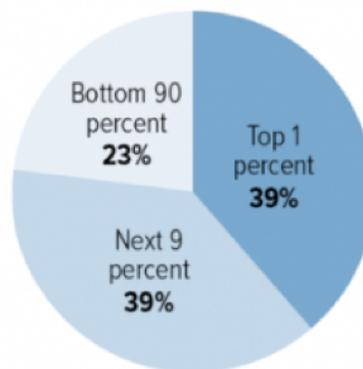


## Wealth Inequality Exceeds Income Inequality

Distribution of before-tax income, 2016

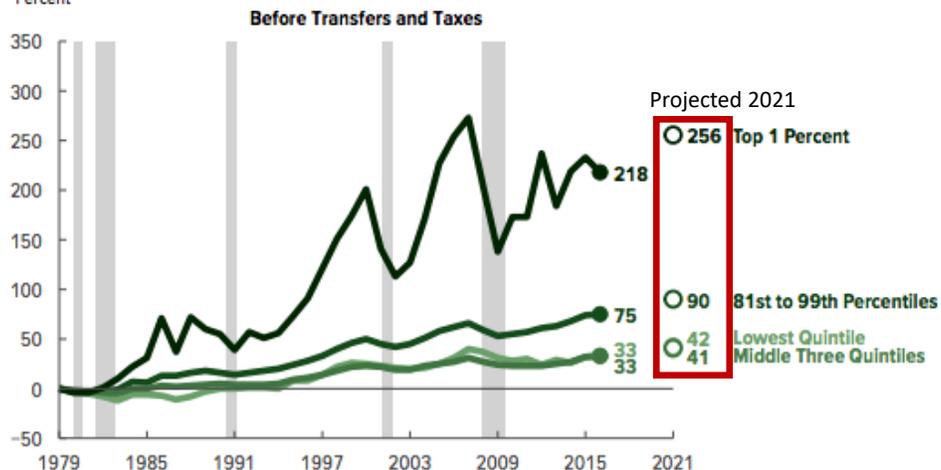


Distribution of wealth, 2016



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

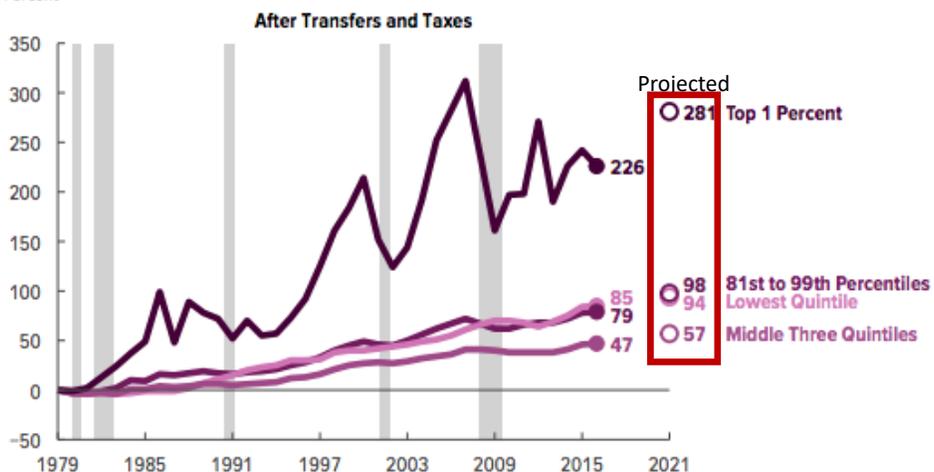
Cumulative Growth of Average Inflation-Adjusted Household Income Since 1979  
Percent



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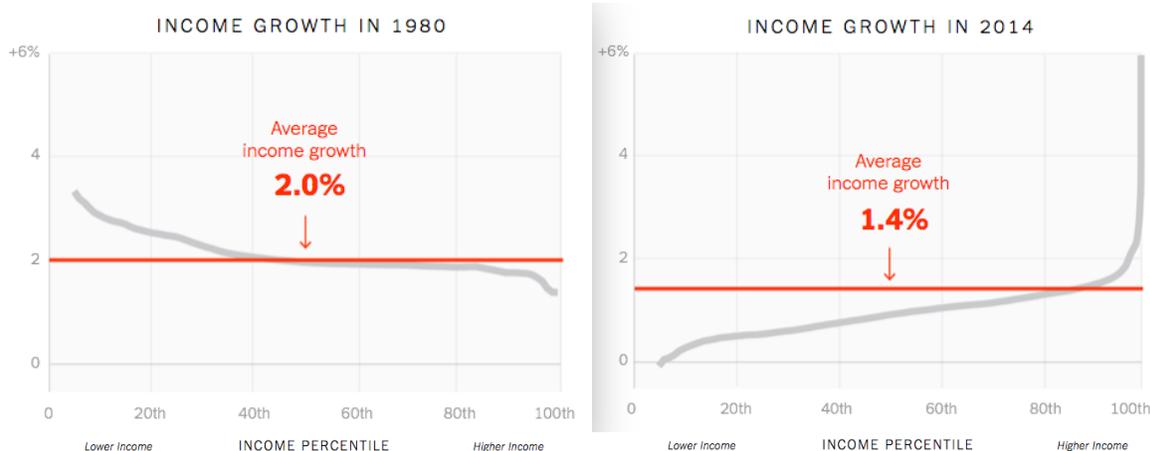
## Most of the Action Is at the Top: Post-Tax

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



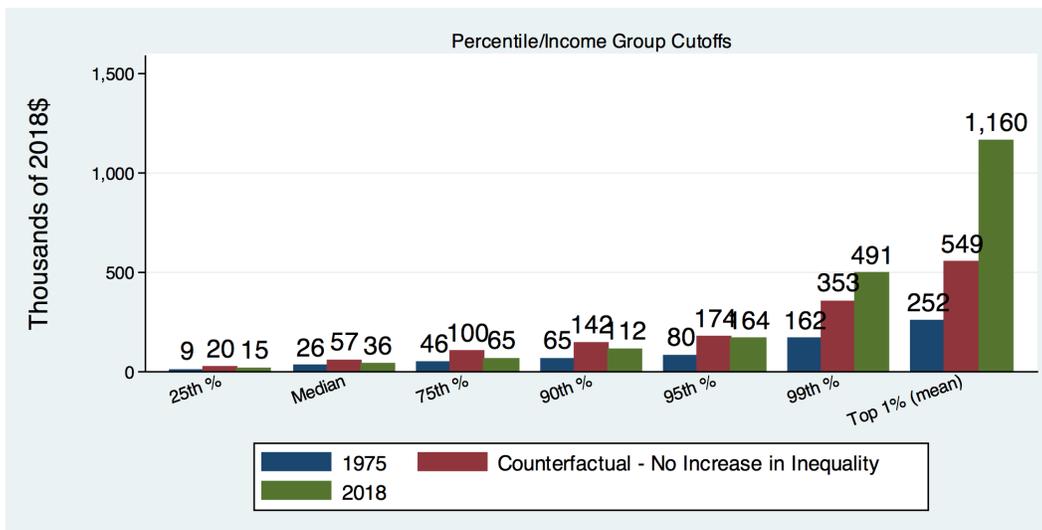
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## Income Growth Pattern – Has Changed



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## How Has Inequality Influenced Incomes?



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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**

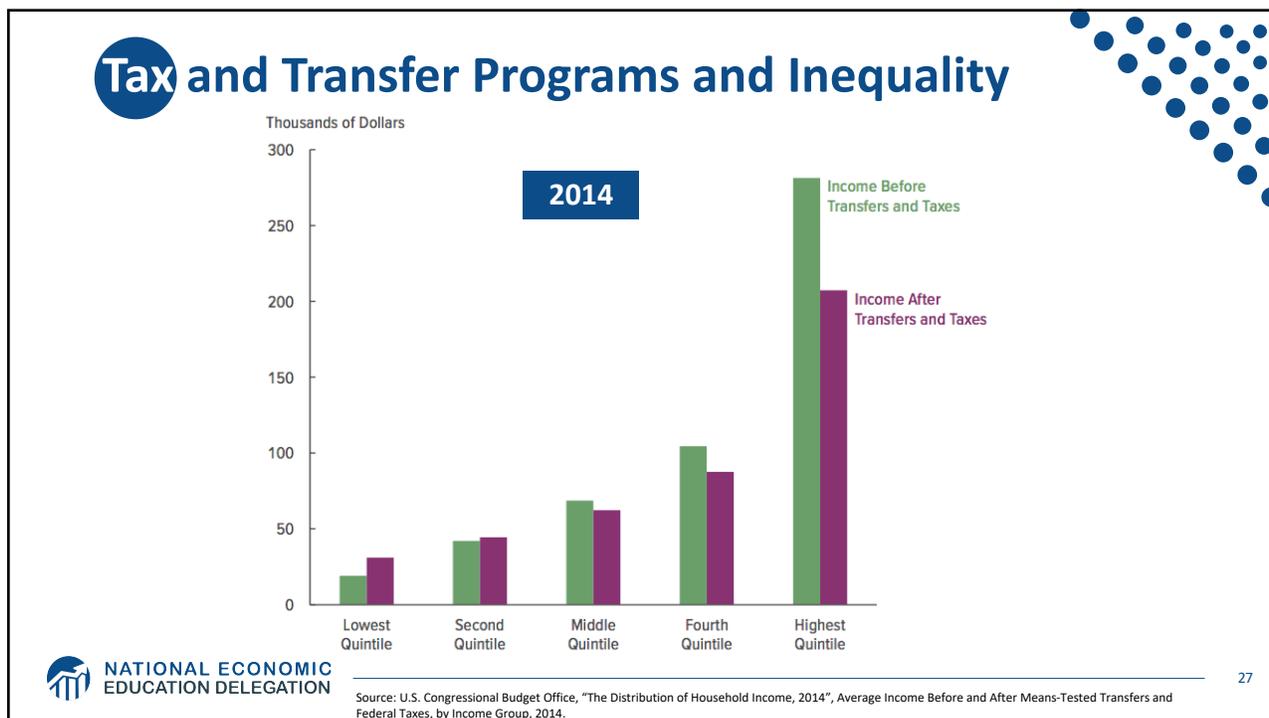
- Tax Rates
- Income support
  - Direct aid
  - Food stamps



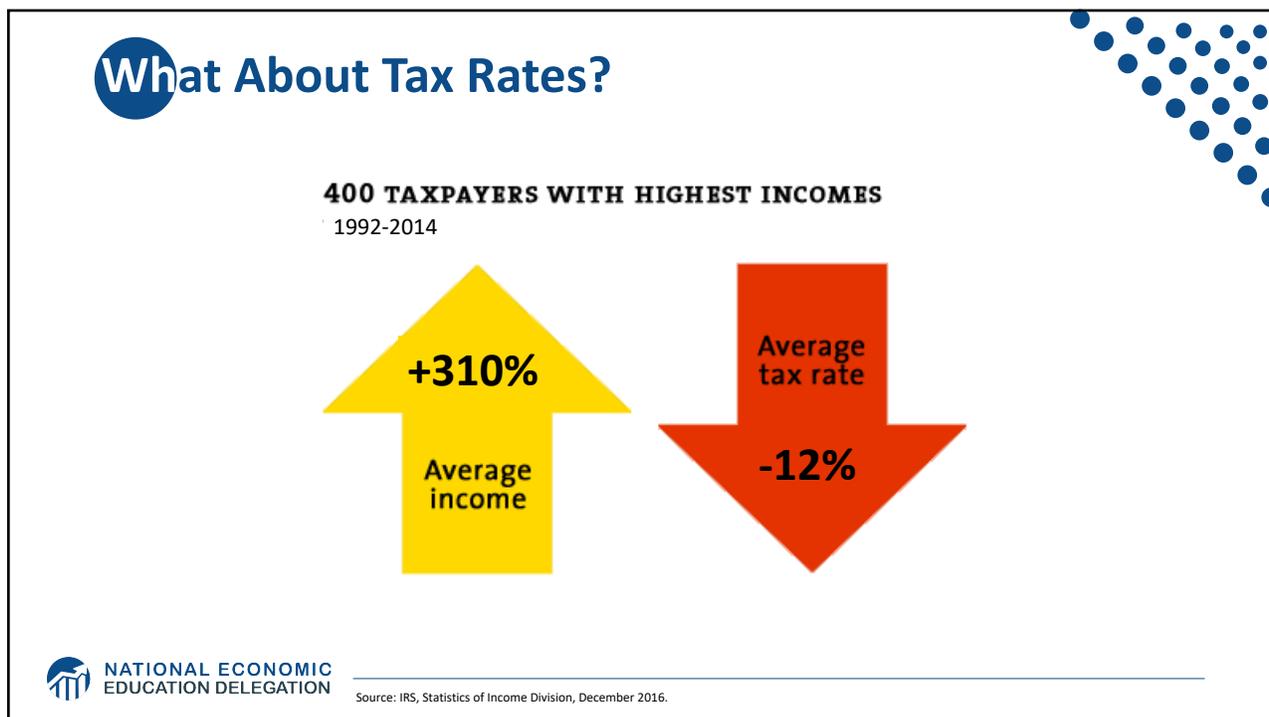
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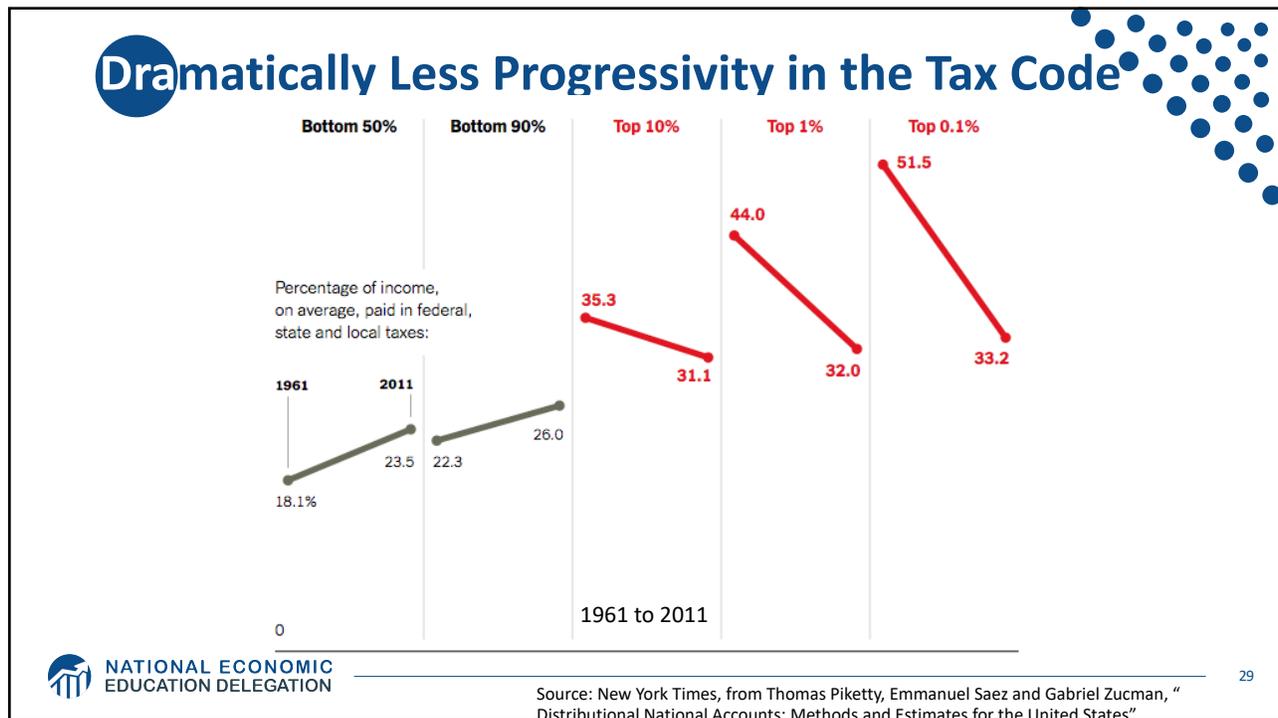
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## Market Forces and Inequality

- **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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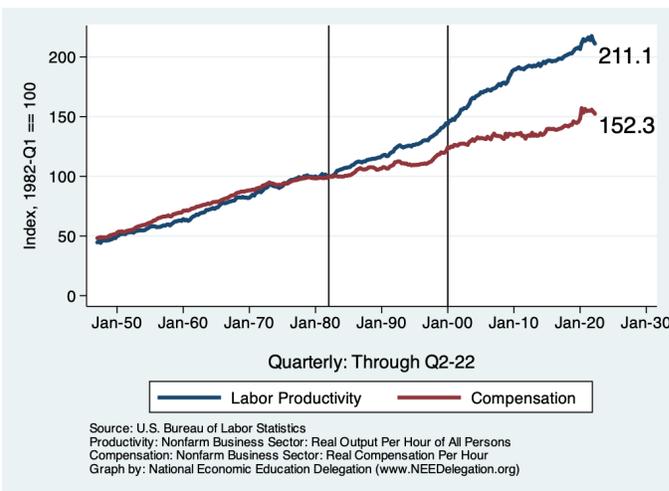
## Where Does Inequality Come From? Summary

- **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?

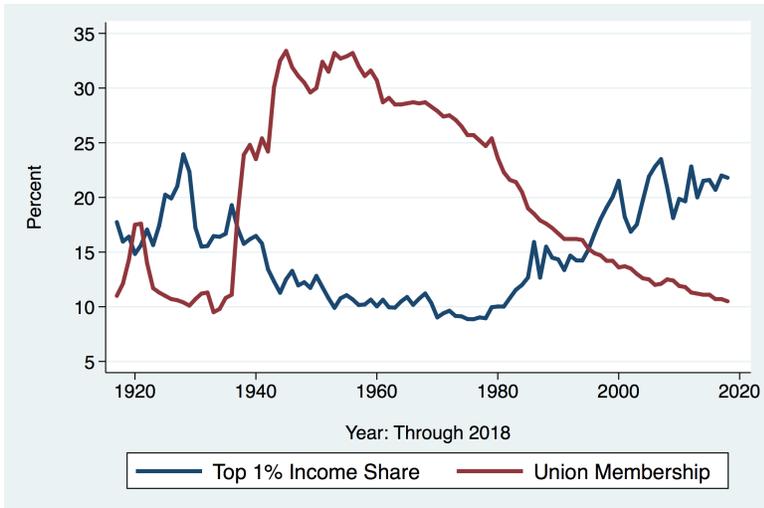
- Declining unionization
- Globalization
- Immigration
- Competition policy
- Cheap technology



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## Declining Unionization



### Unionization Rates

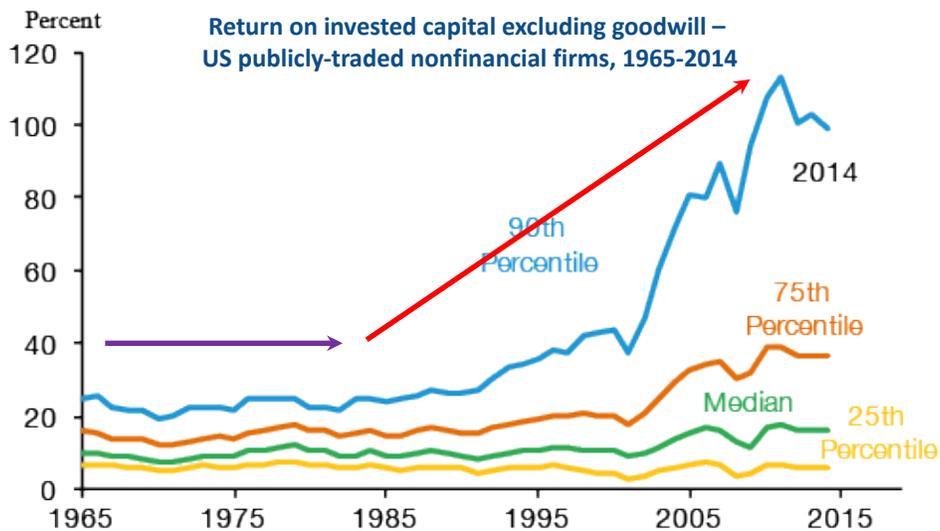
- 1983: 20.1%
- 2021: 10.3%

### Unionization Rates

- Public: 33.9%
- Private: 6.1%

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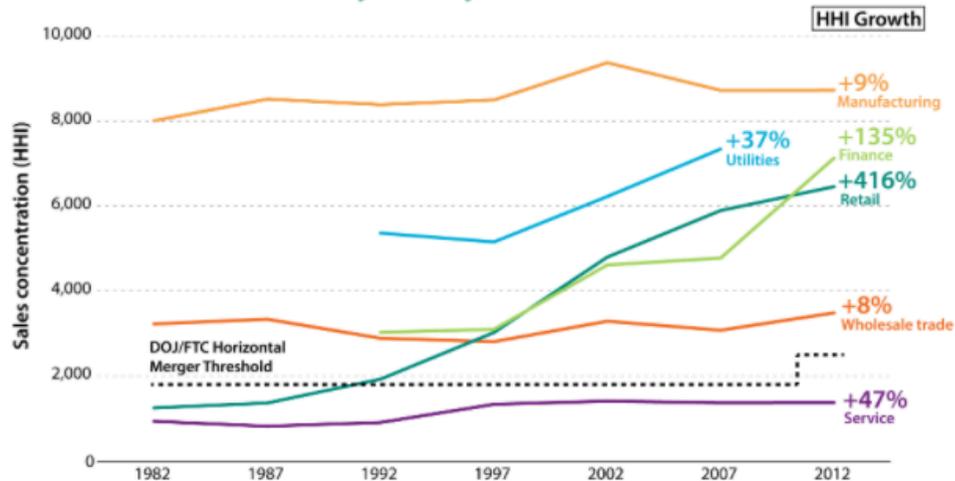
## Competition in the Economy



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## Growing Revenue Concentration

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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## 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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## 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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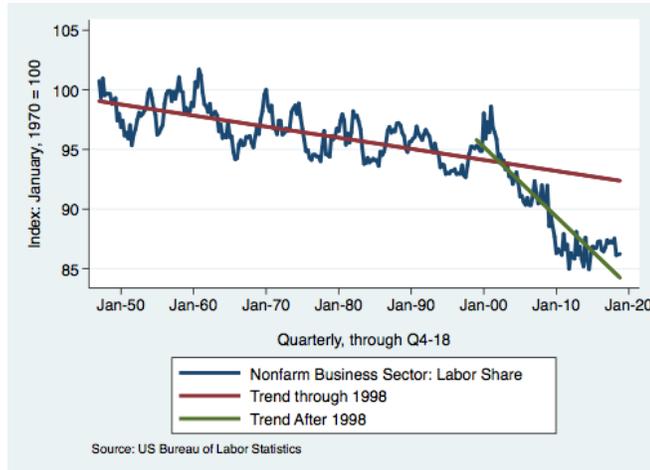
## Mechanisms for the Effects of Globalization

- **Merchandise trade**
  - Importing goods that are made with low-skilled workers and exporting goods that are made with high-skilled workers
    - 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%

## Why Does Inequality Matter?

- **Too little inequality can:**

- Reduce individual motivation
- Slow economic growth

- **Too much inequality can:**

- Reduce individual motivation
- Slow economic growth

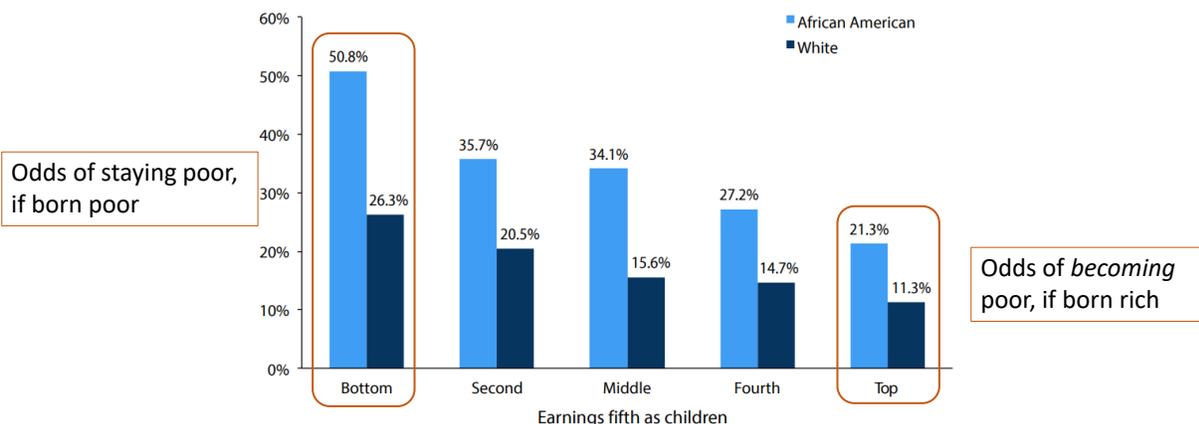
- **Too much inequality may also:**

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



## 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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## 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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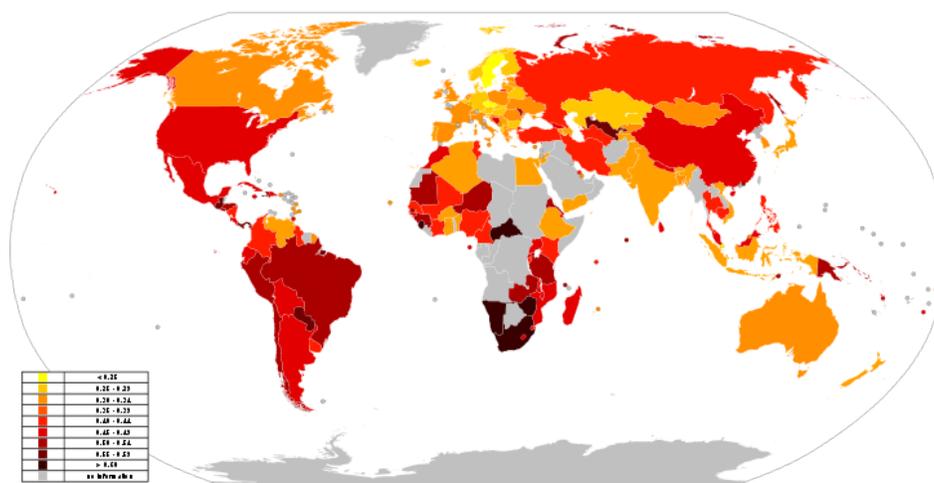
## Too Much Inequality Can:

- Reduce work effort, which reduces GDP.
- Reduce purchasing power of the middle class, which reduces GDP.
- Reduce the ability of people to get ahead, which reduces mobility.
  - Puts the American Dream at risk.
- Increase the share of the population living on low incomes.
  - Offending our sense of equity? Desire for shared prosperity?
- Concentrate political power.



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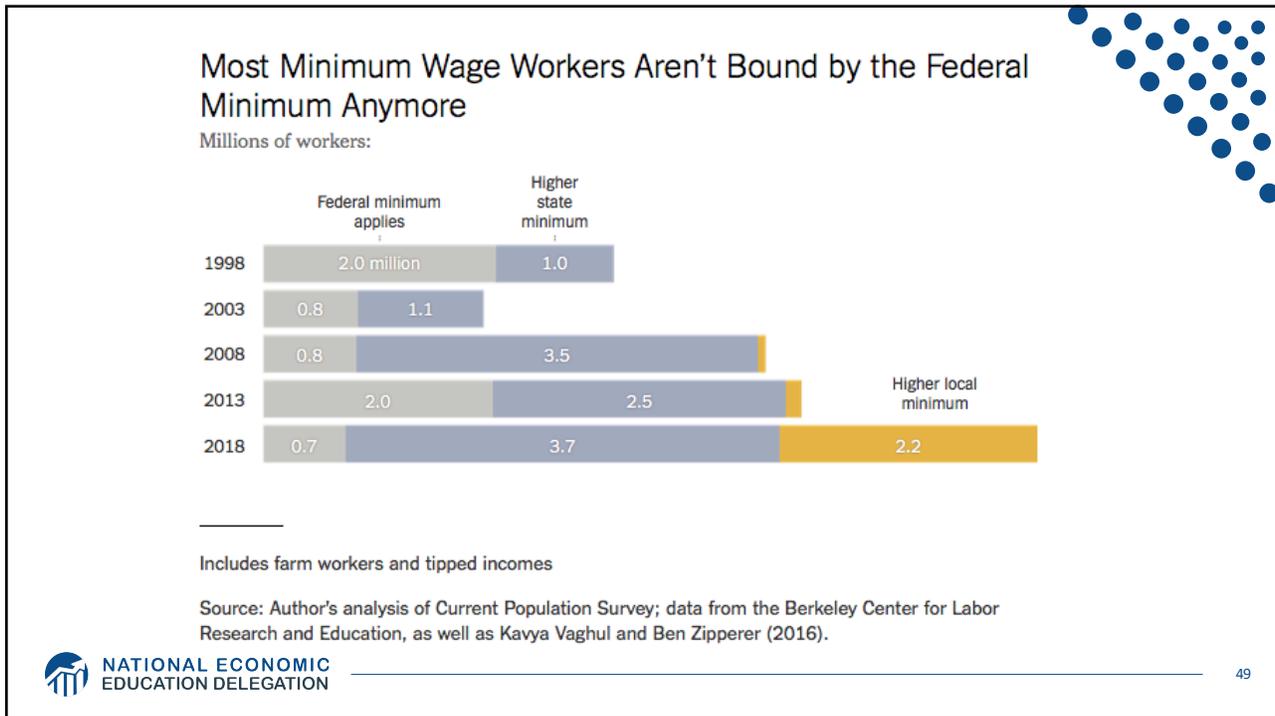
## An International Perspective



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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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## 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.



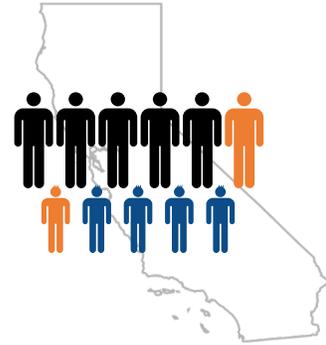
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## Summary

- **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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