

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

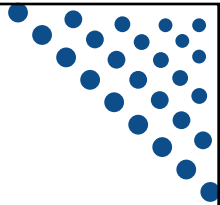
University of Casper College
Sep-Oct, 2022

Host: Jon Haveman, 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
- Healthcare Economics



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Course Outline

• Contemporary Economic Policy

- Week 1 (9/2): Economic Update (Geoffrey Woglom, Amherst College)
- Week 2 (9/9): Trade and Globalization (Alan Deardorff, University of Michigan)
- Week 3 (9/16): Climate Change Economics (Sarah Jacobson, Williams College)
- Week 4 (9/23): The Black-White Wealth Gap (Mike Shor, Univ. Connecticut)
- ~~Week 5 (9/30): Autonomous Vehicles (Jon Haveman, NEED)~~
- **Week 6 (10/7): Economic Inequality (Kelley Cullen, E. Washington University)**
- Week 7 (10/14): Autonomous Vehicles (Jon Haveman, NEED)



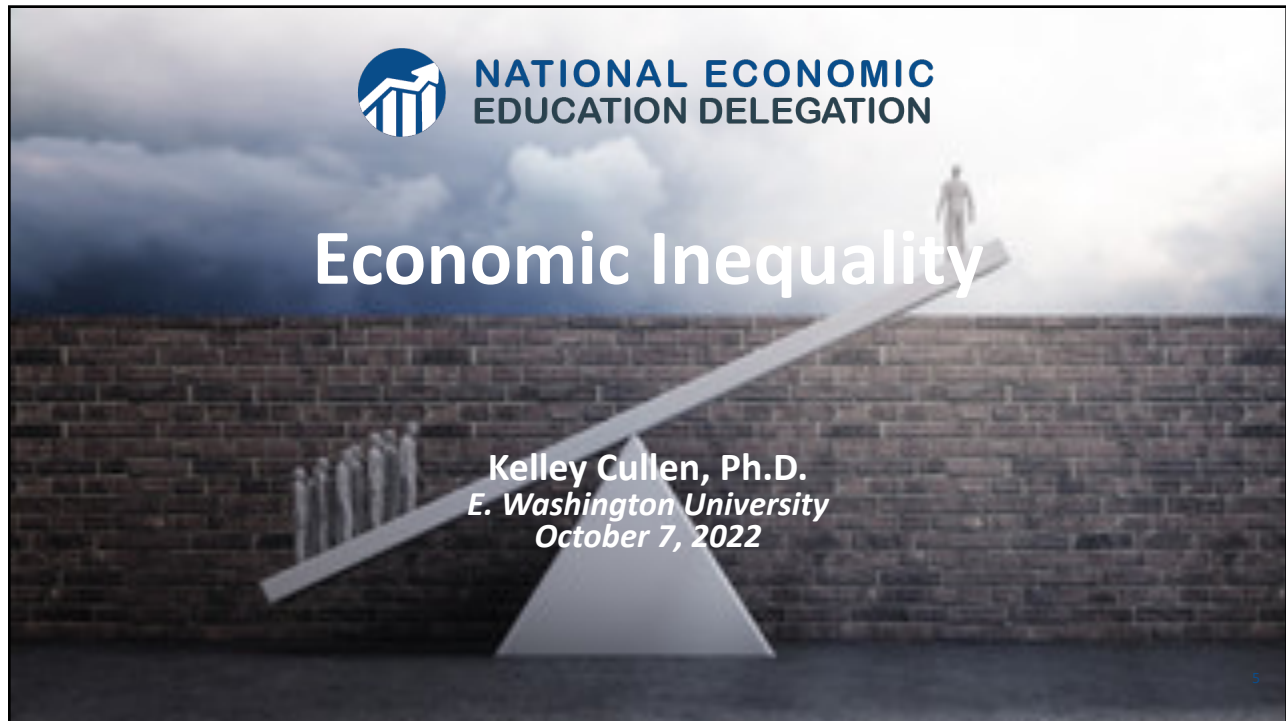
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Submitting Questions

- **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.**
- **OLLI allowing, we can stay beyond the end of class to have further discussion.**
- **Slides will be available from the NEED website tomorrow (https://needelegation.org/delivered_presentations.php)**




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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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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.

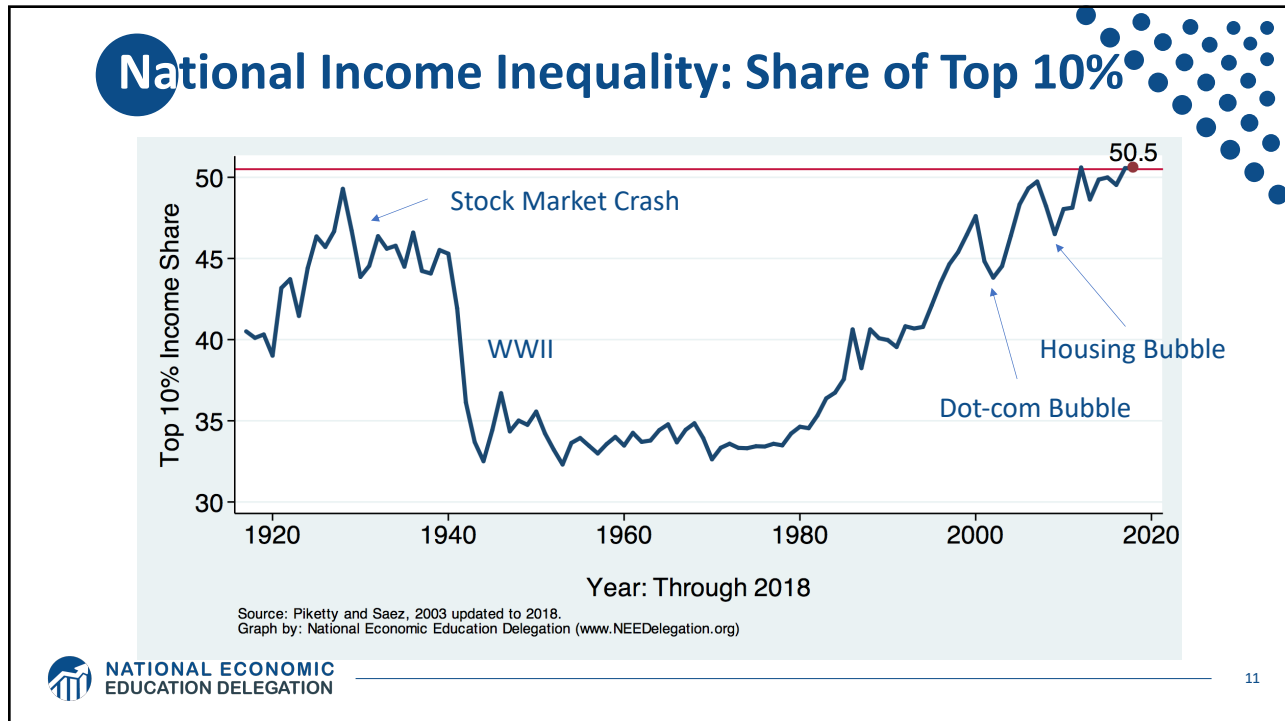
Wealth is one's accumulated savings, including physical and financial assets (net worth).



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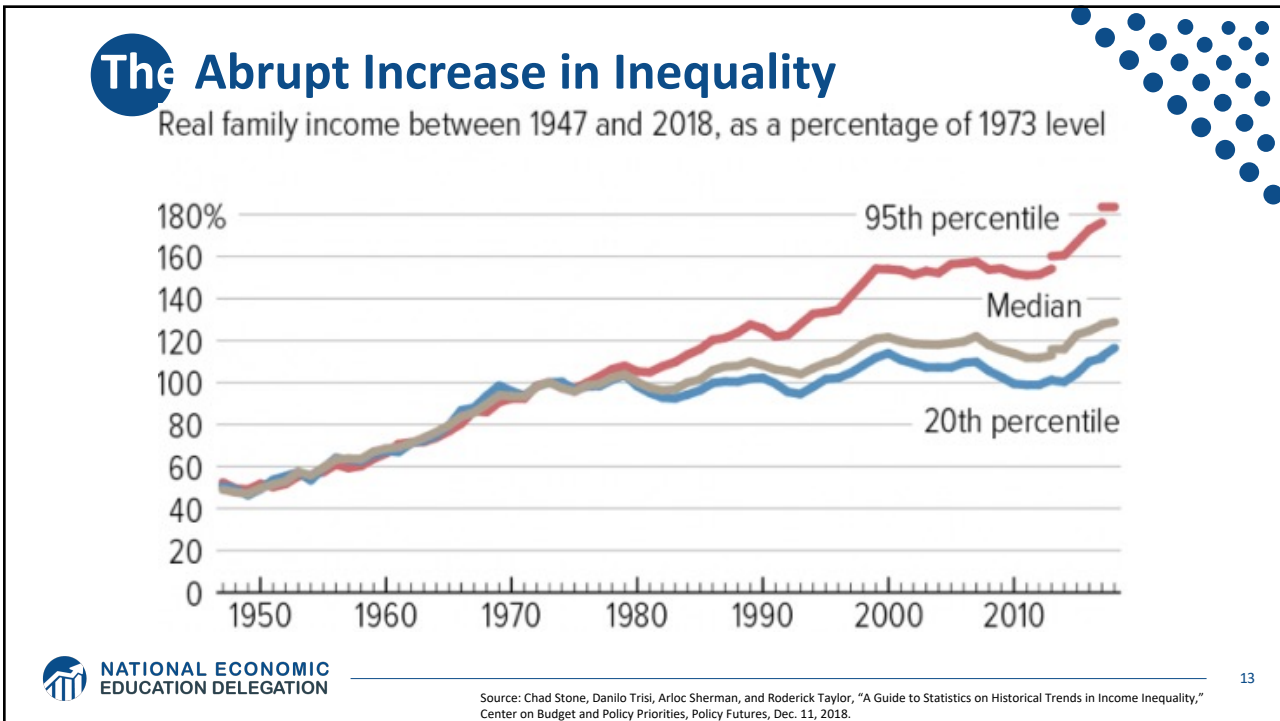
Recent Facts on Income Inequality

- **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.

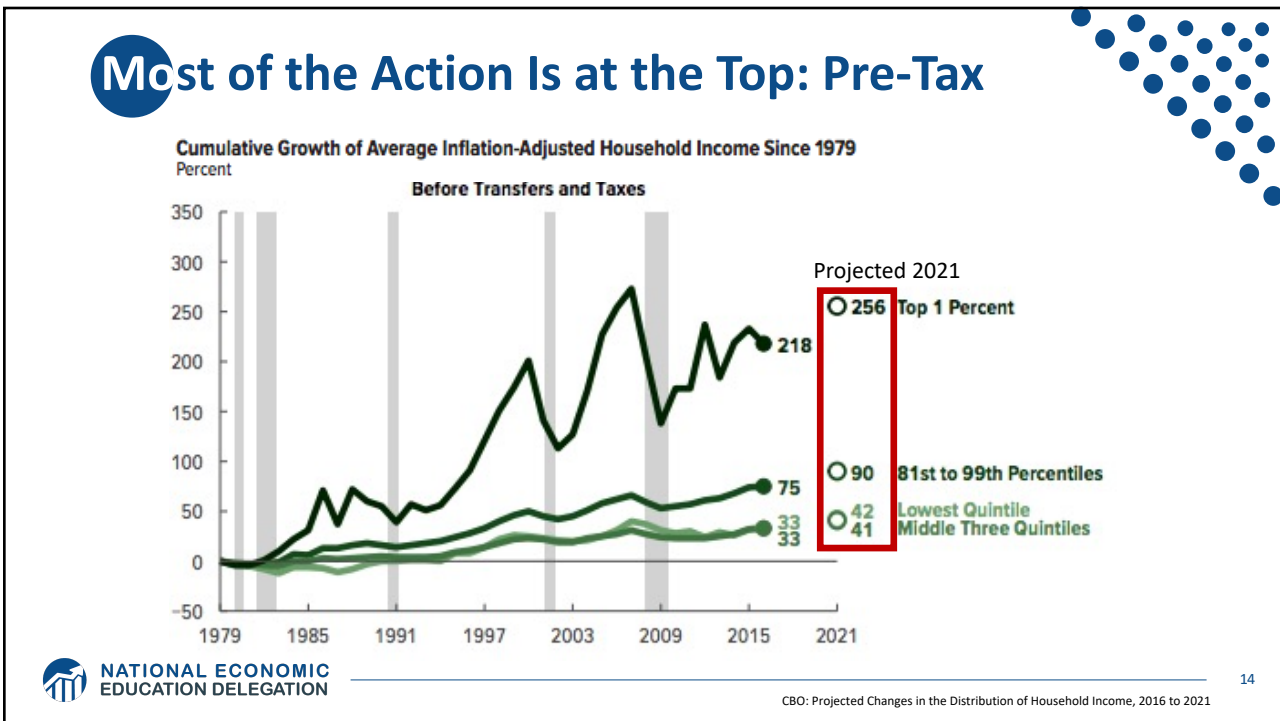
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Source: Chad Stone, Danilo Trisi, Arloc Sherman, and Roderick Taylor, "A Guide to Statistics on Historical Trends in Income Inequality," Center on Budget and Policy Priorities, Policy Futures, May 15, 2018.

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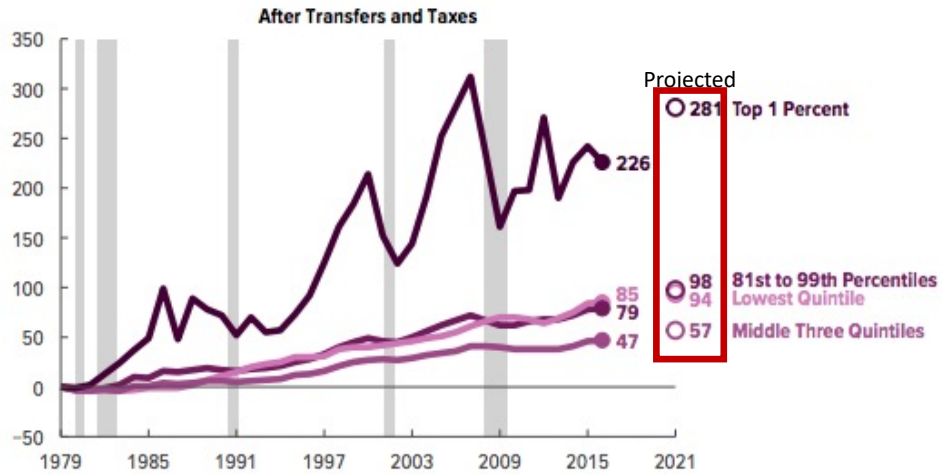
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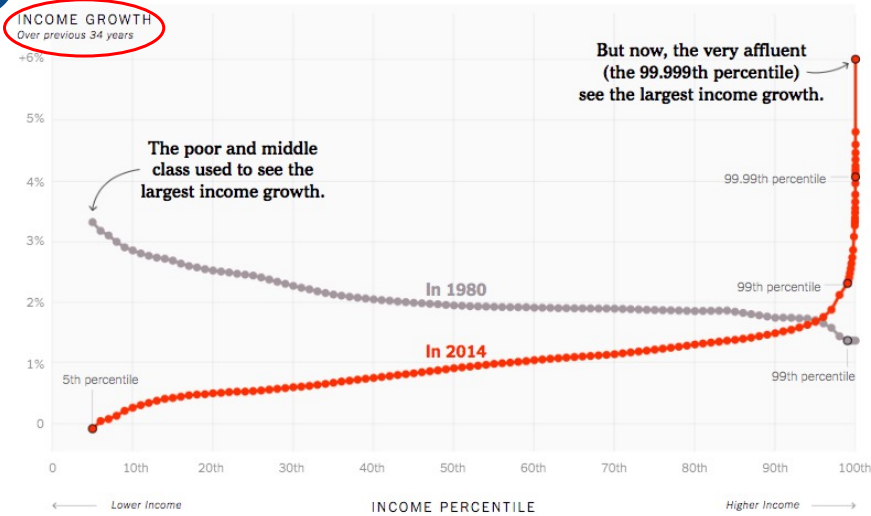
Most of the Action Is at the Top: Post-Tax

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



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Wage Growth Patterns Have Changed!



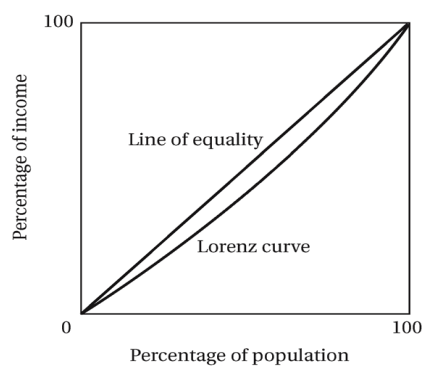
Note: Inflation-adjusted annual average growth using income after taxes, transfers and non-cash benefits.

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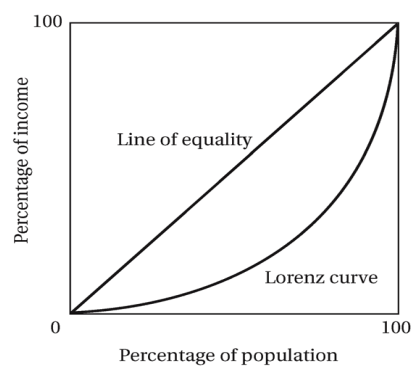
Gini Coefficient

- **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

Lorenz Curve of Income Distribution



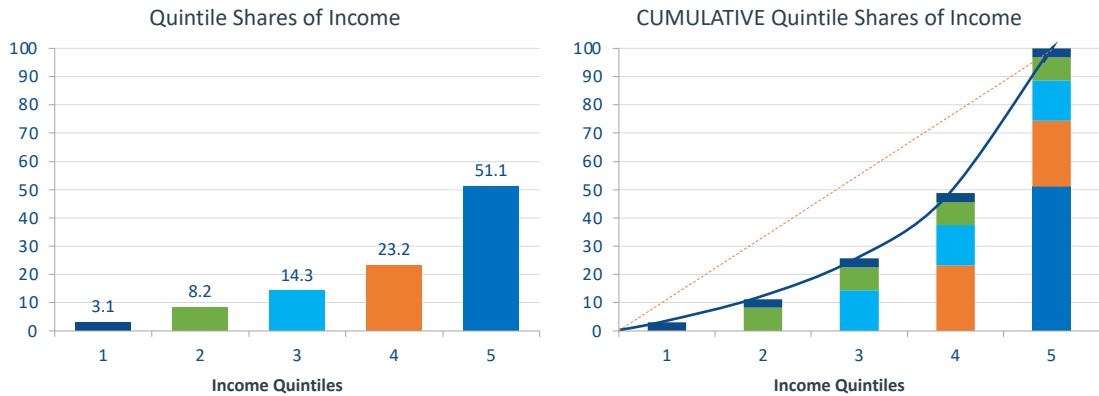
(a) A relatively equal distribution



(b) A relatively unequal distribution

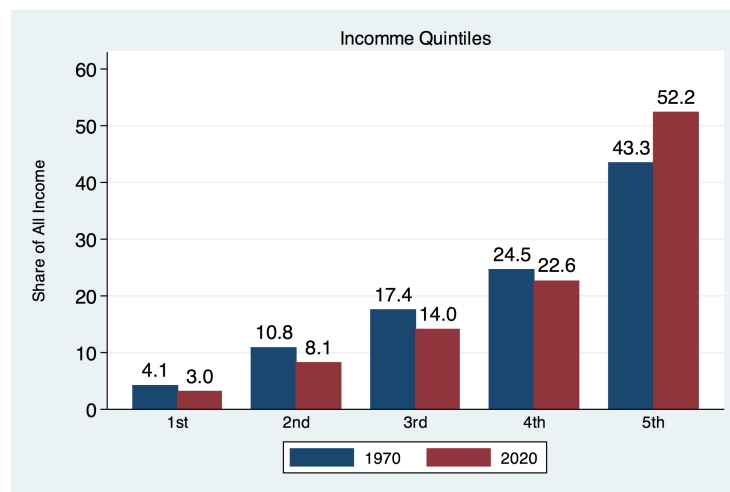
The greater the curvature of the Lorenz Curve, the greater is the degree of income inequality

US Income Distribution: 2015



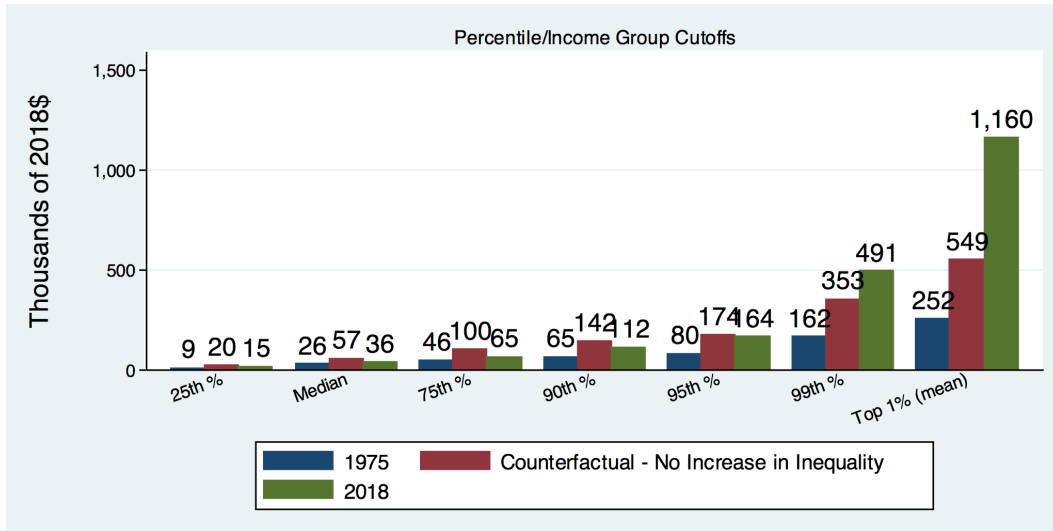
Source: 2015 1-year American Community Survey, based on pre-tax household income.

Income Share Changes Between 1970 and 2020



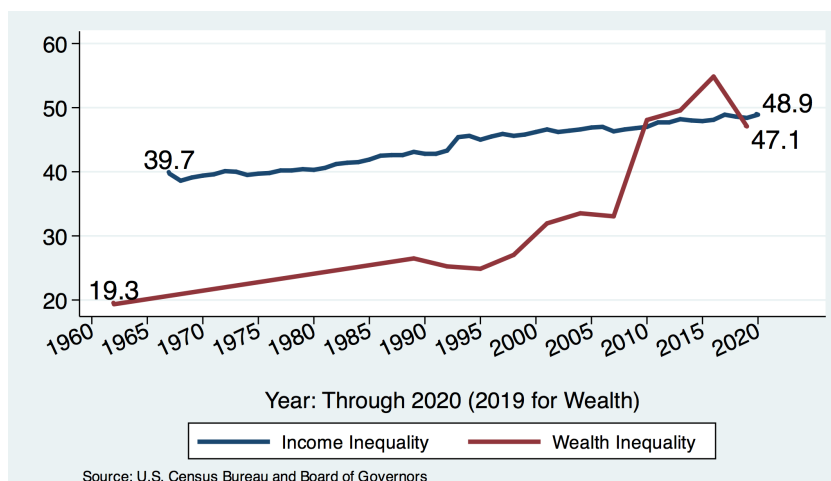
Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements.

How Has Inequality Influenced Incomes?



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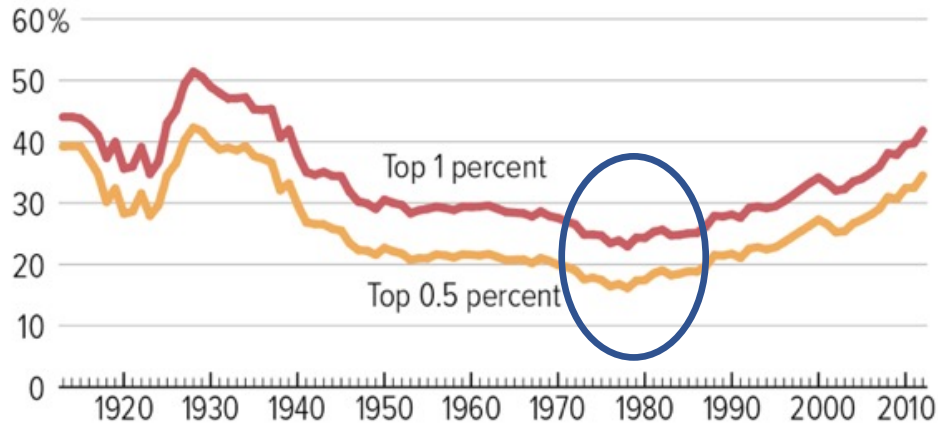
Income and Wealth Gini Coefficients



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Wealth Concentration Has Been Rising

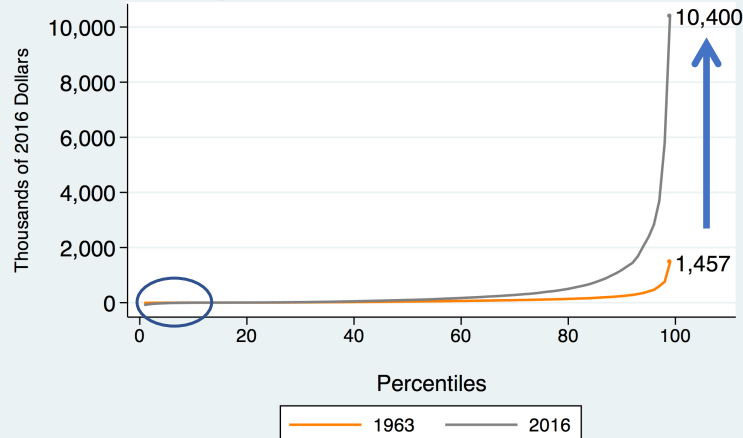
Share of total wealth held by the wealthiest families, 1913-2012



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Wealth is More and More Concentrated

Change in the Wealth Distribution: 1963 to 2016



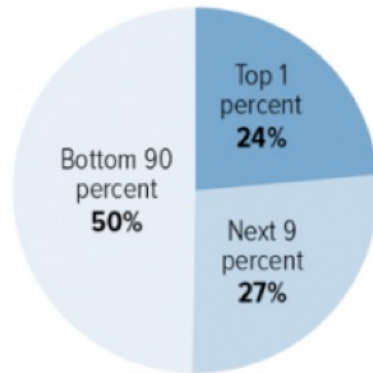
99th Percentile
2016 = 7x 1963

Source: Urban Institute from Survey of Consumer Finances
Produced by: National Economic Education Delegation (www.NEEDelegation.org)

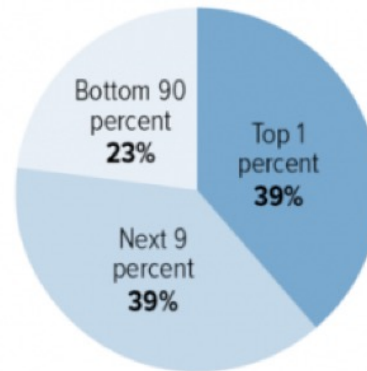
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Wealth Inequality Exceeds Income Inequality

Distribution of before-tax income, 2016



Distribution of wealth, 2016



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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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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**

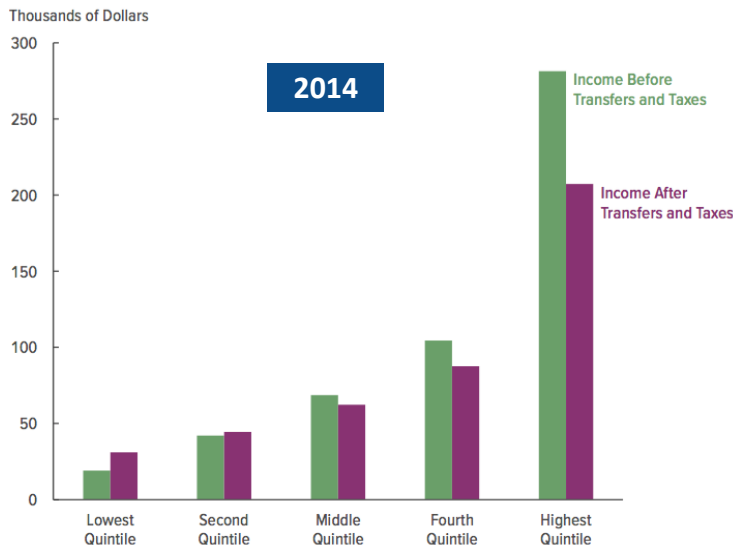
- Characteristics of labor
 - o Access to education
- Effects on labor demand
 - o Market regulation
 - Competition policy
 - o Labor regulations
 - Minimum wage, overtime, health insurance, union regulations, etc.

- **RE-distribution**

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

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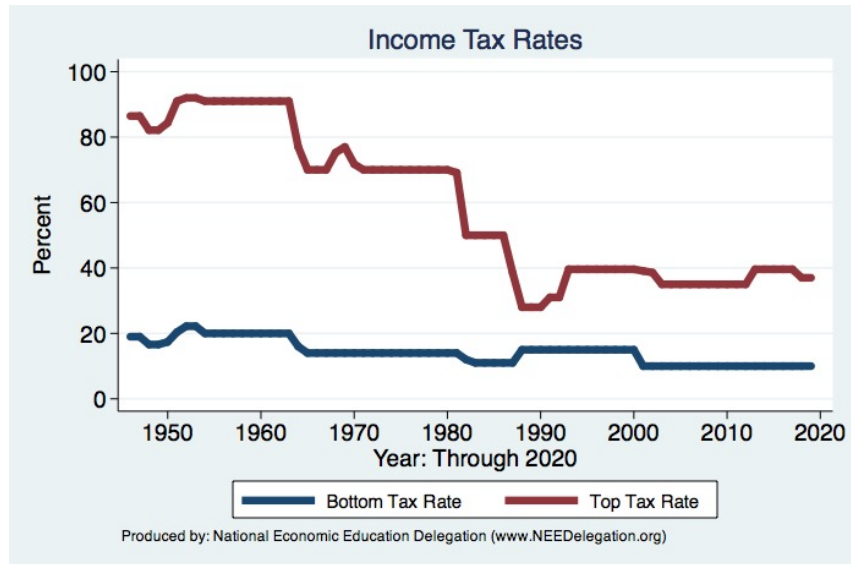
Tax and Transfer Programs and Inequality



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.

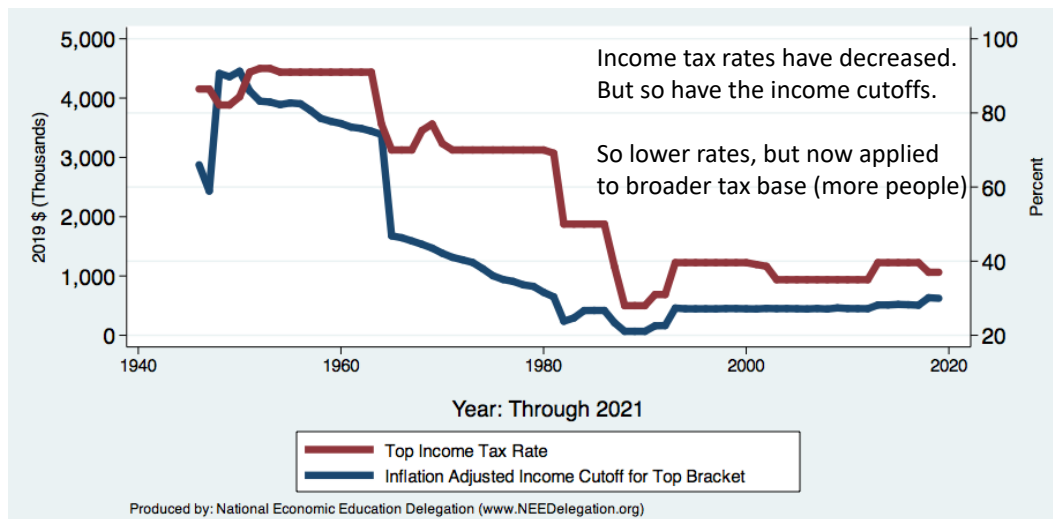
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Tax Rates Over Time

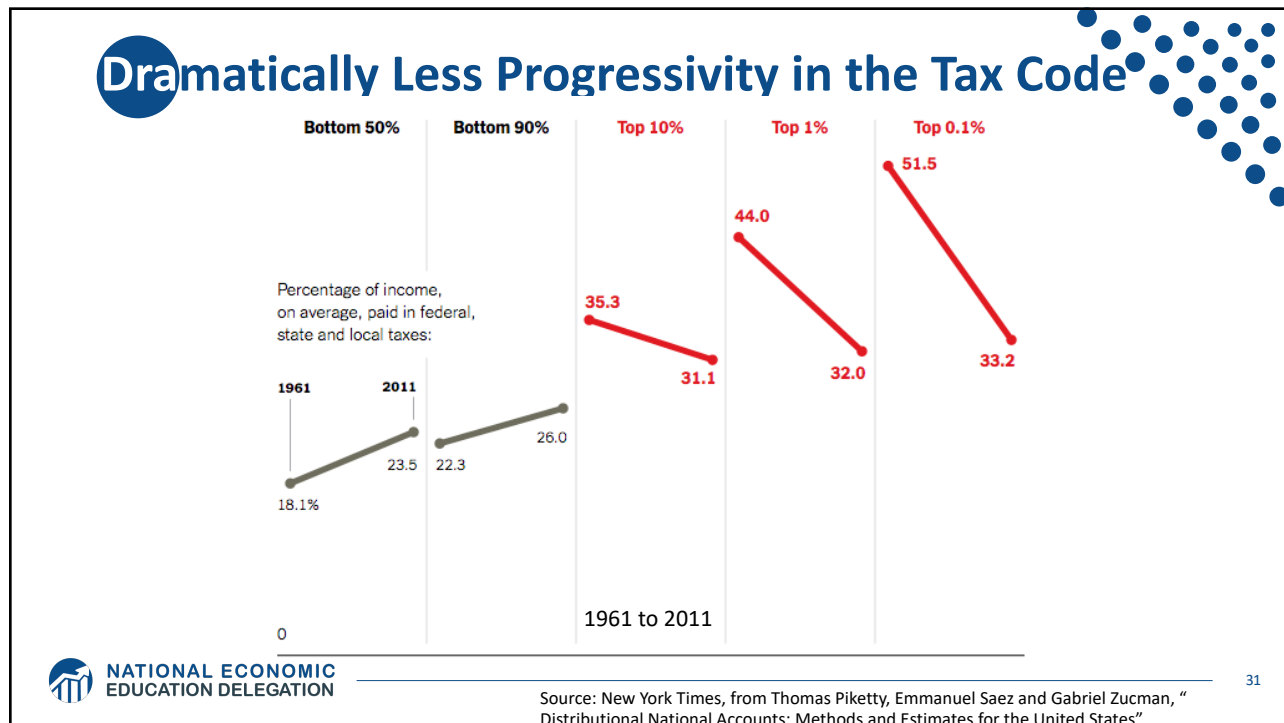


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The Top Tax Rate and Income Cutoff



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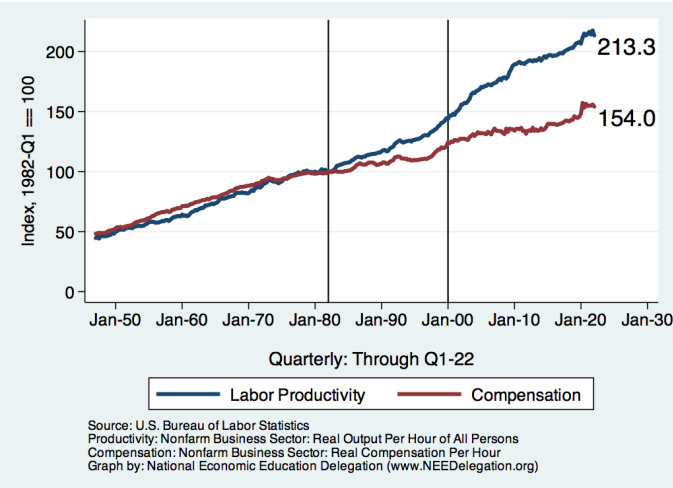
Market Forces and Inequality

- **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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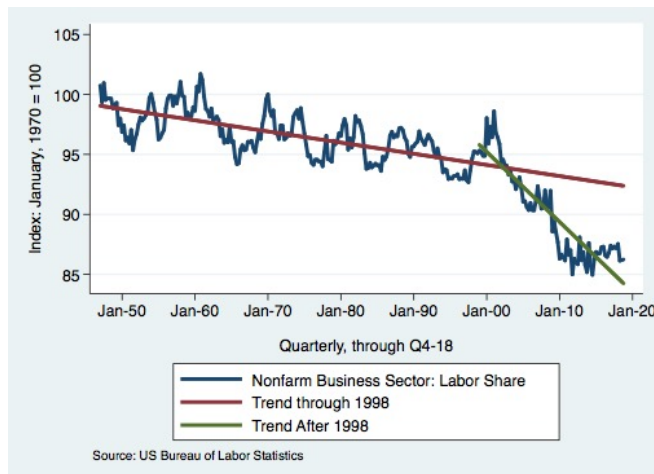
Labor Income is Unhinged from Productivity



Why? Some theories:

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

Effects of the Unhinging?



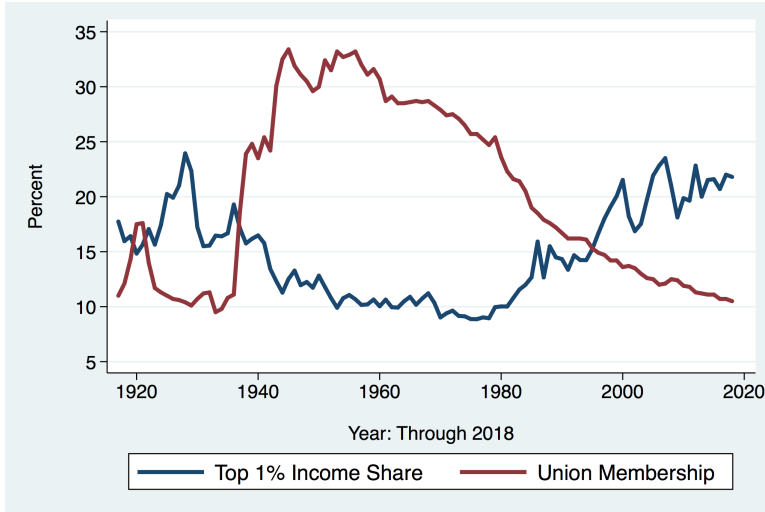
Labor’s Share of Income

1960: 66%

2011: 56%

2016: 58%

Declining Unionization



Unionization Rates

- 1983: 20.1%
- 2021: 10.3%

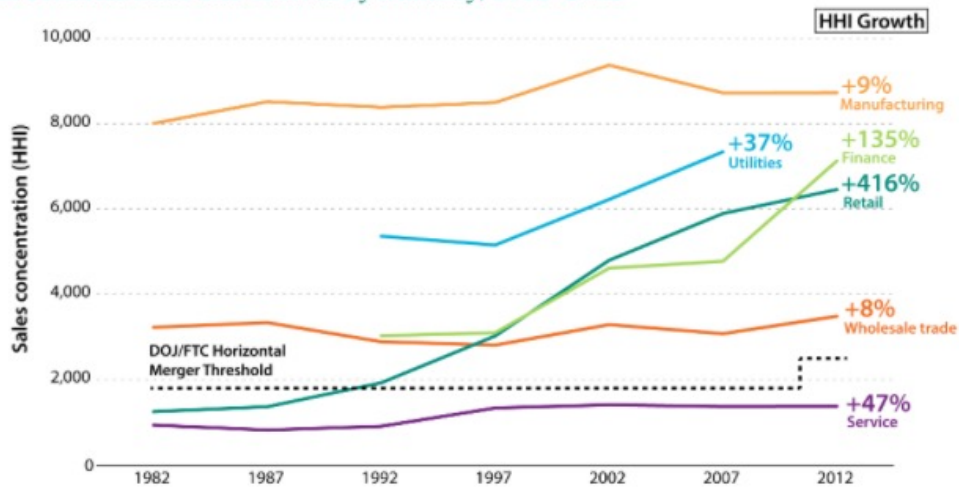
Unionization Rates

- Public: 33.9%
- Private: 6.1%

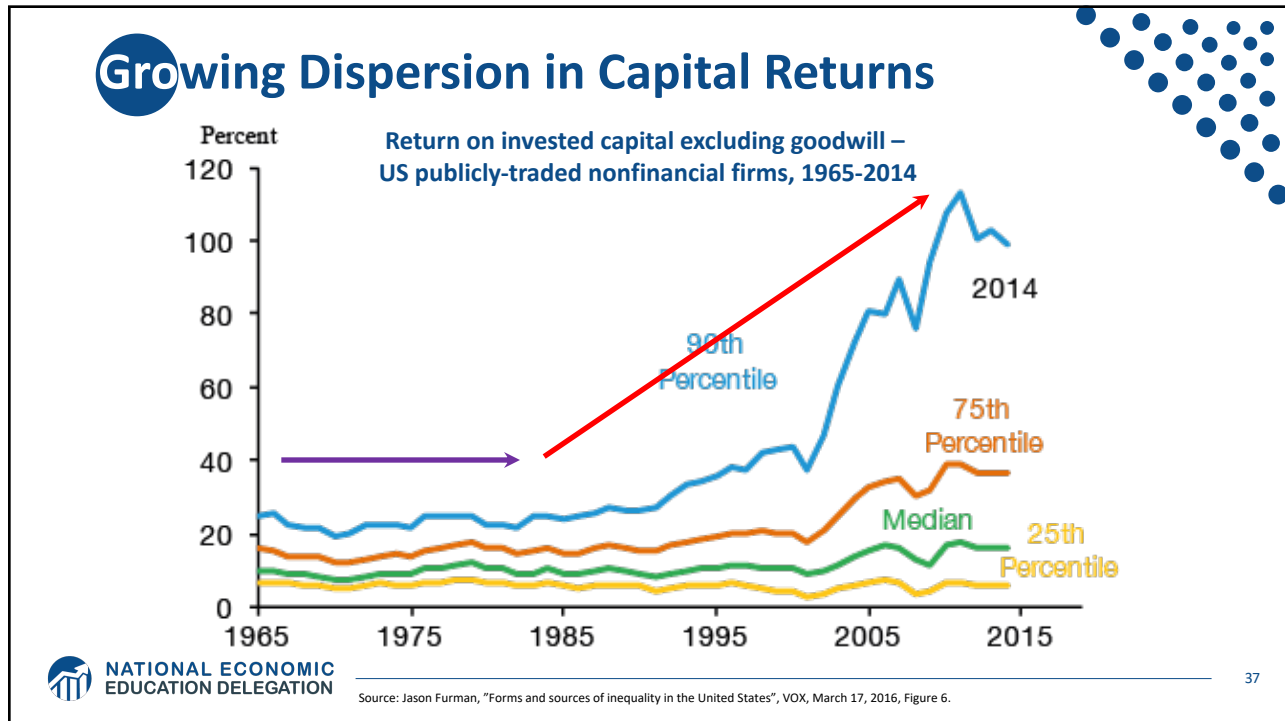
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Growing Concentration within Industries

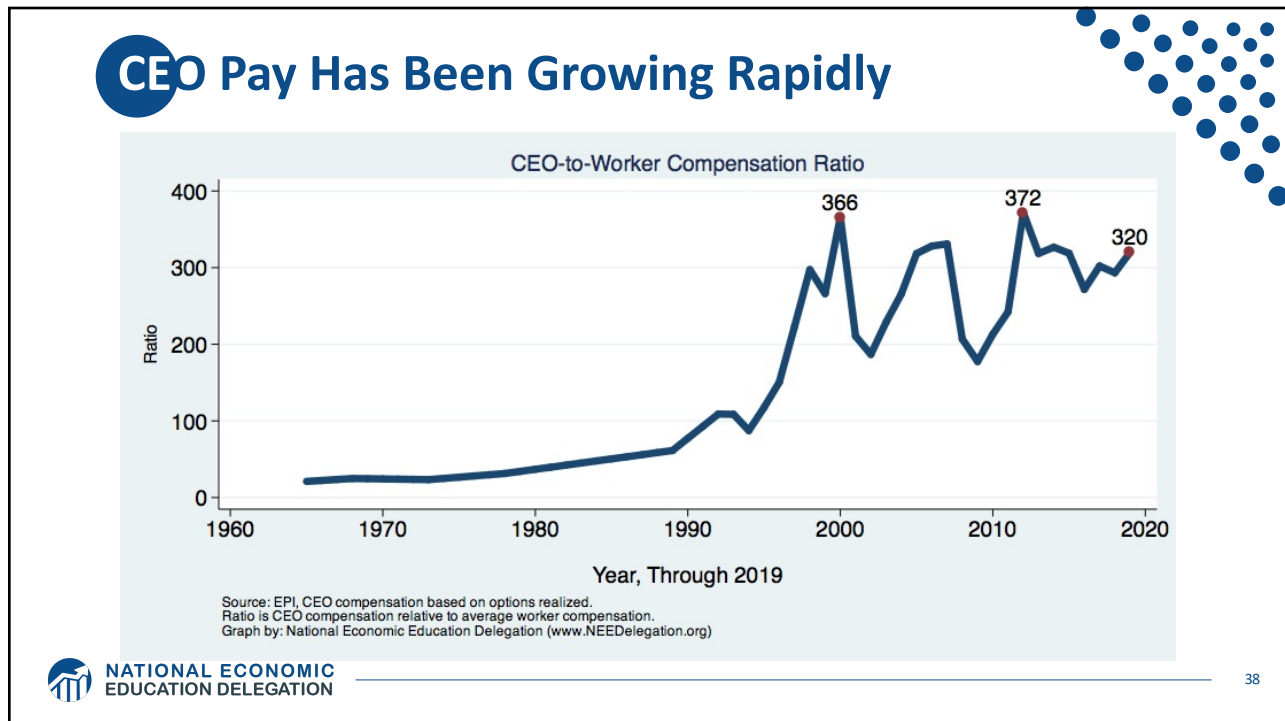
Market Concentration and Growth by Industry, 1982–2012



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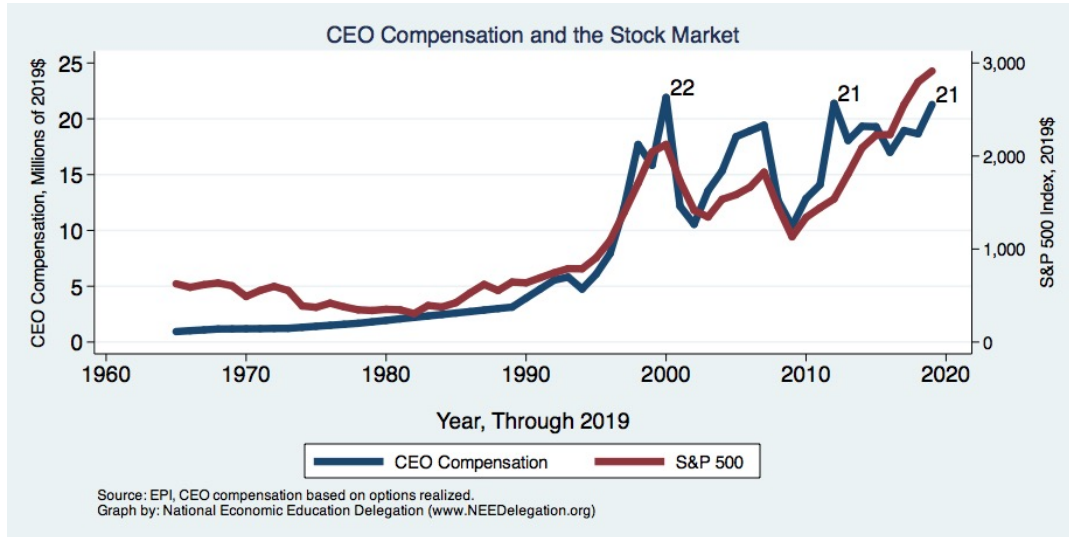


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CEO Compensation – Tied to Stock Prices



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Immigration and Inequality

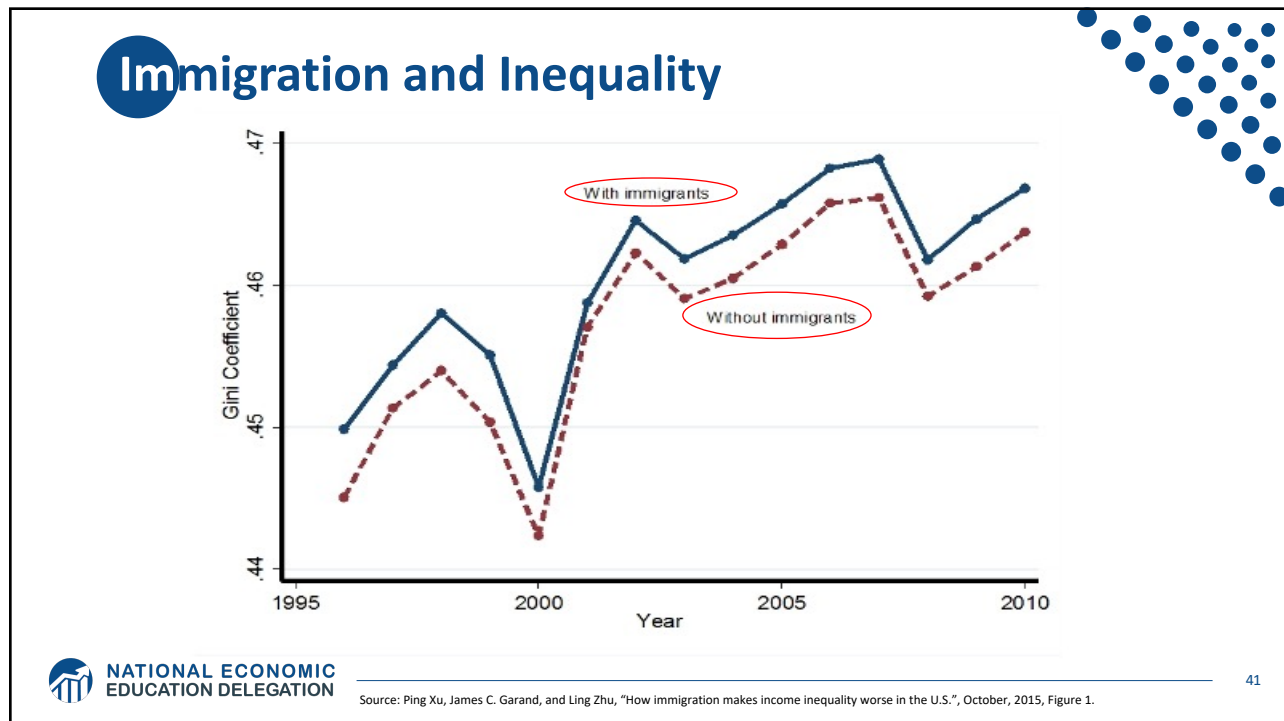
- **Beginning in about 1970, the immigrant share of the U.S. Population increased dramatically.**
 - 5% in 1970 and 14% in 2016
- **Immigration tends to happen most often among:**
 - Low-skilled low-wage workers
 - High-skilled high-wage workers
- **Immigration has likely increased income inequality.**
- **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

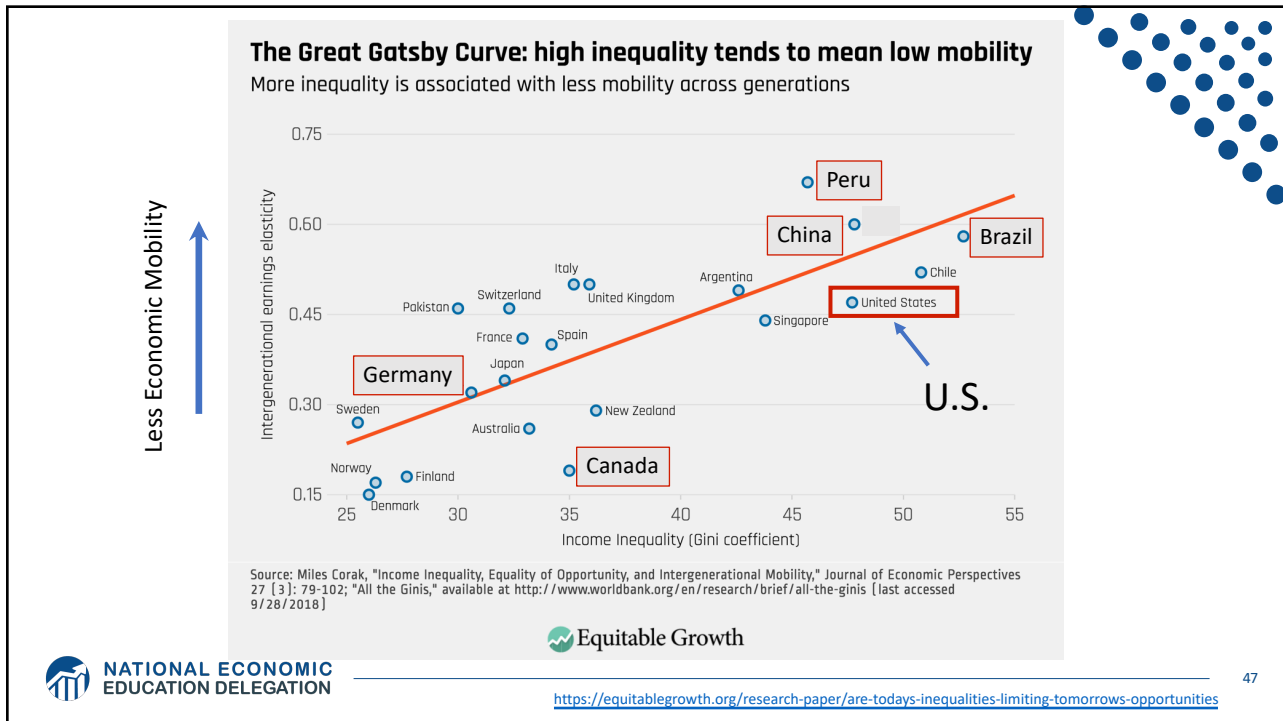
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Why Does Inequality Matter?

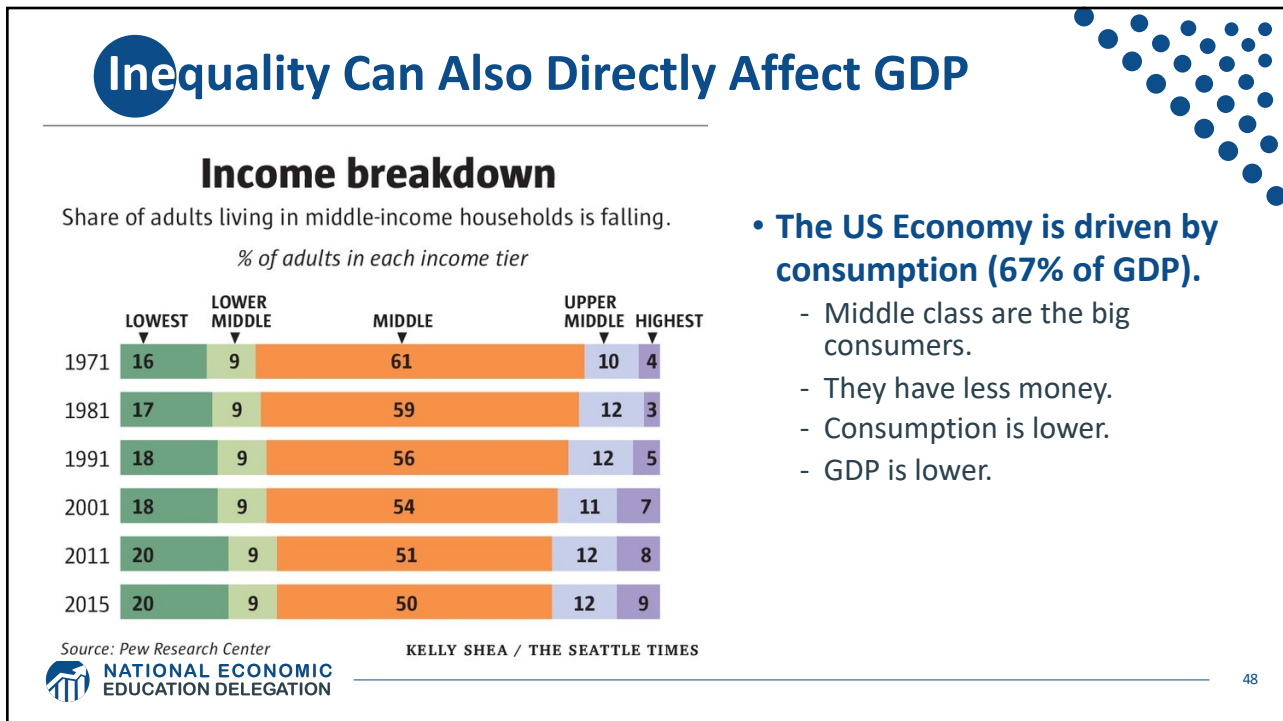
- **Too little inequality can:**
 - Reduce individual motivation
 - Slow economic growth
 - **Too much inequality can:**
 - Reduce individual motivation
 - Slow economic growth
-
- **Too much inequality may also:**
 - Divide society
 - Distort political environment
 - Reduce political participation
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



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Addressing Inequality: Long Term

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

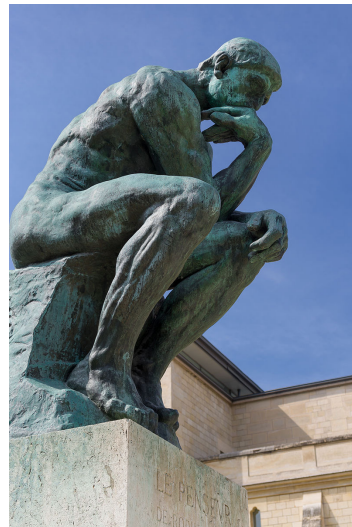
- Improve public education and reduce quality disparities across schools
- Improve counseling - paths to higher ed and funding for low-income students
- Invest in early childhood education, not later (e.g. universal pre-k)
- Promote opportunities for wealth-building
- Increase housing supply, especially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

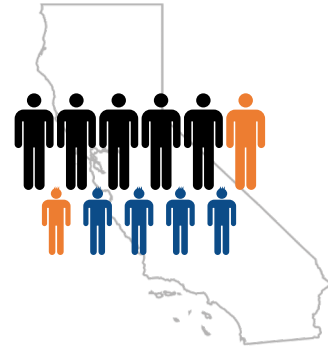
What to do About Inequality?

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



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 tradeoffs.**



Autonomous Vehicles: Jon Haveman



Thank you!

Any Questions?

www.NEEDelegation.org

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