

Osher Lifelong Learning Institute, Winter 2022

Contemporary Economic Policy

Dominican University
Fall, 2022

National Economic Education Delegation



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1

1

National Economic Education Delegation

- **Vision**

- One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.

- **Mission**

- NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.

- **NEED Presentations**

- Are nonpartisan and intended to reflect the consensus of the economics profession.



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2

2

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




5

Course Outline

- **Contemporary Economic Policy**
 - **Week 1 (10/13): Economic Inequality (Jennifer Alix-Garcia, Oregon St. Univ.)**
 - Week 2 (10/20): Economic Mobility (Jon Haveman, NEED)
 - Week 3 (10/27): The Black-White Wealth Gap (Jon Haveman, NEED)
 - Week 4 (11/3): The Gender Wage Gap (Mallika Pung, University of New Mexico)



6



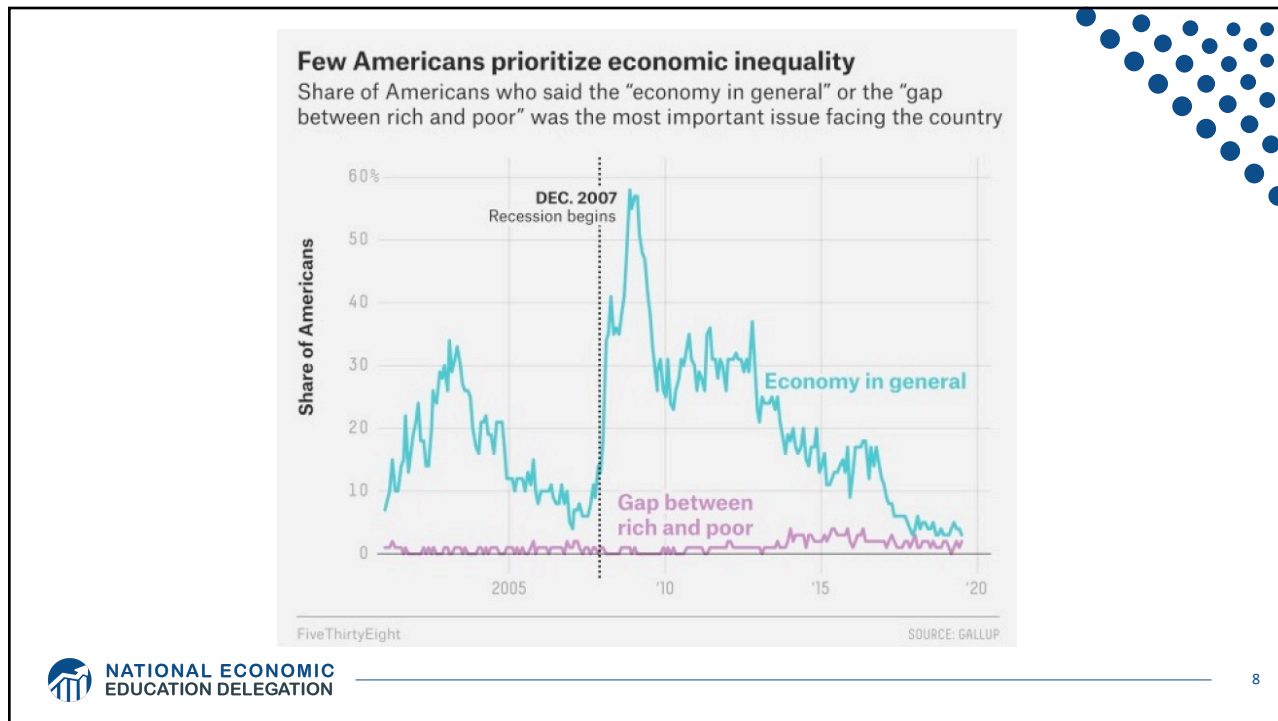
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Economic Inequality

Jennifer Alix-Garcia, Ph.D.
Professor, Oregon State University

OLLI Lifetime Learning, Dominican
October 13, 2022

7



8

Outline

- Definition
- Measurement
- How does it happen?
- Does it matter?
- Is it a problem?
- What to do about it



9

Economic Inequality: Income

- **Definition:**

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



10


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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11

11

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.

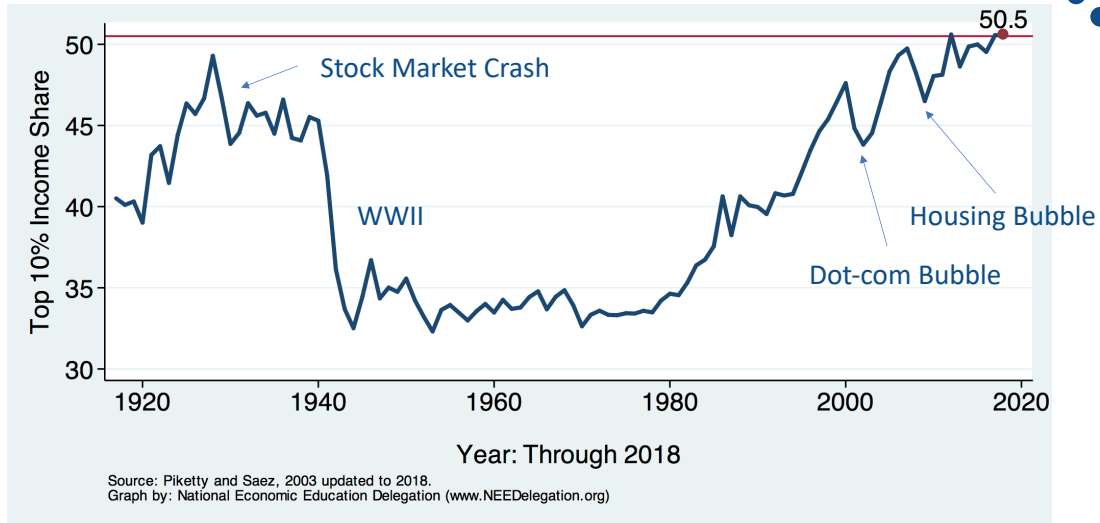


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12

12

National Income Inequality: Share of Top 10%

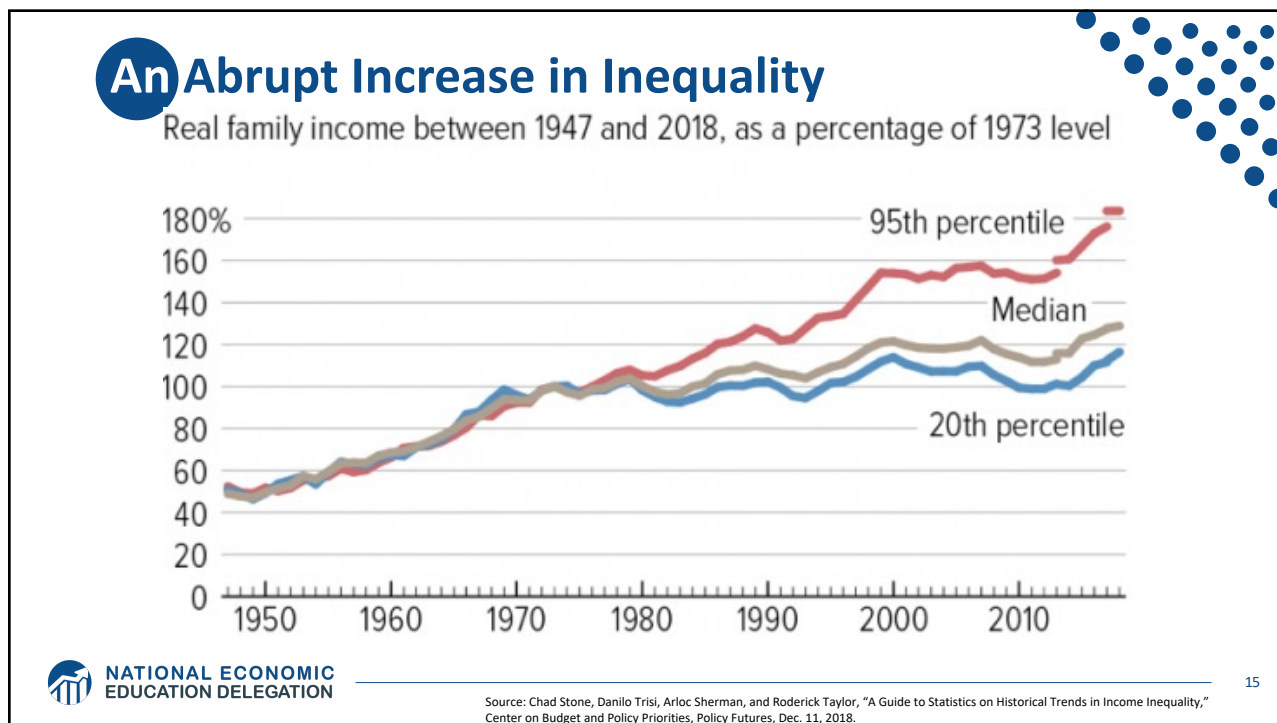


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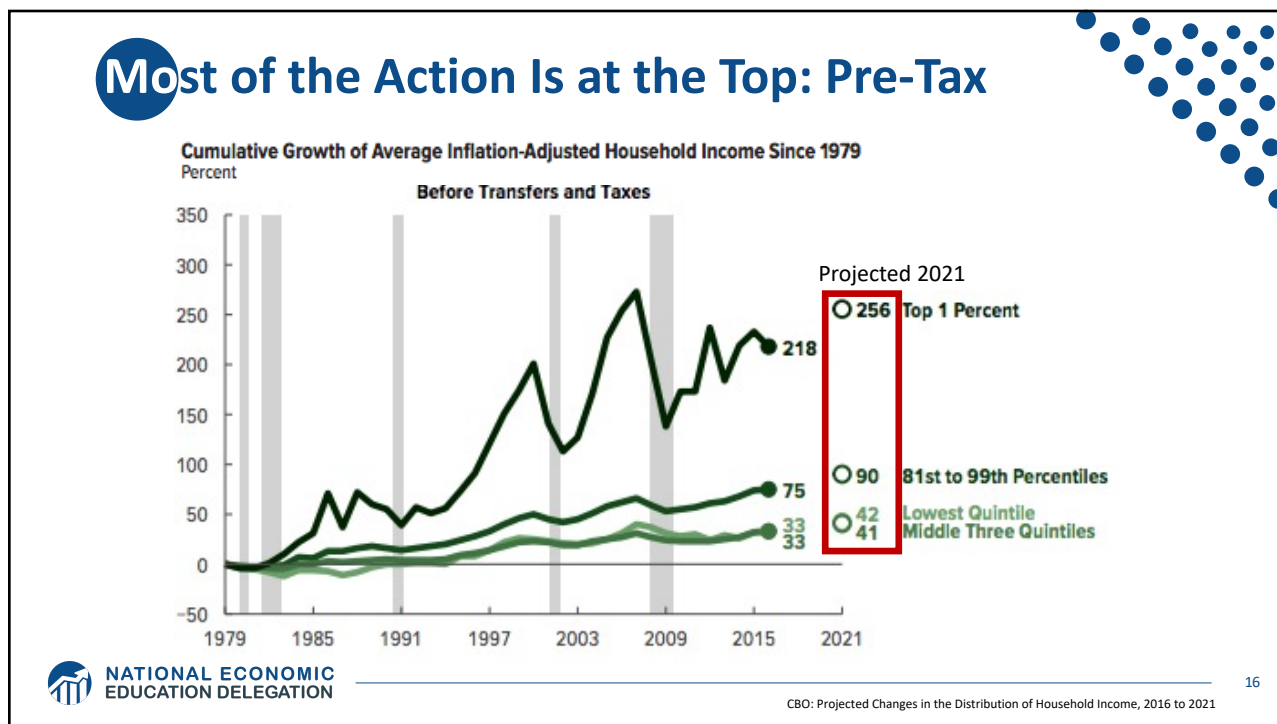
Recent Facts on Income Inequality

- **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

14



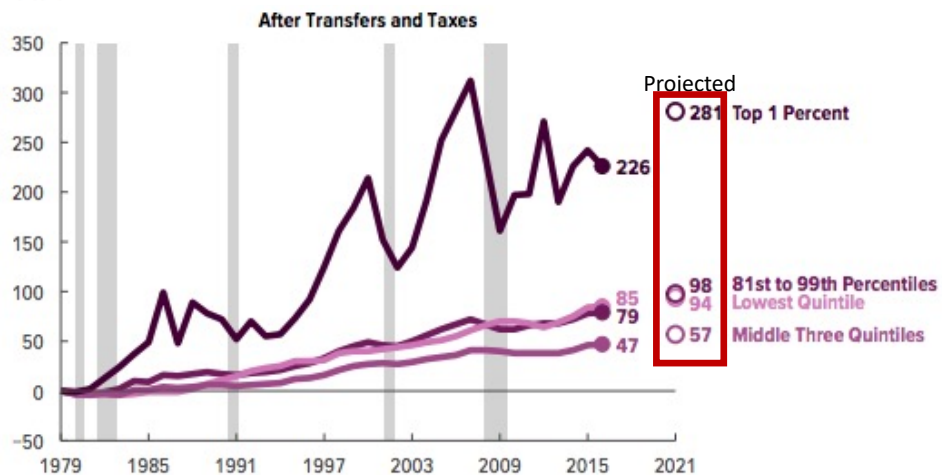
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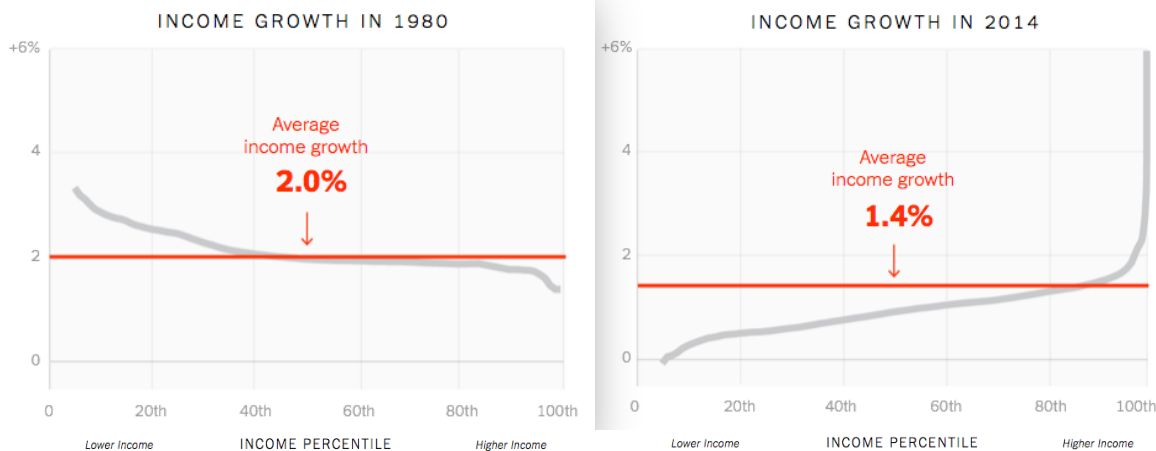
Most of the Action Is at the Top: Post-Tax

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

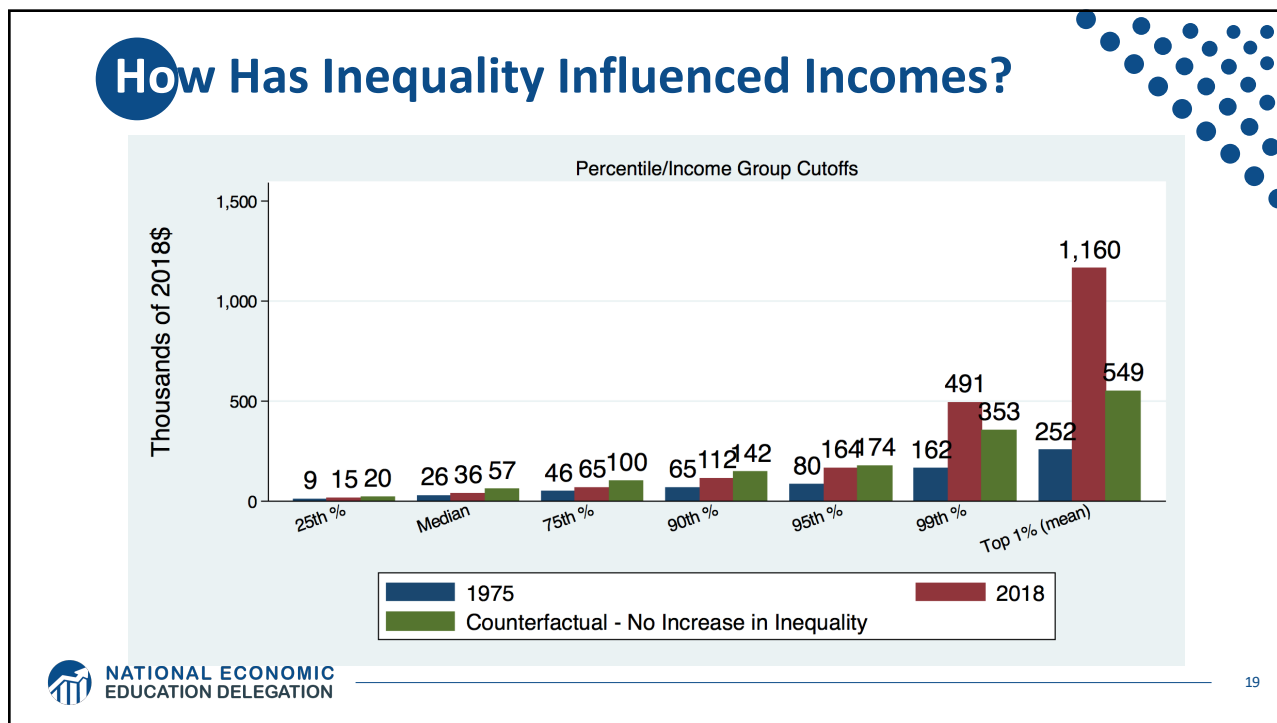


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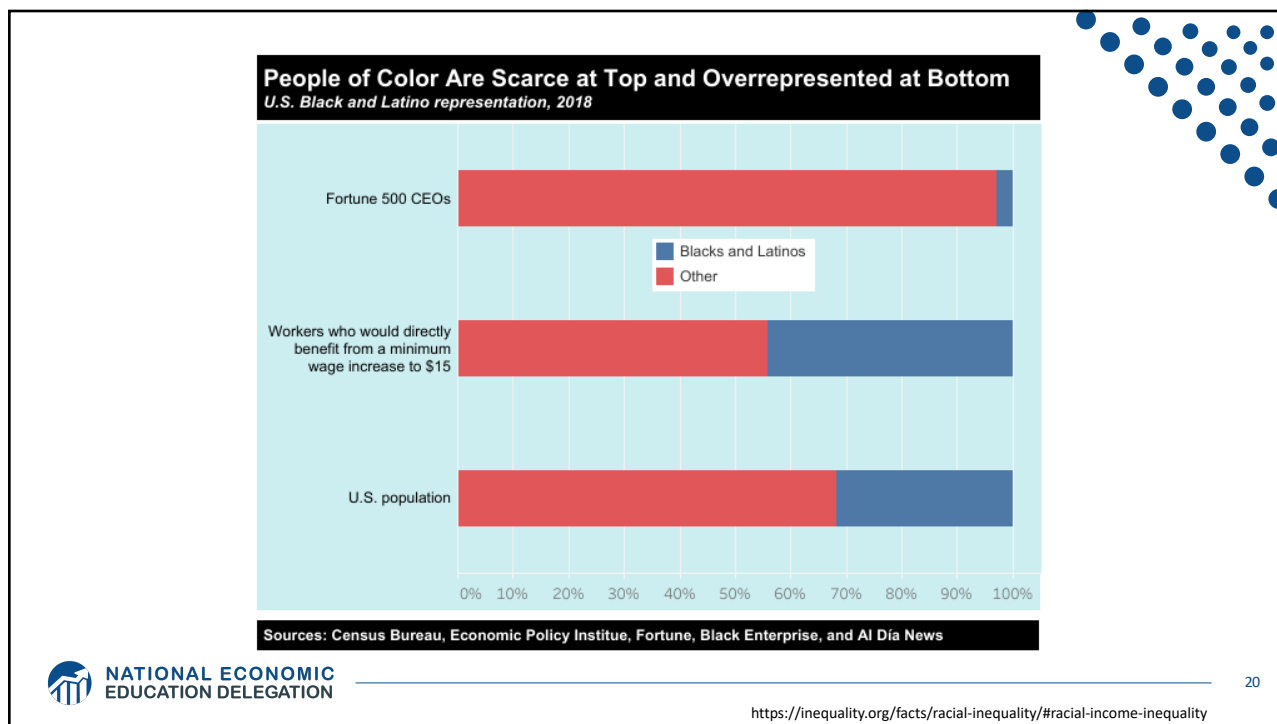
Income Growth Pattern – Has Changed



18

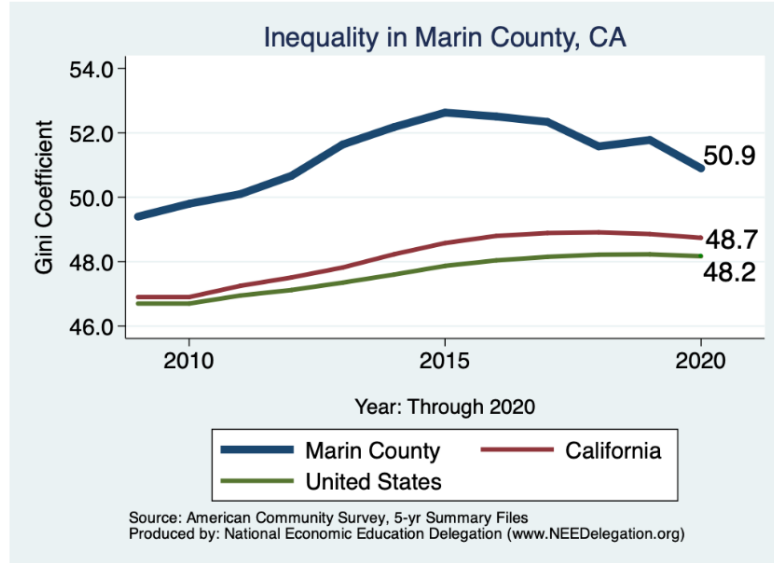


19



20

Your Local Inequality Trend



21

Where Does Inequality Come From?

• Labor Characteristics

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

• Market Forces

- Technology
- Changing demand patterns
- Competition for labor


• Government Policy

- Market influence
- Redistribution

22

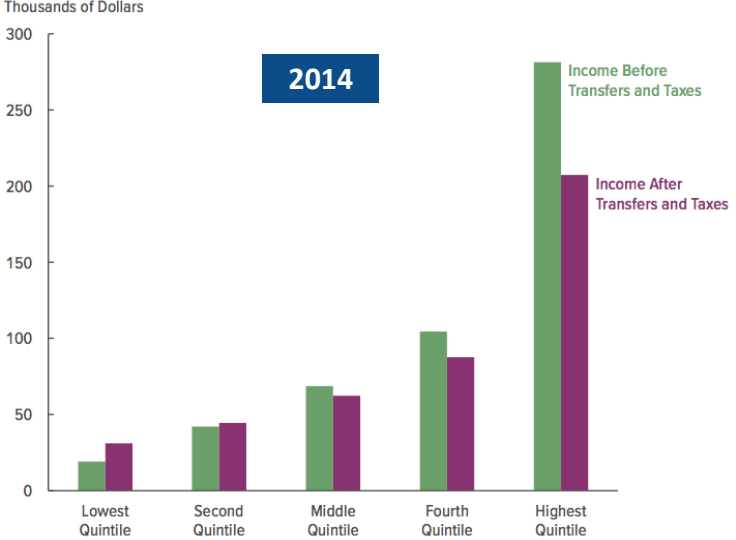
Government Policy and Inequality

- **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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23

Tax and Transfer Programs and Inequality



Quintile	Income Before Transfers and Taxes (Thousands of Dollars)	Income After Transfers and Taxes (Thousands of Dollars)
Lowest Quintile	~20	~30
Second Quintile	~40	~45
Middle Quintile	~70	~65
Fourth Quintile	~105	~90
Highest Quintile	~280	~210

2014

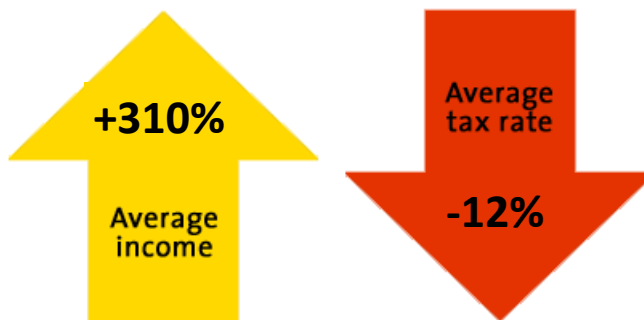
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Source: U.S. Congressional Budget Office, "The Distribution of Household Income, 2014", Average Income Before and After Means-Tested Transfers and Federal Taxes, by Income Group, 2014.

24

What About Tax Rates?

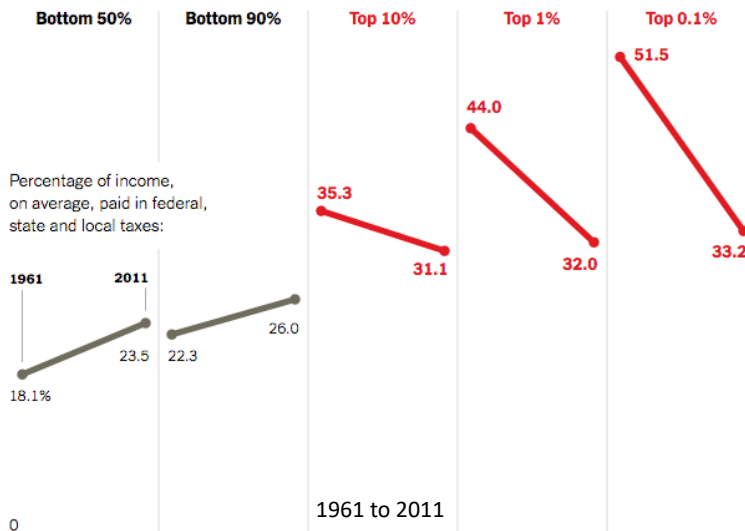
400 TAXPAYERS WITH HIGHEST INCOMES
1992-2014



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

25

Dramatically Less Progressivity in the Tax Code



Source: New York Times, from Thomas Piketty, Emmanuel Saez and Gabriel Zucman, "Distributional National Accounts: Methods and Estimates for the United States"

26

26

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



27

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?

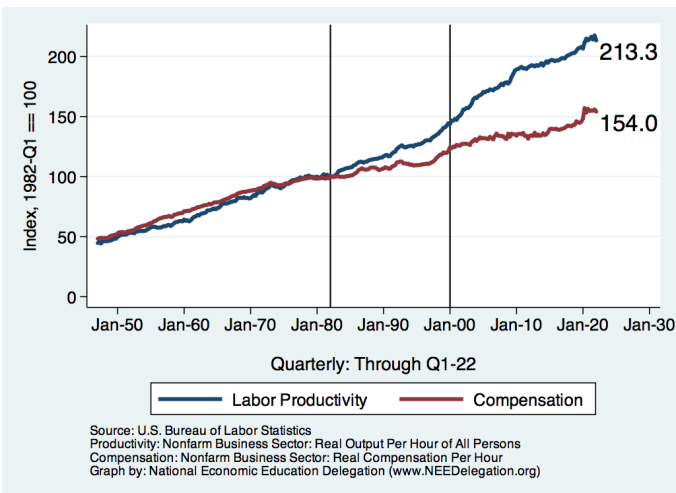
- **Government policies**

- PRE-distribution – affecting markets
- Redistribution – affecting incomes



28

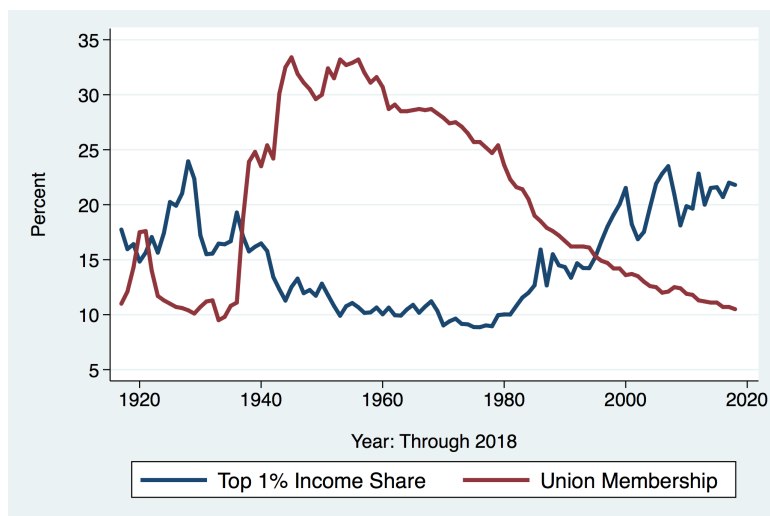
Labor Income is Unhinged from Productivity



Why?

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

Declining Unionization

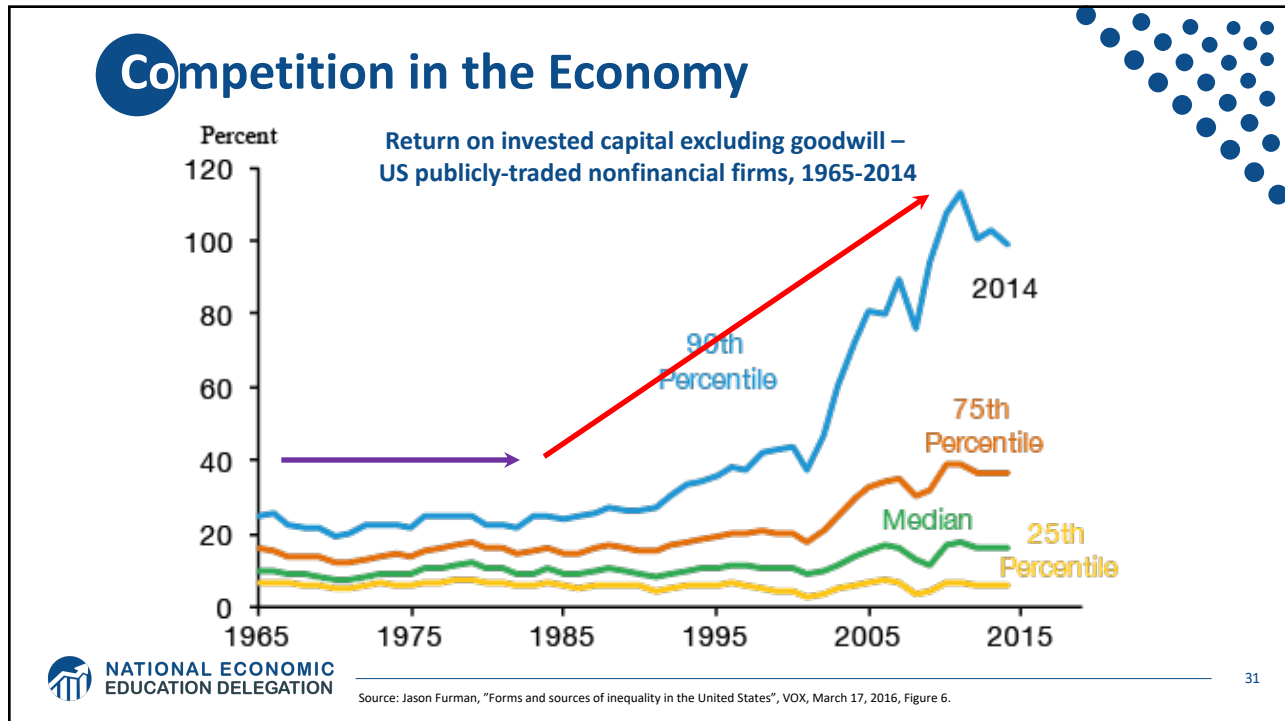


Unionization Rates

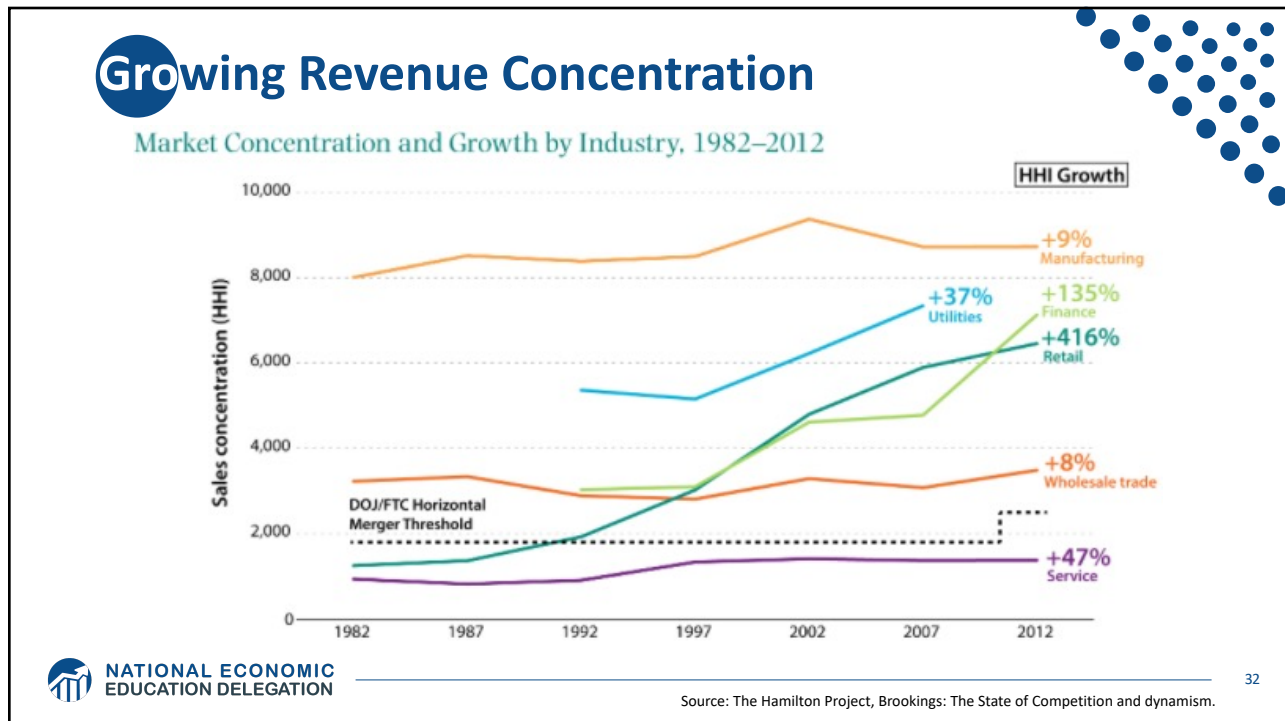
- **1983:** 20.1%
- **2021:** 10.3%

Unionization Rates

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



31



32

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



33

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.



34

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



35

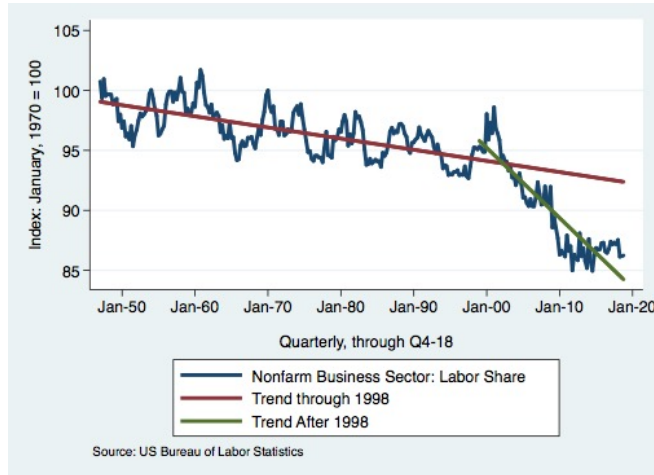
Mechanisms for the Effects of Globalization

- **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.**



36

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

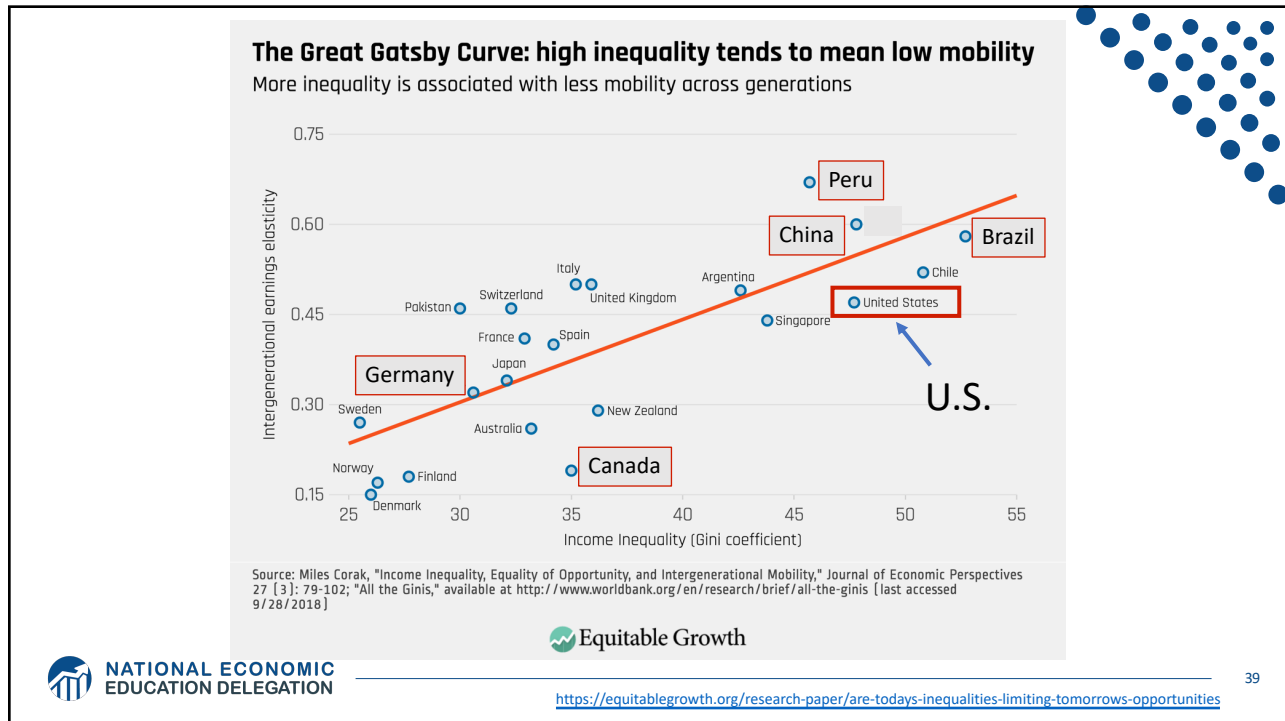
- **Too much inequality can:**

- Reduce individual motivation
- Slow economic growth

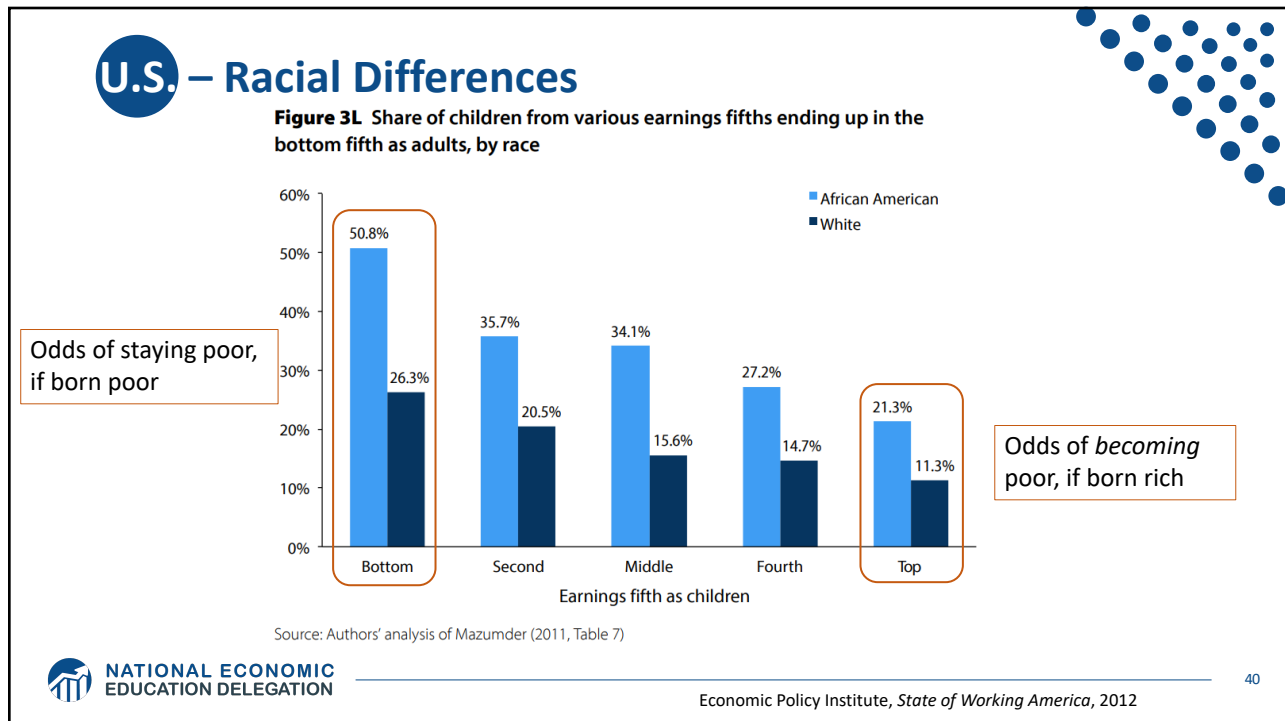
- **Too much inequality may also:**

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





39



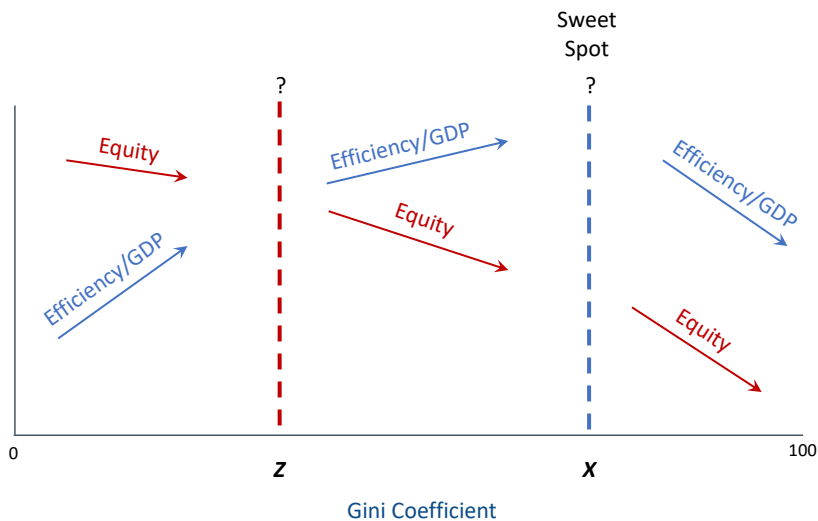
40

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.

41

How Much Inequality Is too Much?



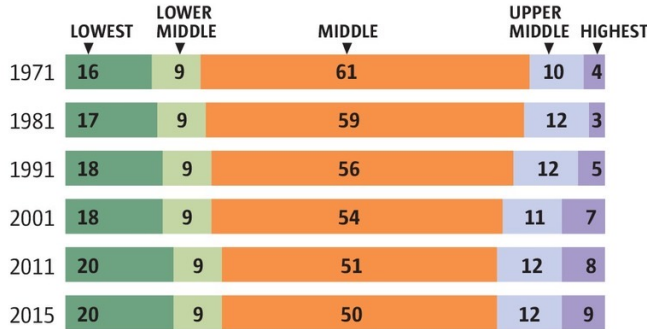
42

Inequality Can Also Directly Affect GDP

Income breakdown

Share of adults living in middle-income households is falling.

% of adults in each income tier



Source: Pew Research Center
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KELLY SHEA / THE SEATTLE TIMES

43

- **The US Economy is driven by consumption (67% of GDP).**

- Middle class are the big consumers.
- They have less money.
- Consumption is lower.
- GDP is lower.

43

Too Much Inequality Can:

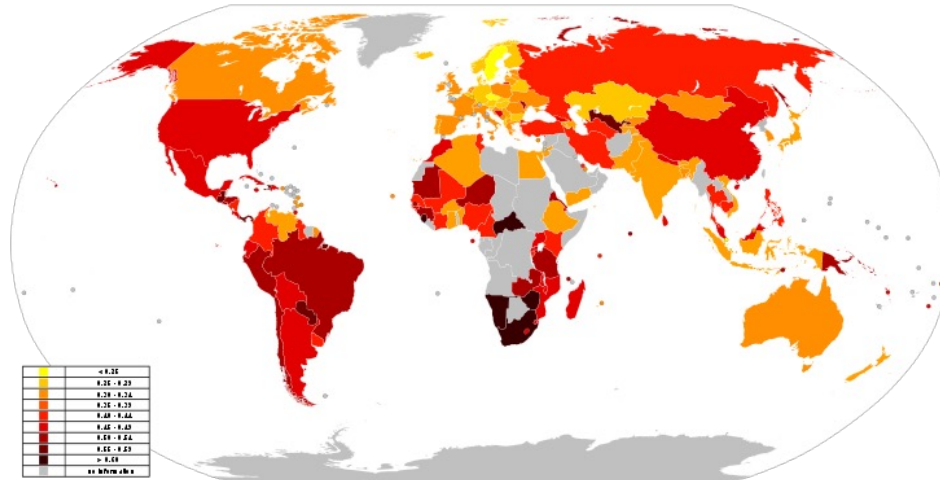
- **Reduce work effort, which reduces GDP.**
- **Reduce purchasing power of the middle class, which reduces GDP.**
- **Reduce the ability of people to get ahead, which reduces mobility.**
 - Puts the American Dream at risk.
- **Increase the share of the population living on low incomes.**
 - Offending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

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44

44

An International Perspective



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Source: Data taken from the 2014 CIA World Factbook.

45

45

Addressing Inequality: Is It A Problem?

• Why it might be a problem.

- Economic issues (*Efficiency*)
 - o There is evidence that at some level, increased inequality slows economic growth.
 - o Or, inequality concentrates resources among investors.
- Noneconomic issues (*Equity*)
 - o 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?



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46

46

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

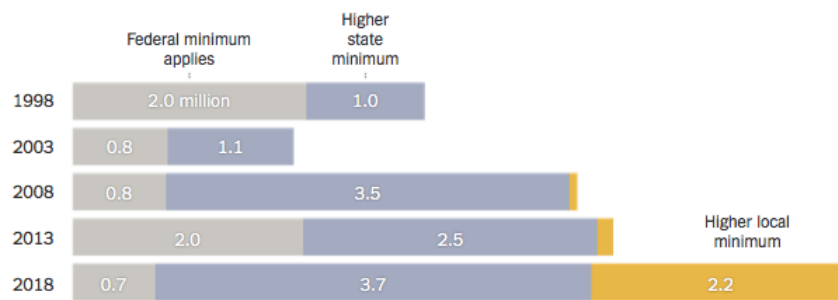
- **RE-distribution**
 - Tax and transfer programs

- **PRE-distribution**
 - Strengthen labor unions
 - Collective bargaining
 - Other policies that favor labor over business owners
 - Minimum wages



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).

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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49

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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50

Tension in Policy Solutions

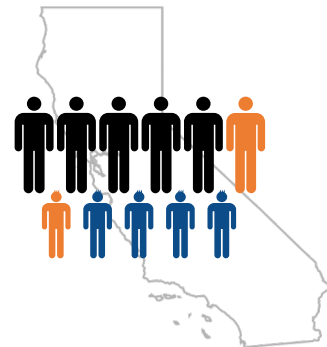
- **Is it possible to increase growth at the same time that you reduce income inequality?**
 - Common refrain among some that government intervention in the economy is always and everywhere bad for growth.
- **Possibly: expanding equality of access promotes the full utilization of resources.**
 - Expanding equality of access requires resources likely from the well-to-do.



51

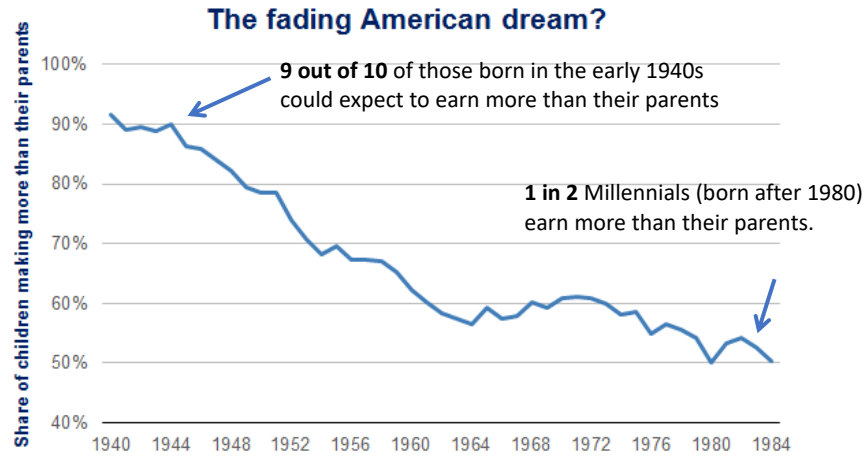
Summary

- **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.**



52

Mobility: Jon Haveman



Source: Chetty et al., "The fading American dream: Trends in absolute income mobility since 1940"



BROOKINGS

Thank you!

Any Questions?

www.NEEDelegation.org

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Contact NEED: info@needelegation.org

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Available NEED Topics Include:

- Coronavirus Economics
- Climate Change
- Economic Inequality
- Economic Mobility
- US Social Policy
- Trade and Globalization
- Minimum Wages
- The U.S. Economy
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- Black-White Wealth Gap
- Autonomous Vehicles



55

Additional Slides



56

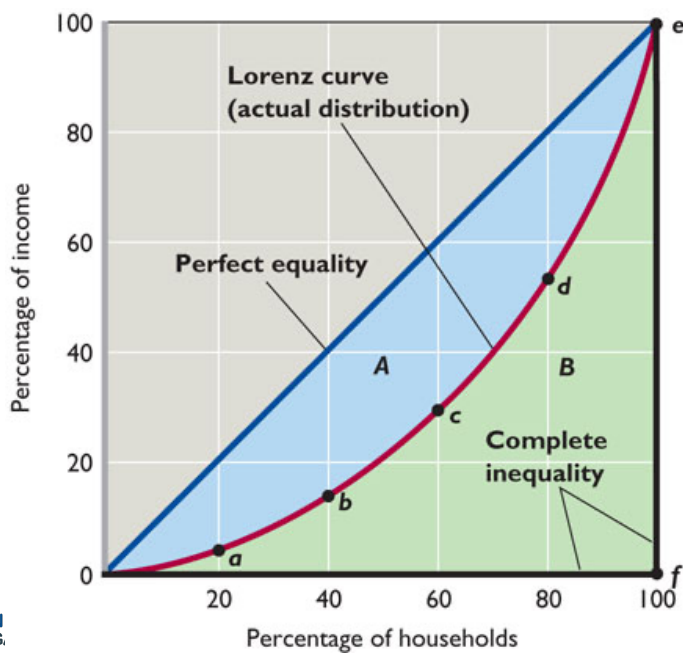
Measuring inequality: The Lorenz Curve

Shows the distribution of income in a region
 Ex: U.S. Income Distribution - 2008

	Quintile (2008)	% of total income	Cumulative % of total income
A	Lowest 20%	3.4	3.4
B	Second 20%	8.6	12
C	Middle 20%	14.7	26.7
D	Fourth 20%	23.3	50
E	Highest 20%	50	100

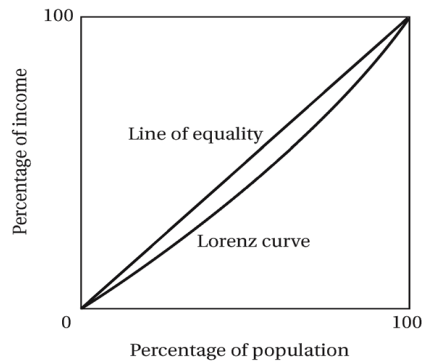


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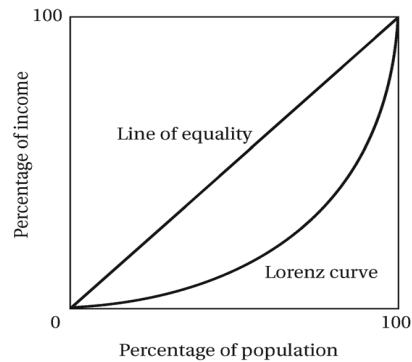


58

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

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

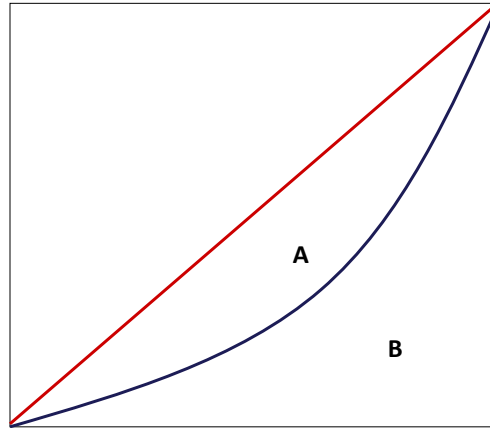
Using the Lorenz curve to calculate a Gini Coefficient

Gini coefficient =
 $A / (A + B)$

A higher Gini coefficient means greater inequality

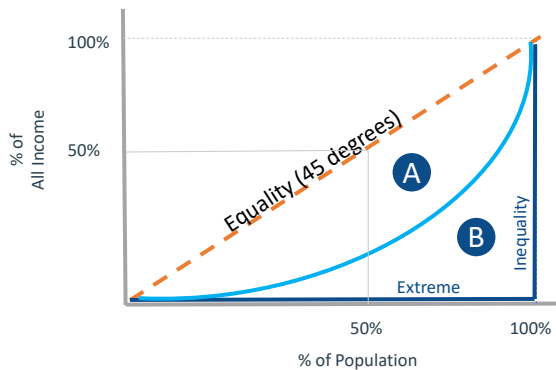
Perfect equality:
 A=0, Gini=0

Perfect inequality:
 B=0, Gini = 1



61

The Gini Coefficient

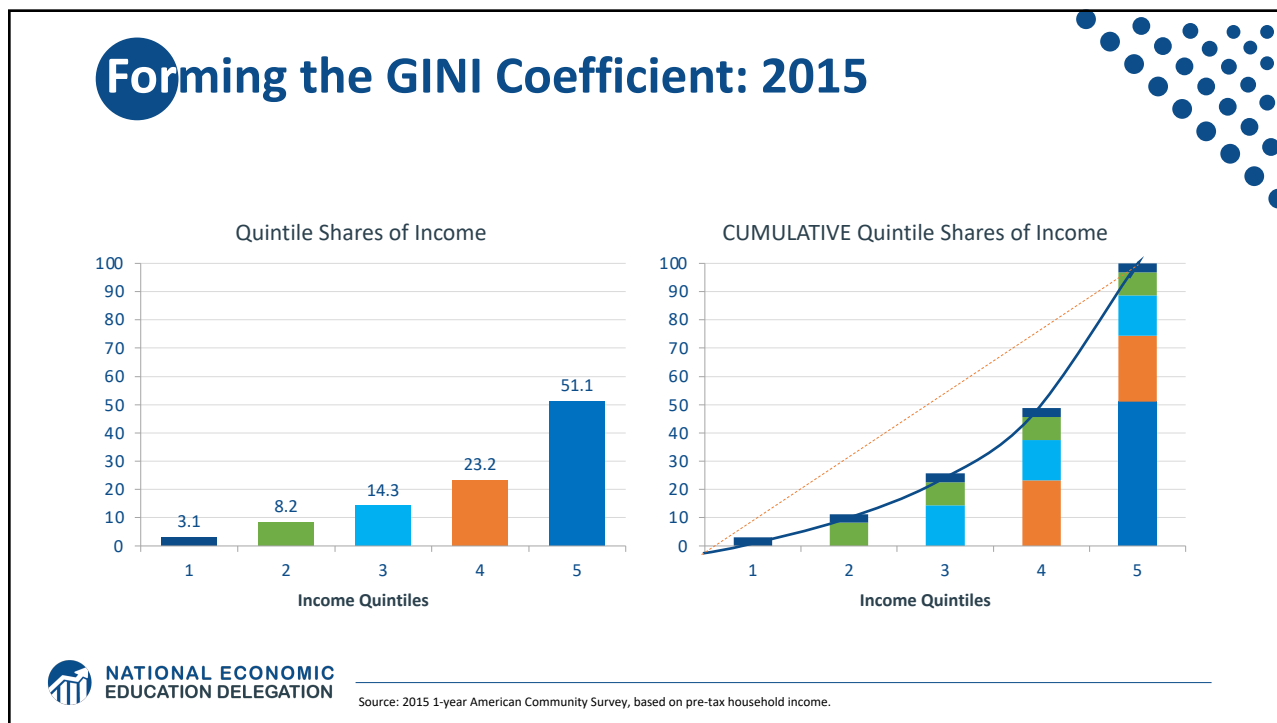


$$\text{Gini} = \frac{A}{A + B} \times 100$$

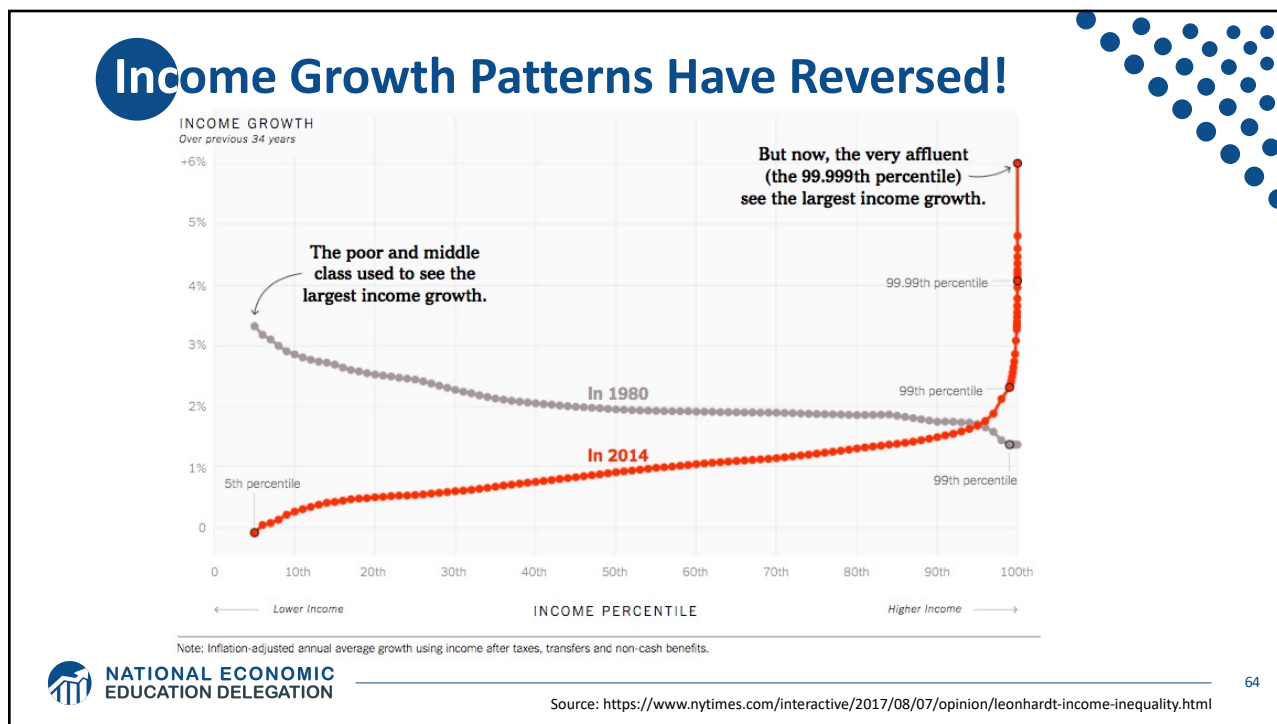
Bigger A: More inequality
 Smaller A: Less inequality



62

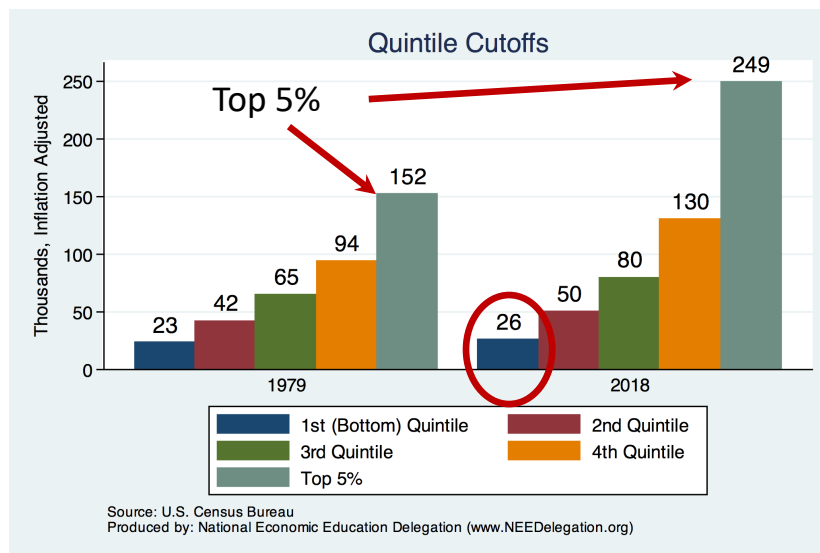


63



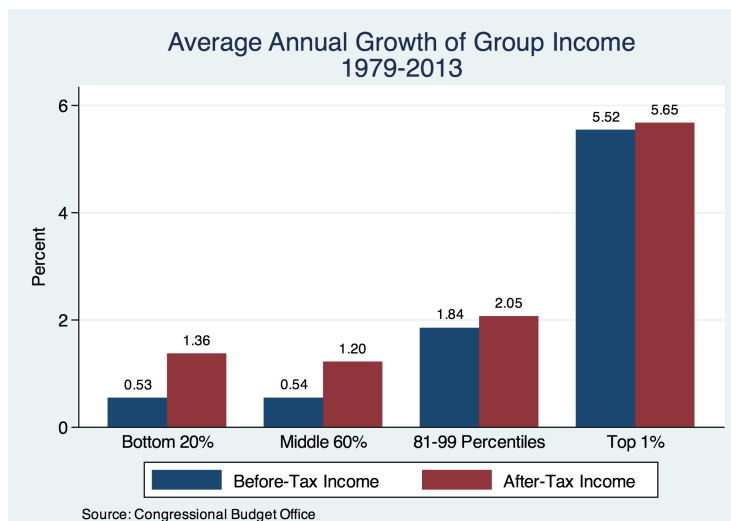
64

Quintile Income Cutoffs

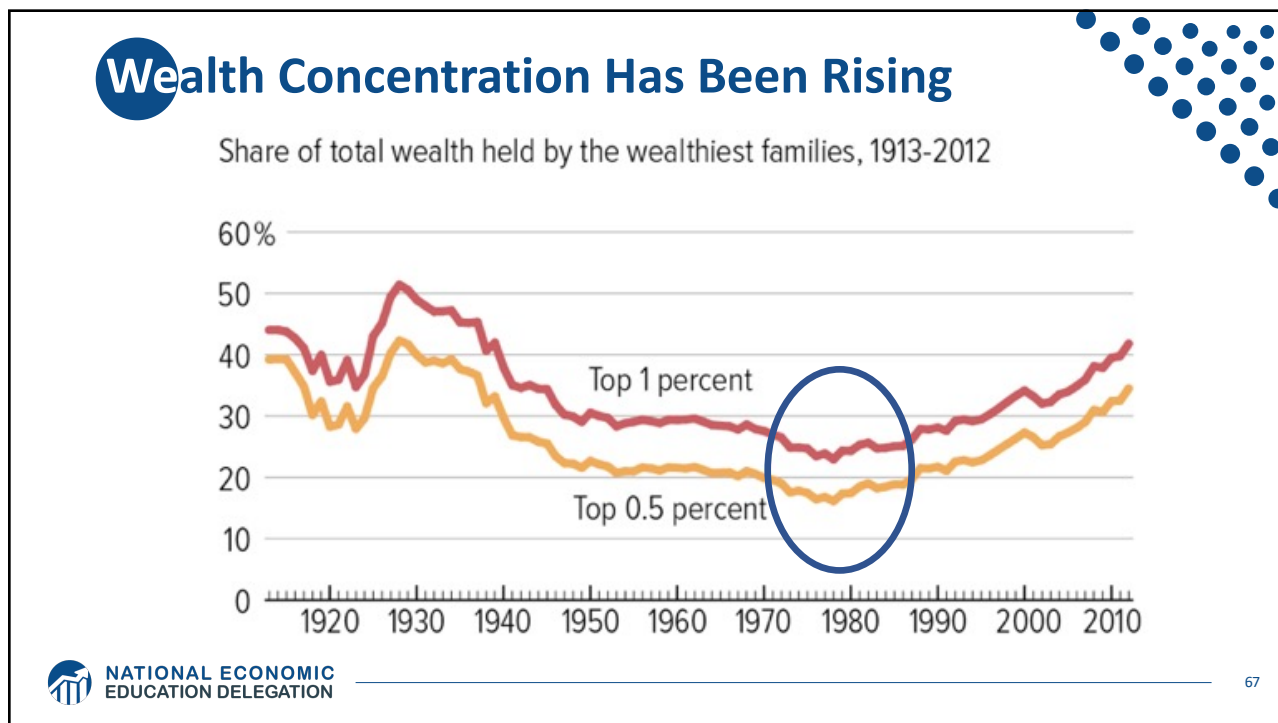


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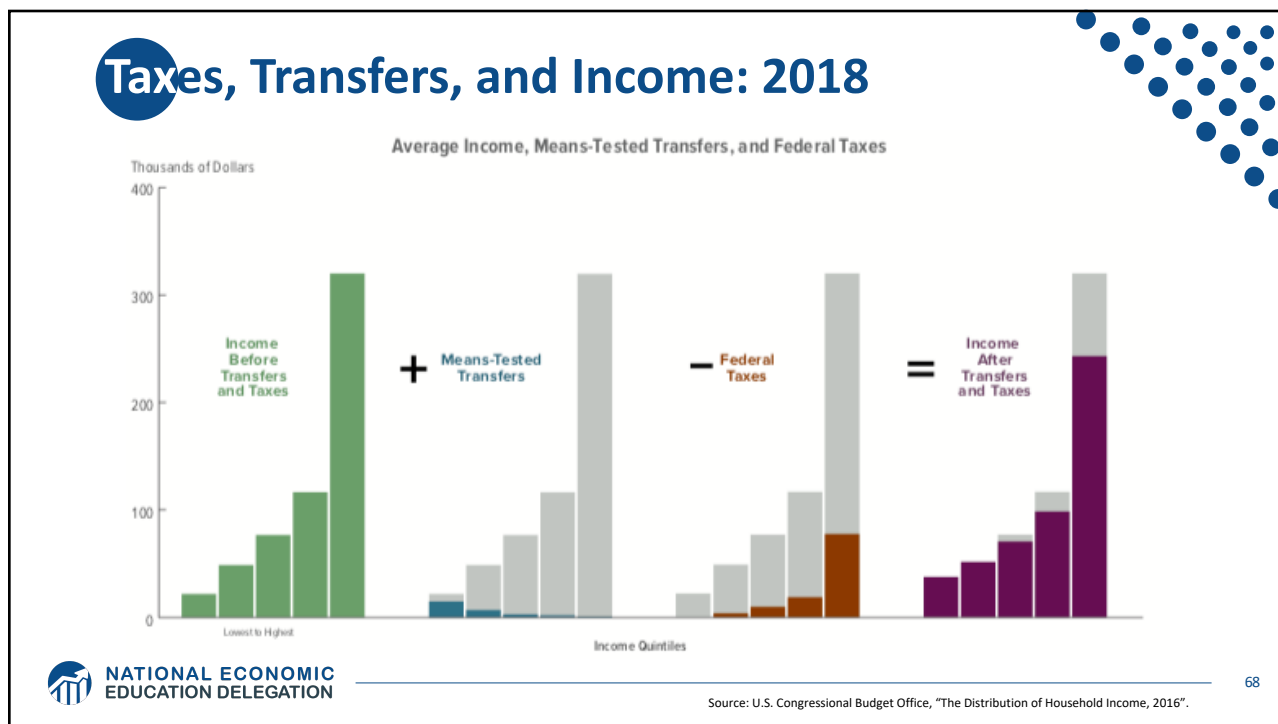
Growth Has Been Primarily at the Very Top



66

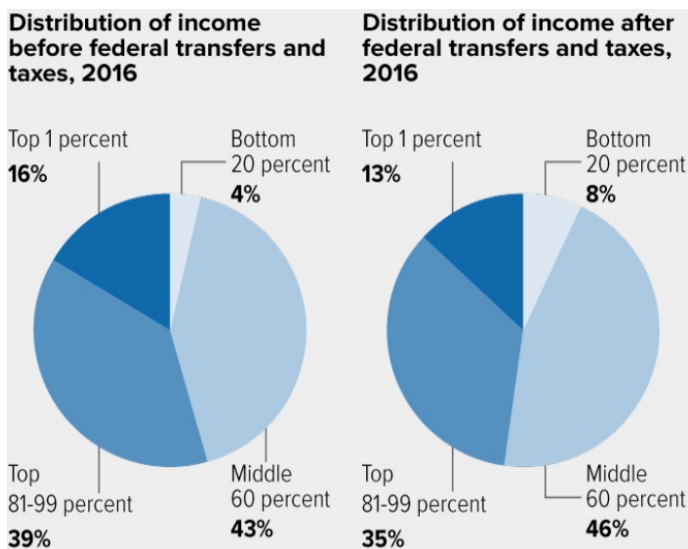


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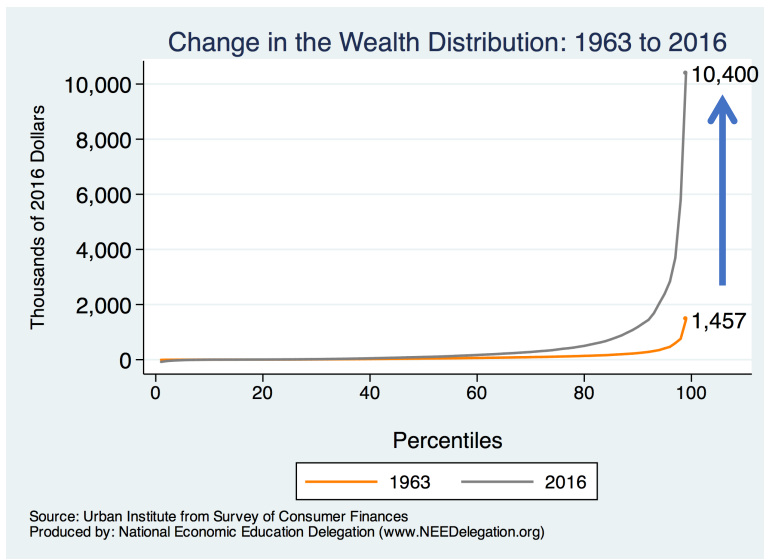


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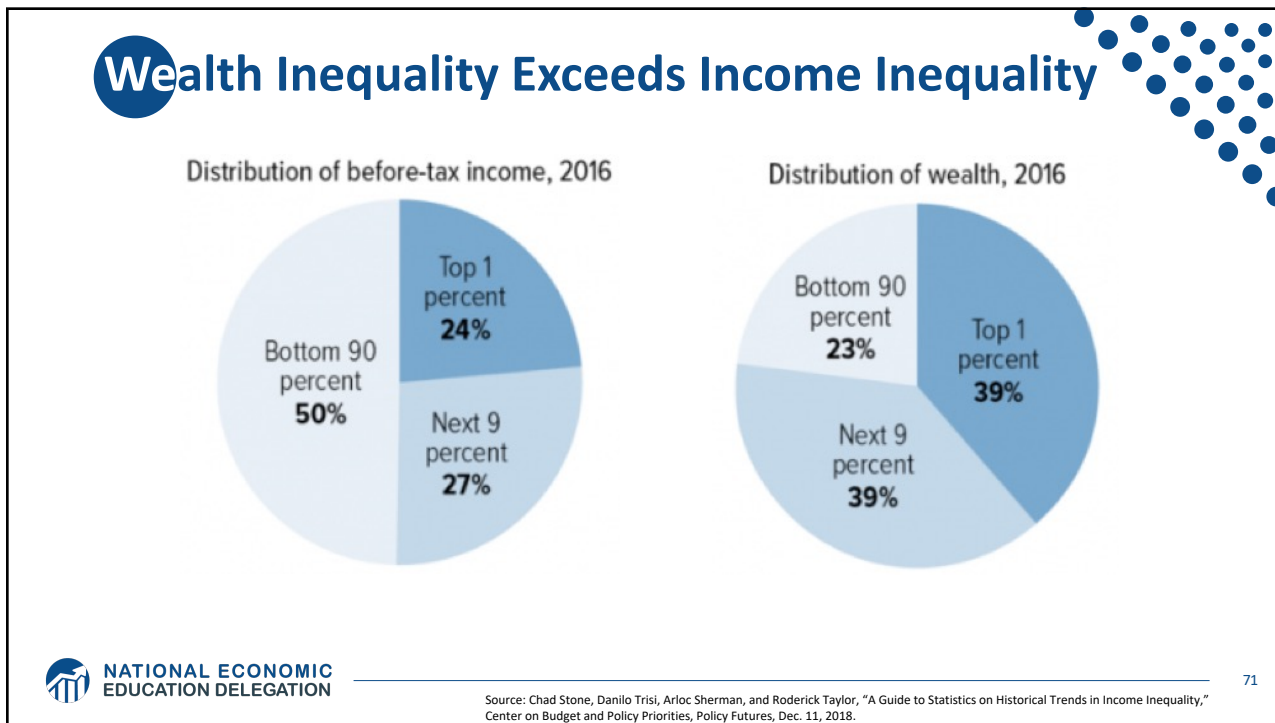
Tax and Transfer Programs: Income Shares



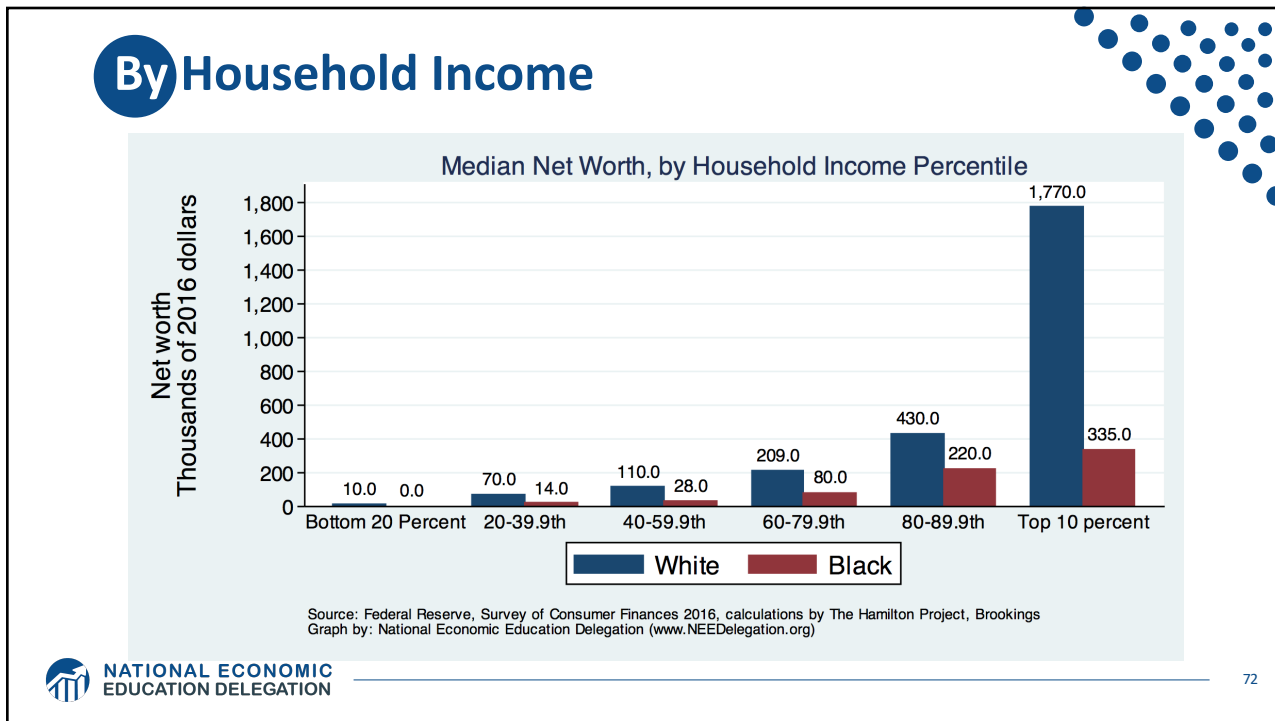
Wealth is More and More Concentrated



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



71



72

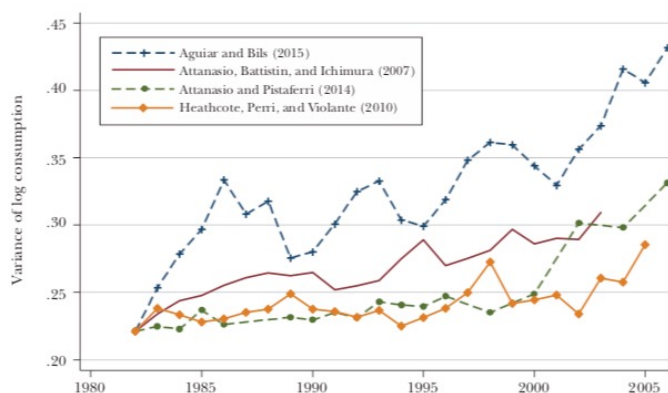
Consumption Inequality

- Consumption is another important metric for judging inequality
- Arguably a better indicator of “well-being”
- Extremely difficult to measure
- Growing evidence that consumption inequality has also increased

73

Growing Evidence: Consumption Inequality

The Evolution of Consumption Inequality over Time as Measured by Different Papers



74

Case Study: Economic Research

- **Early, controversial result is published.**
- **Flurry of effort to understand the result.**
- **Growing body of evidence.**
- **Consensus reached...**
 - Not always.
 - Sometimes data continue to conflict.
 - Often merely a preponderance of evidence drives understanding.
- **Why has this happened with consumption inequality?**
 - Inadequacy of data and methods.



75

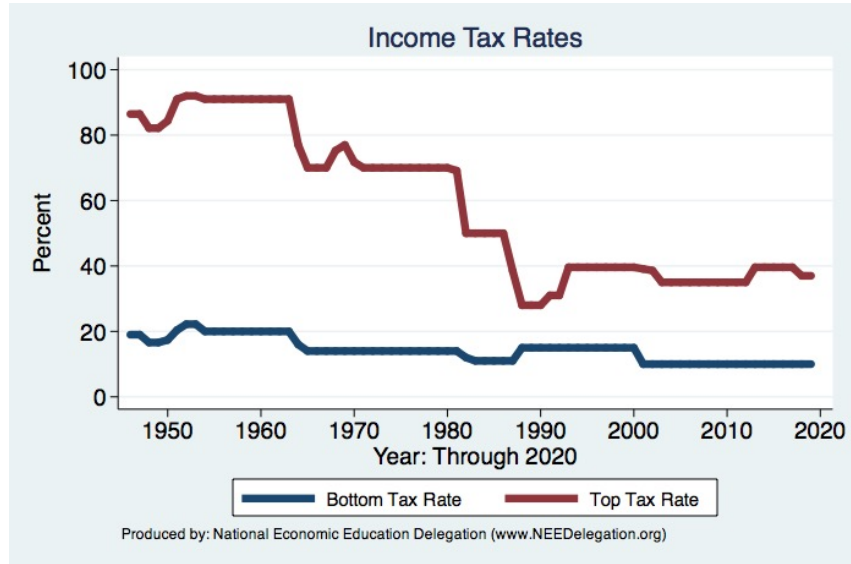
Summary: Consumption Inequality

- **Early research indicated that although income inequality may be increasing, consumption inequality may not be.**
 - How is this possible? Borrowing, or otherwise smoothing consumption.
- **Mounting evidence that it is increasing along with income and wealth inequality.**
- **Consensus reached? No.**



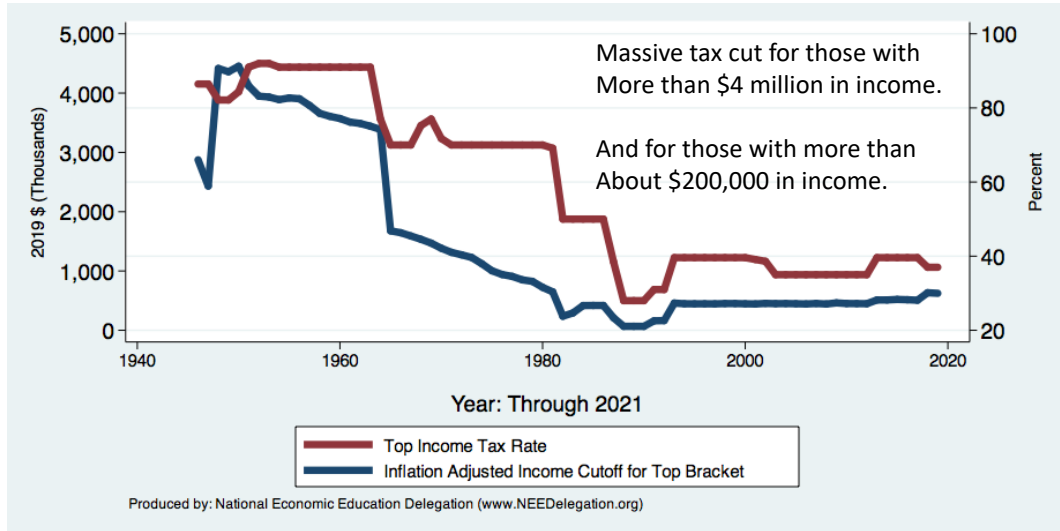
76

Tax Rates Over Time



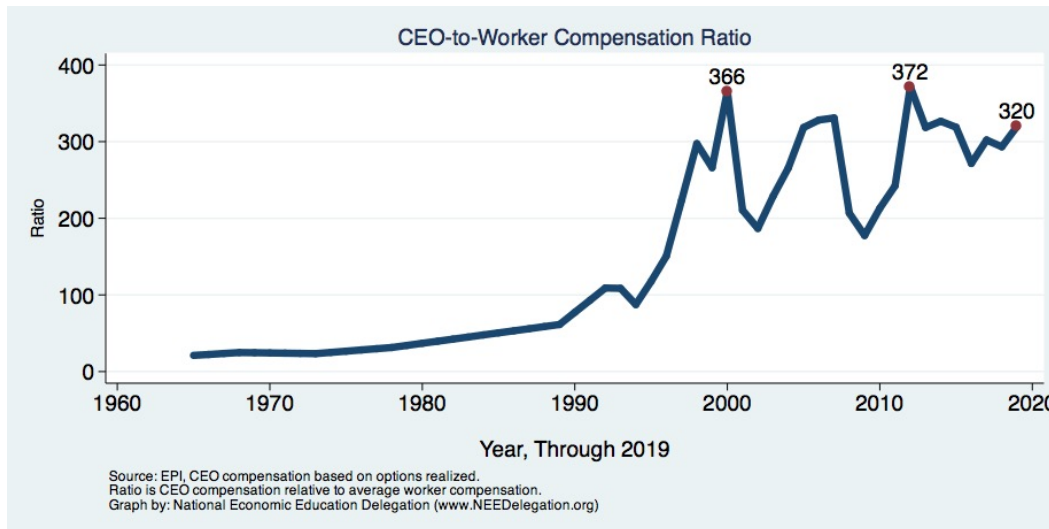
77

The Top Tax Rate and Income Cutoff

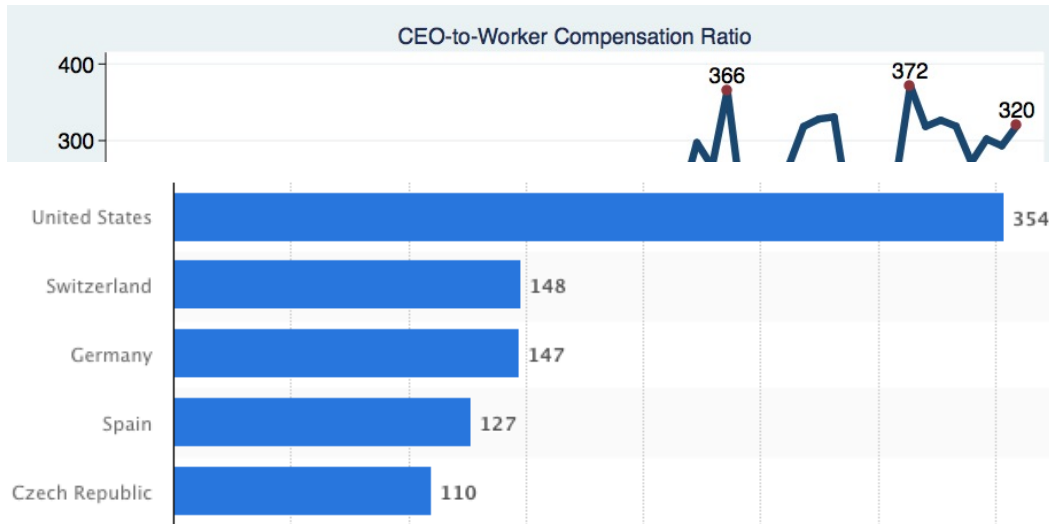


78

CEO Pay Has Been Growing Rapidly

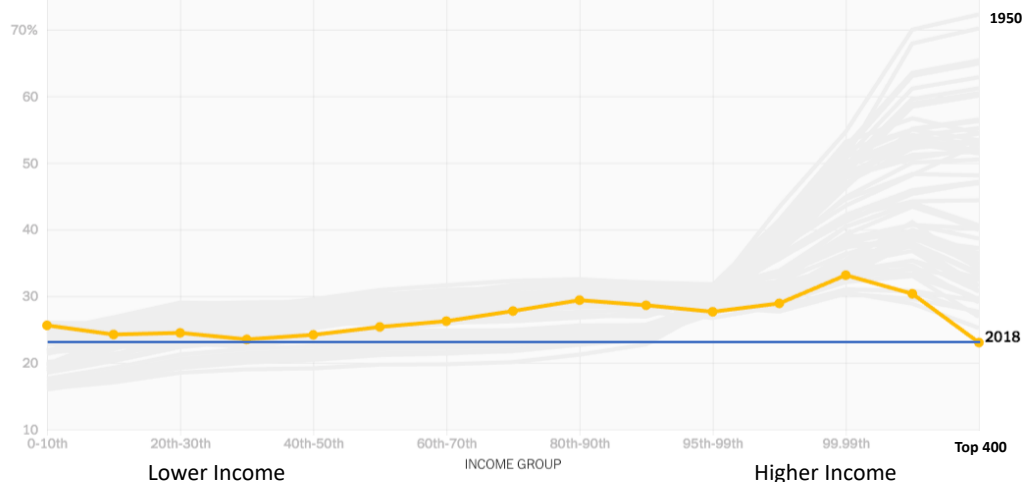


CEO Pay Has Been Growing Rapidly



The Rich Really do Pay Lower Taxes

TOTAL TAX RATE (FEDERAL, STATE AND LOCAL)

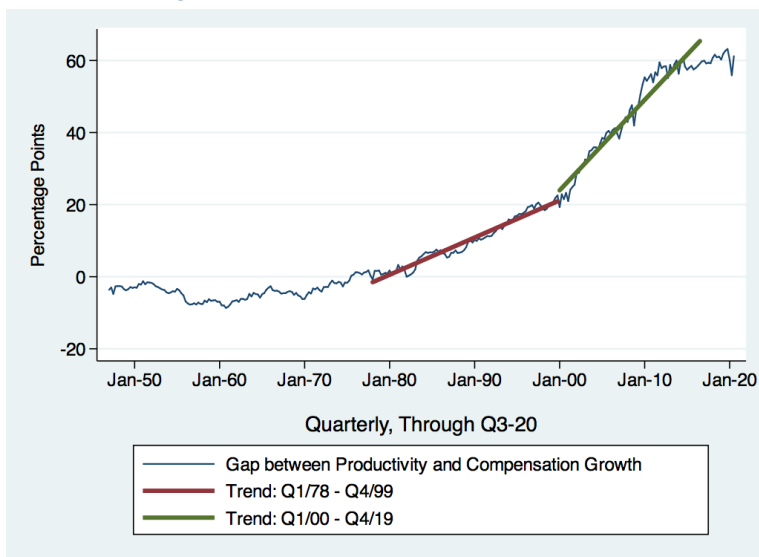


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81

81

Labor Share Gap Acceleration

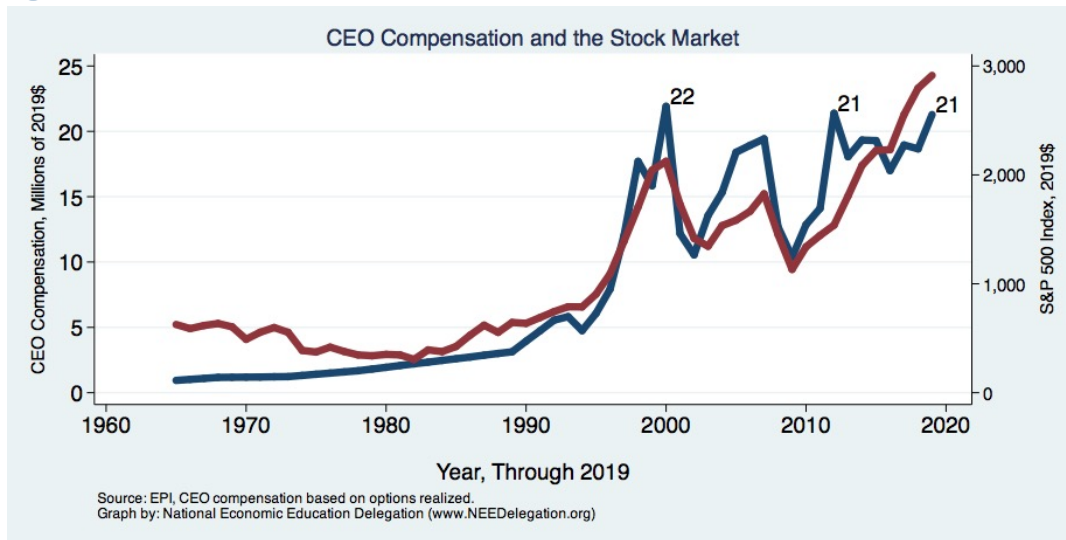


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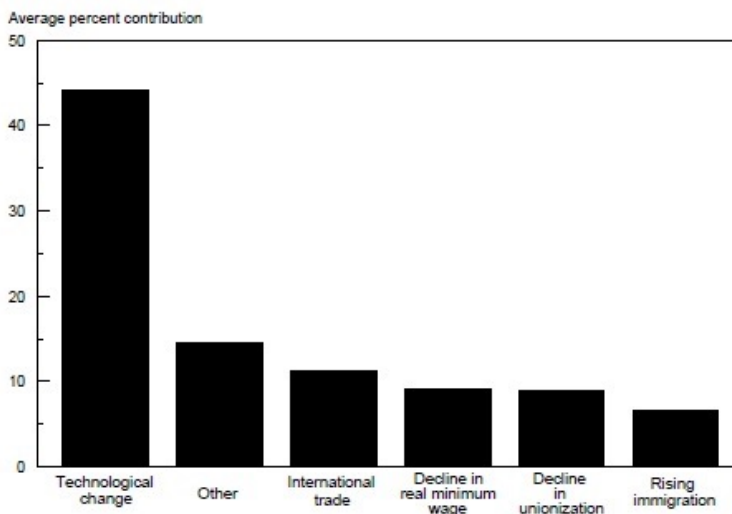
82

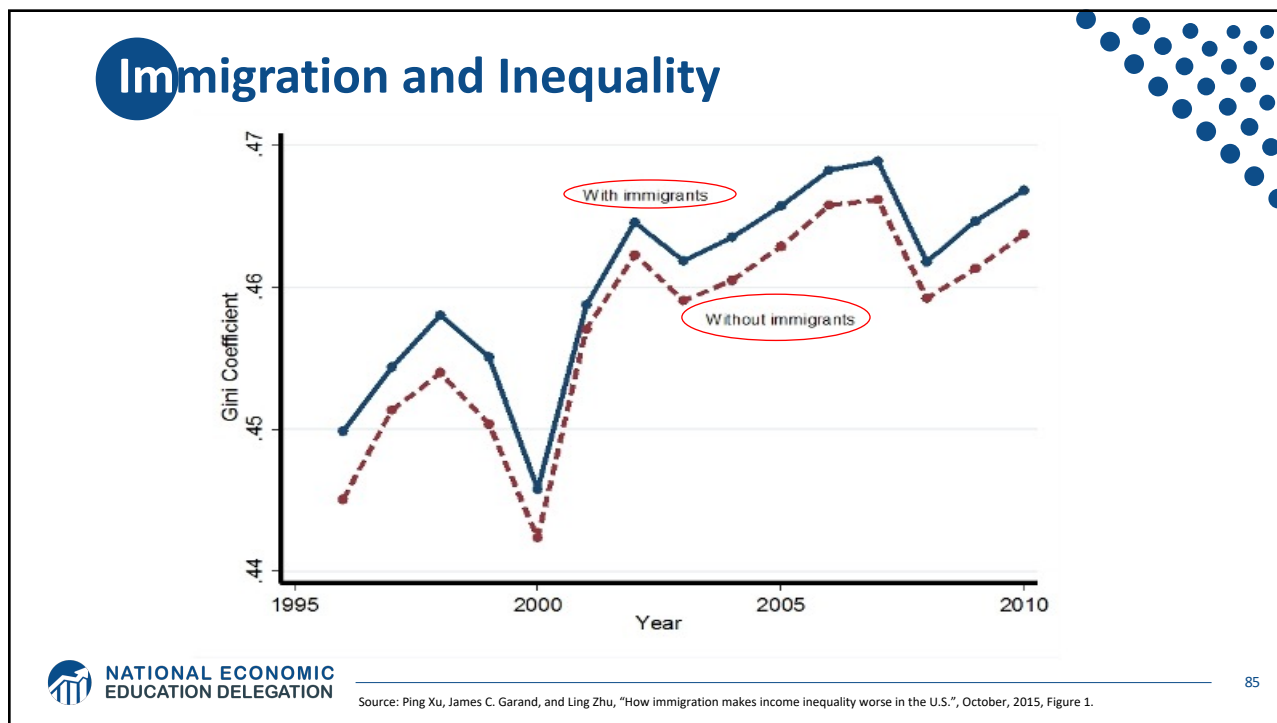
82

CEO Compensation – Tied to Stock Prices

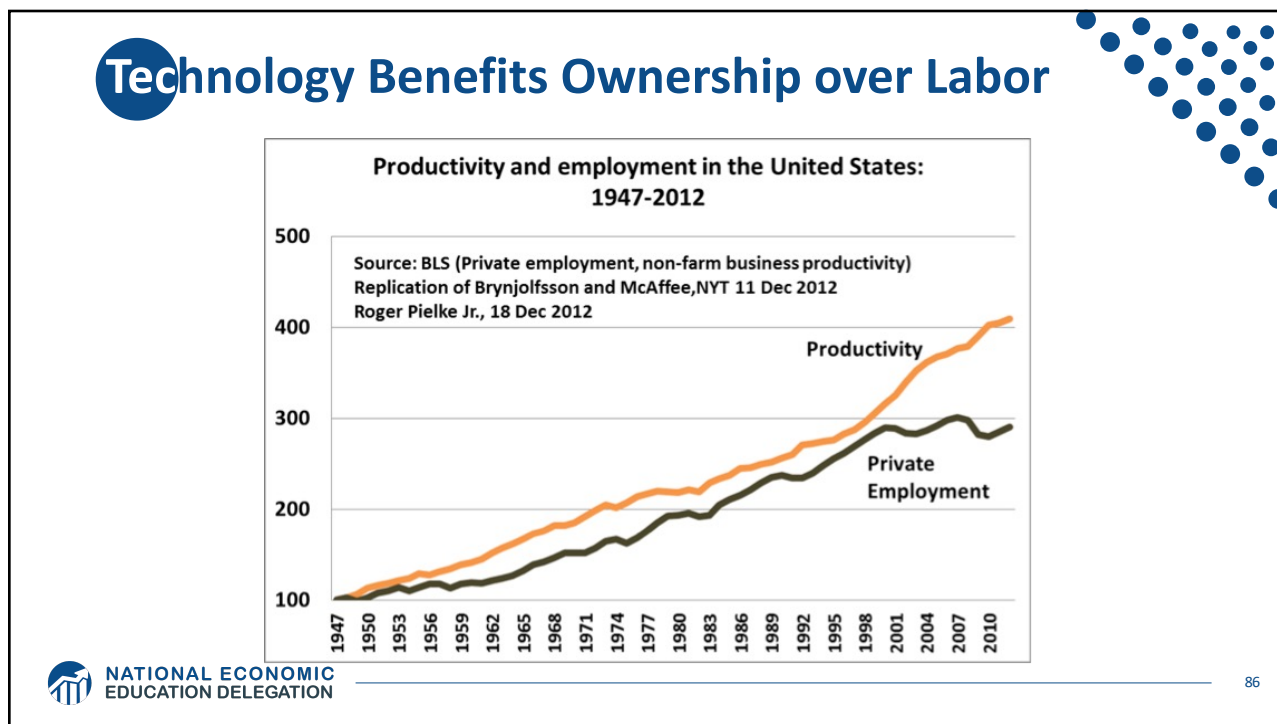


Sources of Inequality Through Late 1990s





85



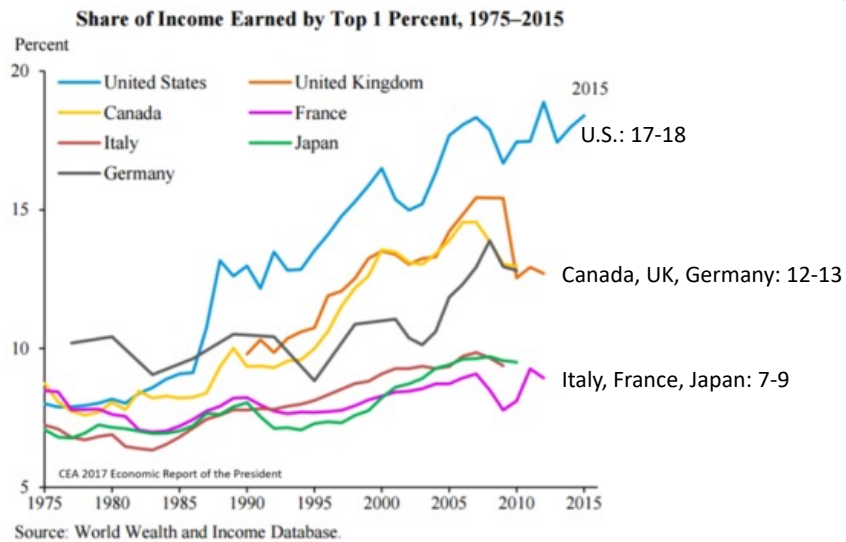
86

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

87

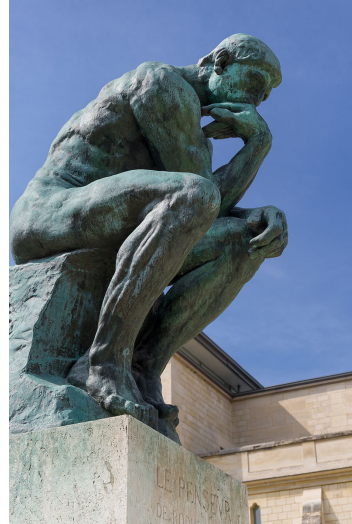
An International Perspective: Comparables



88

What to do About Inequality?

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



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89