

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

Eckerd College
Fall, 2022

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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 (10/4): U.S. Economic Update
 - **Week 2 (10/11): Economic Inequality**
 - Week 3 (11/15): The Black-White Wealth Gap



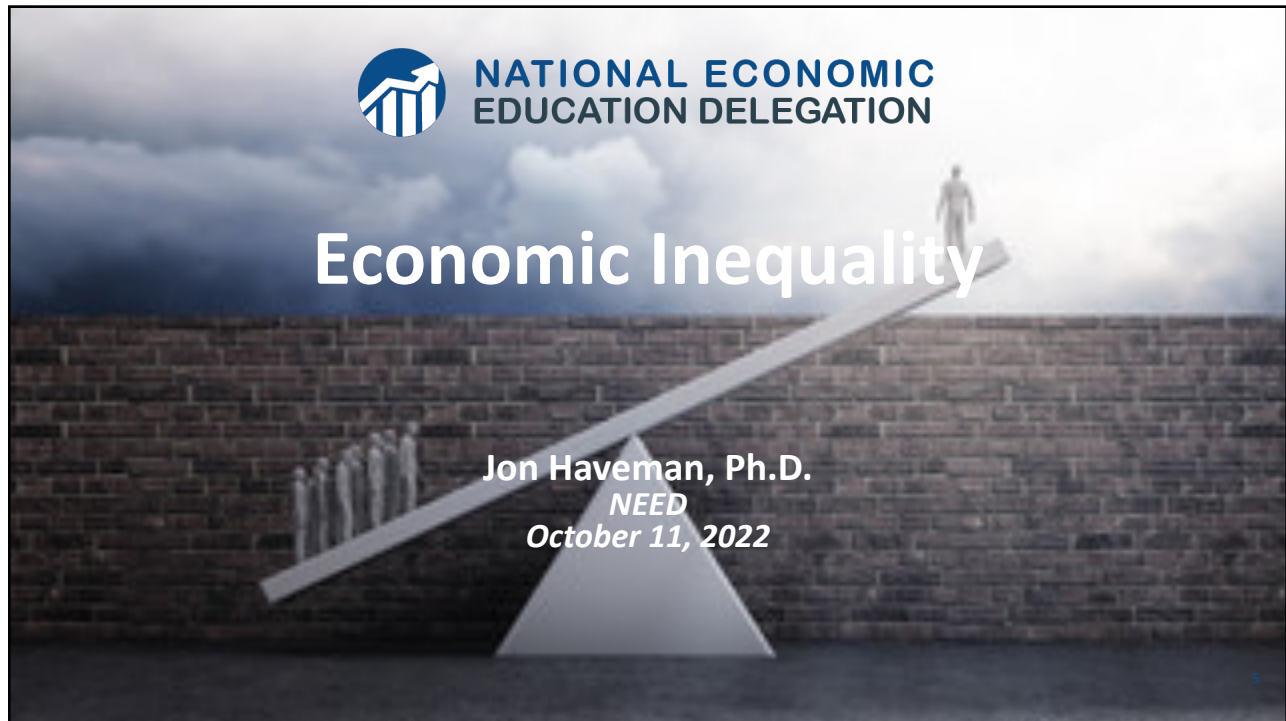
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Submitting Questions

- **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 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**
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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).

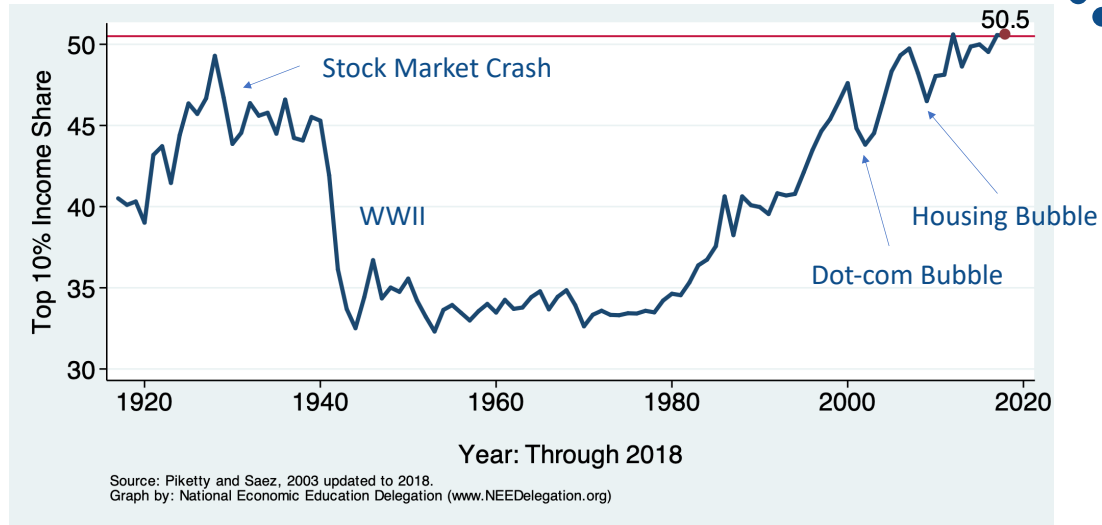


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National Income Inequality: Share of Top 10%

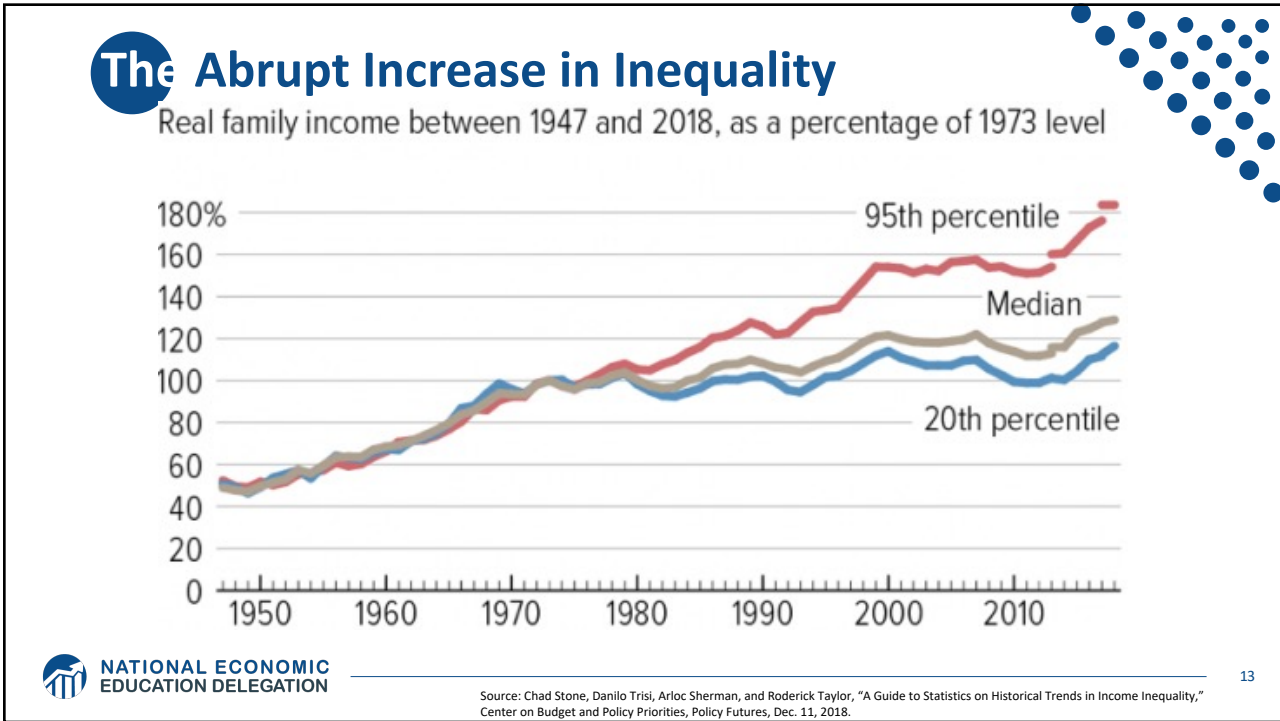


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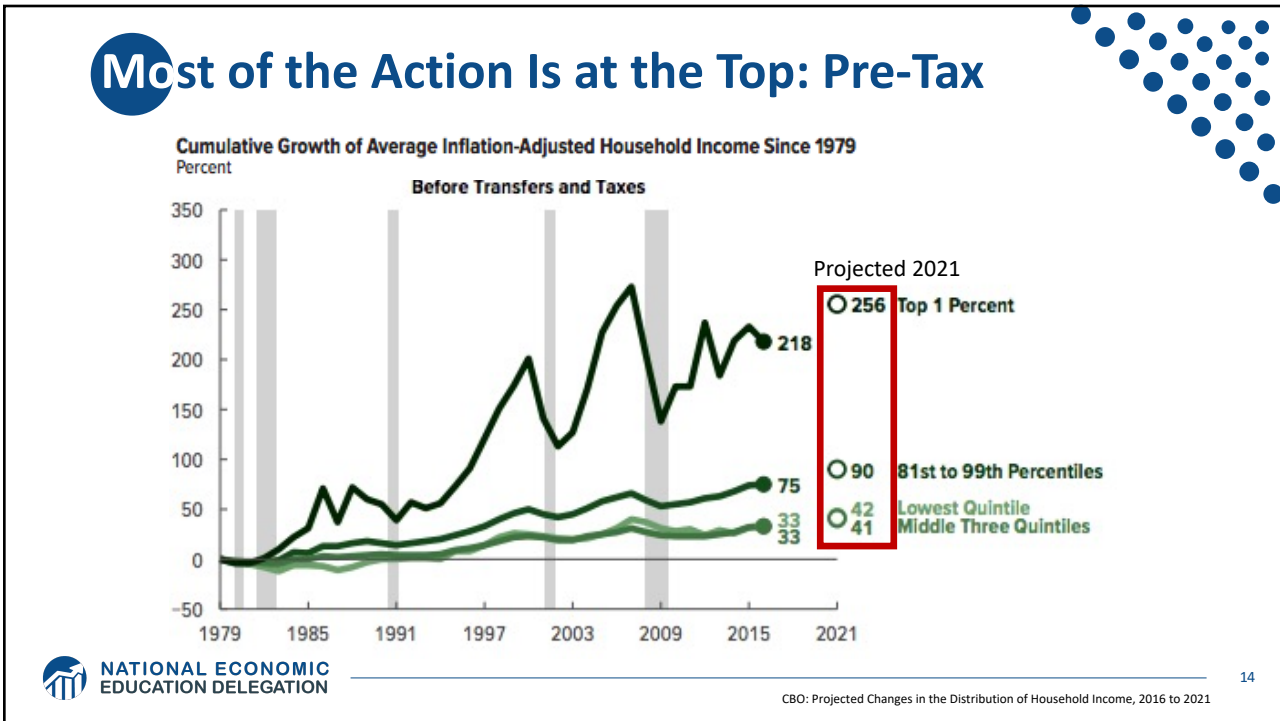
Recent Facts on Income Inequality

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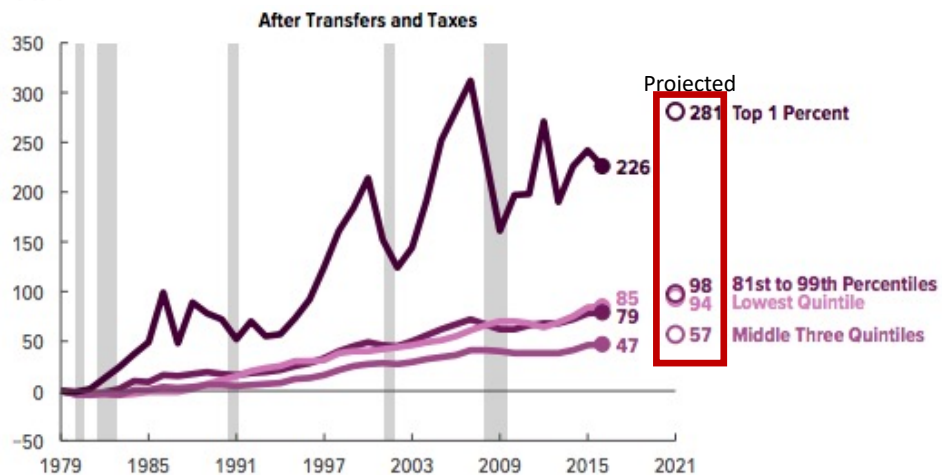
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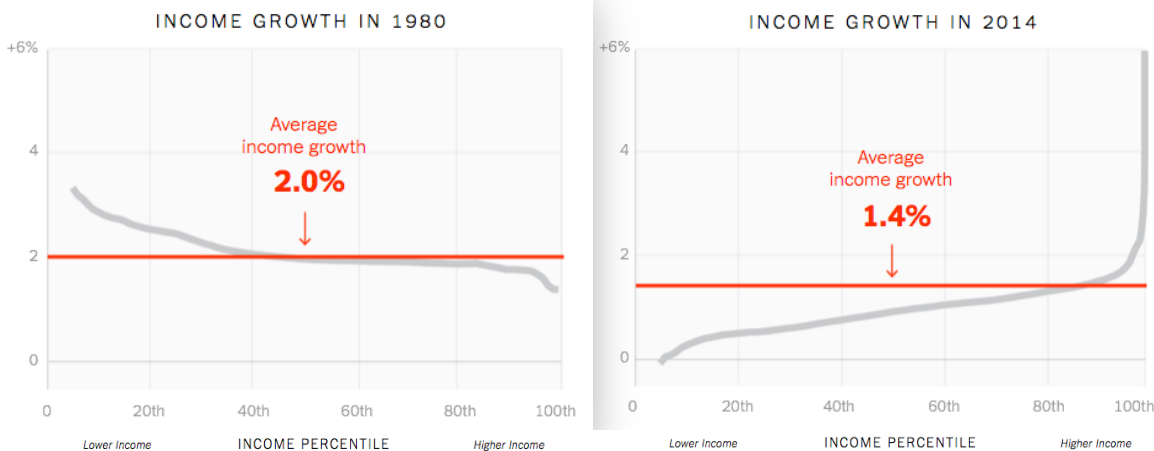
Most of the Action Is at the Top: Post-Tax

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

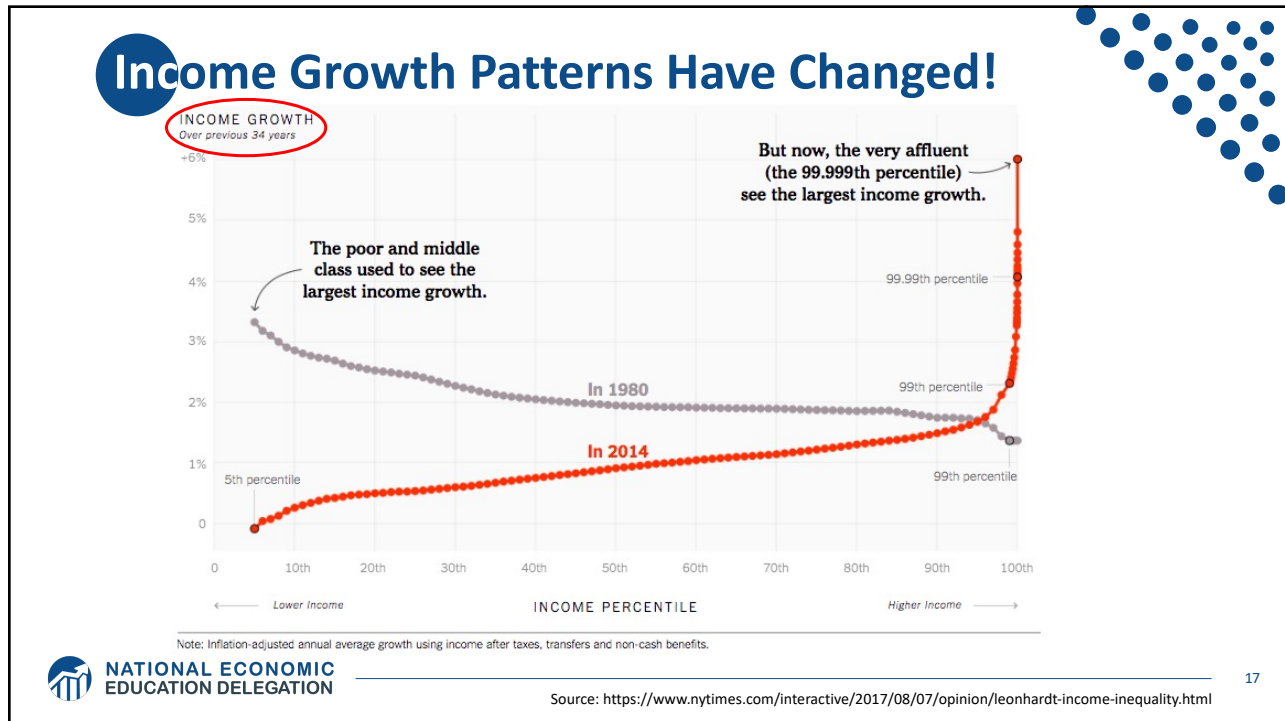


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Income Growth Patterns Have Changed!



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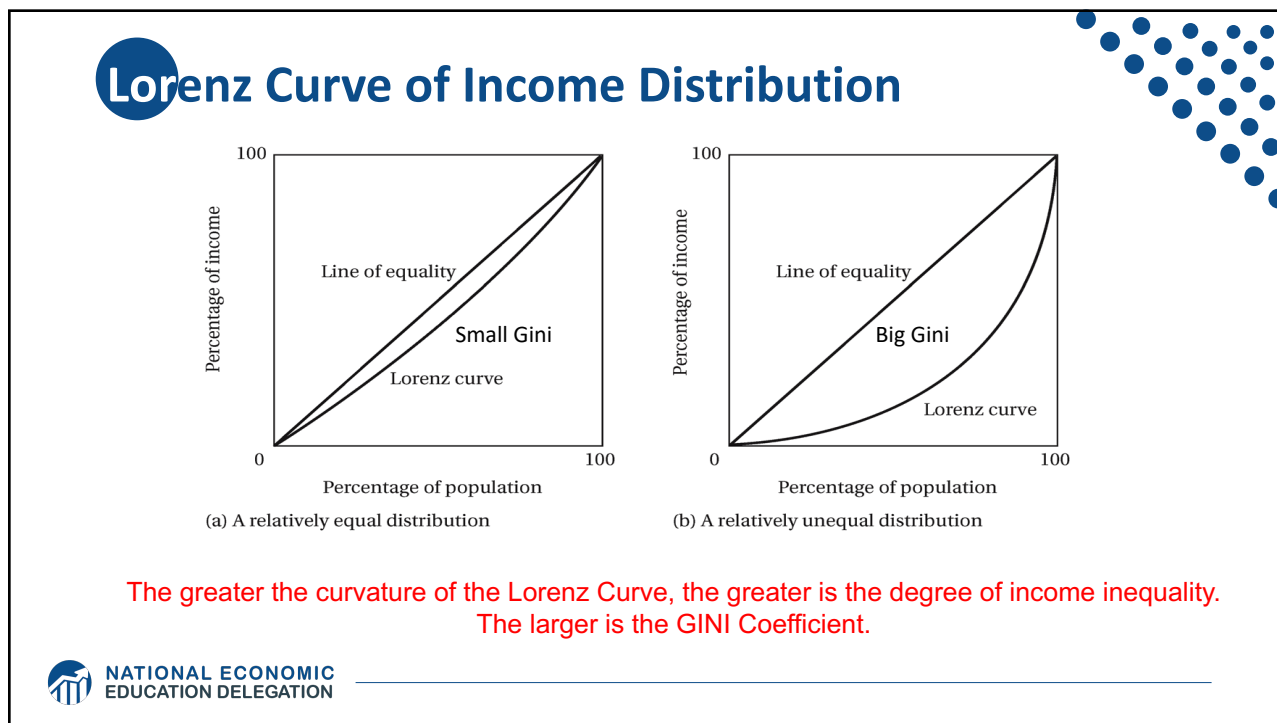
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Gini Coefficient

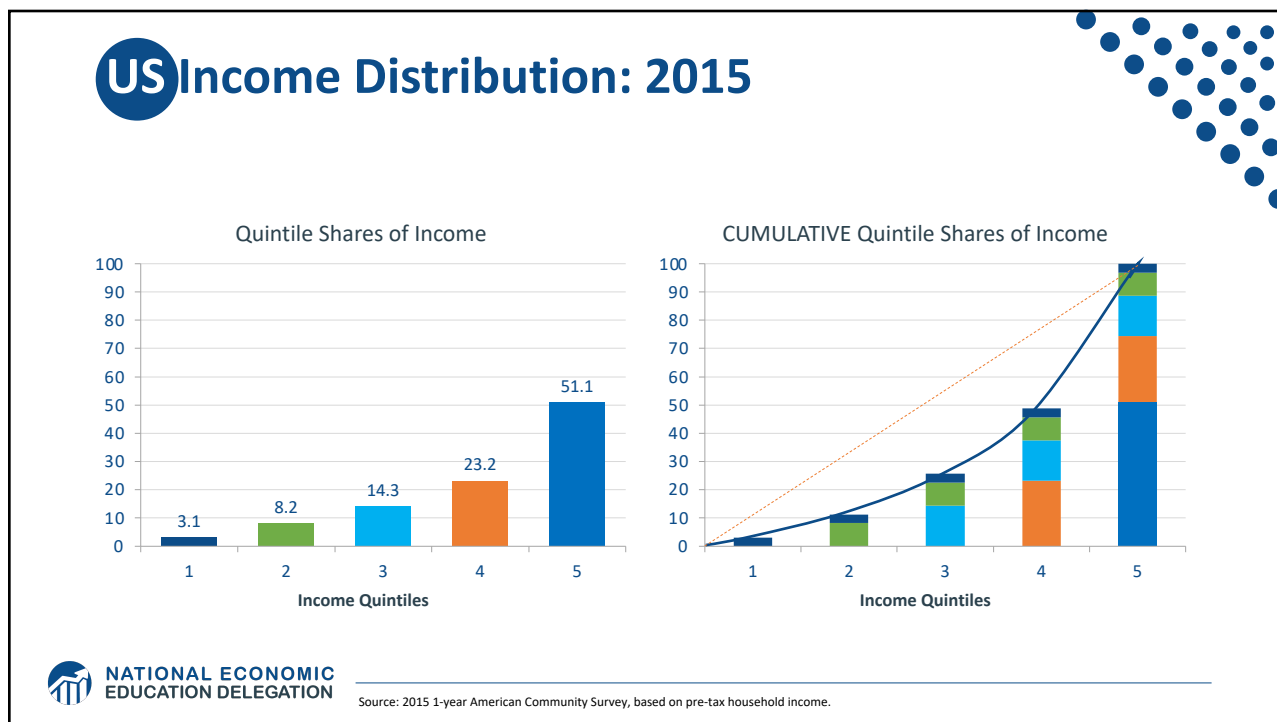
- **Gini coefficient – a numerical measure that summarizes the overall dispersion of income:**
 - Ranges from 0 – 1
 - 0 = perfect equality – everyone has the same income
 - 1 = perfect inequality – one person has all the income
 - In practice:
 - 0.5 – 0.7 – highly unequal
 - 0.2 – 0.35 – relatively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

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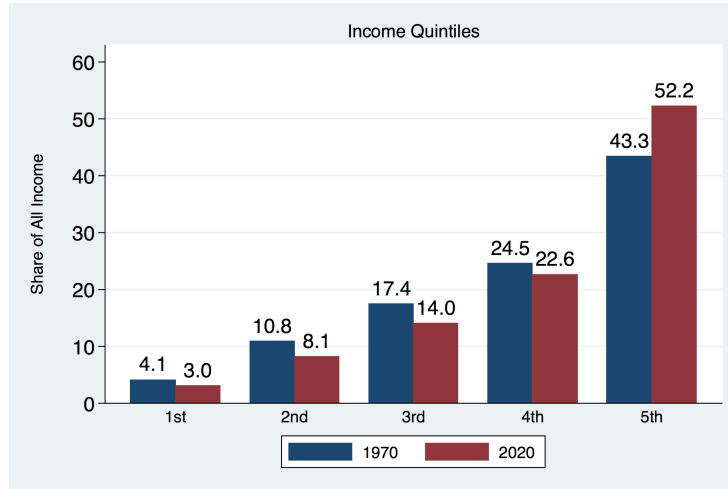


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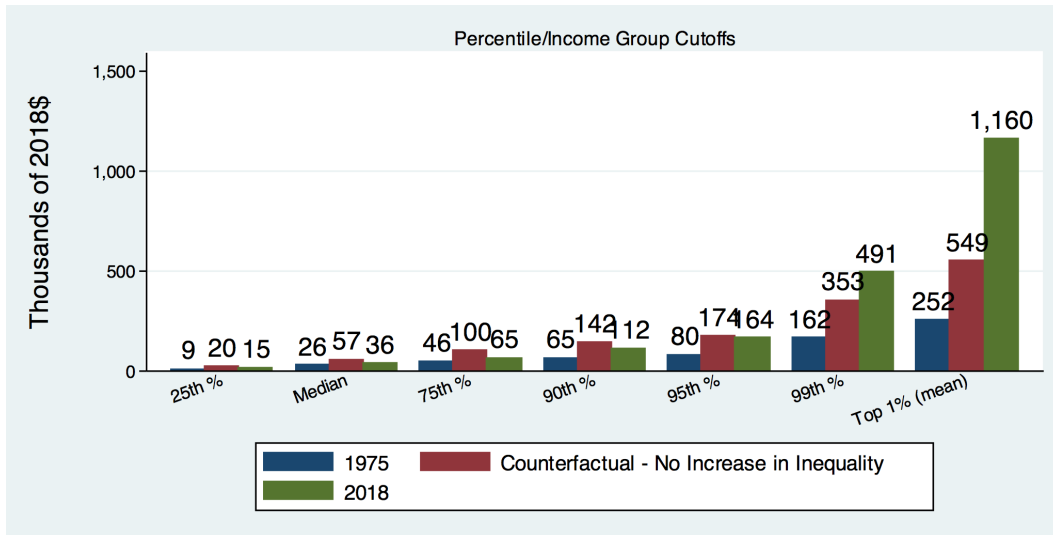
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Income Share Changes Between 1970 and 2020



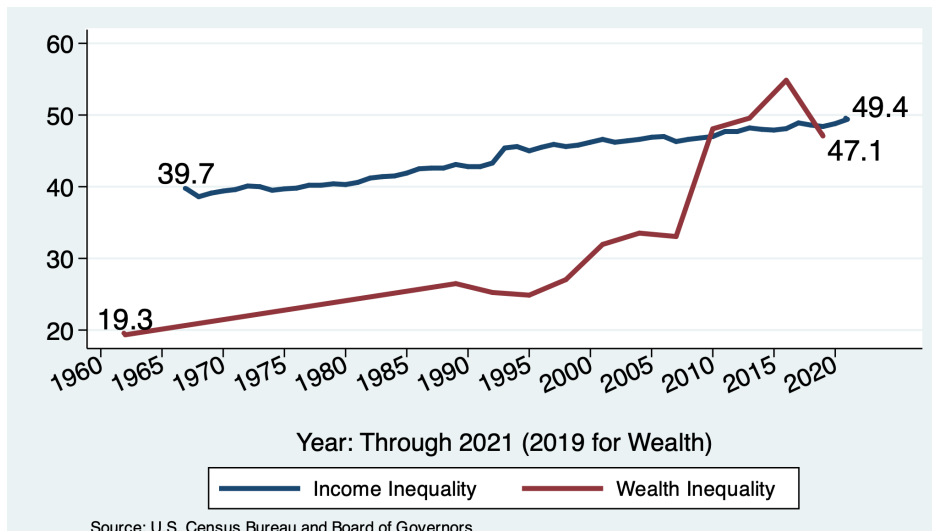
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How Has Inequality Influenced Incomes?



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Income and Wealth Gini Coefficients

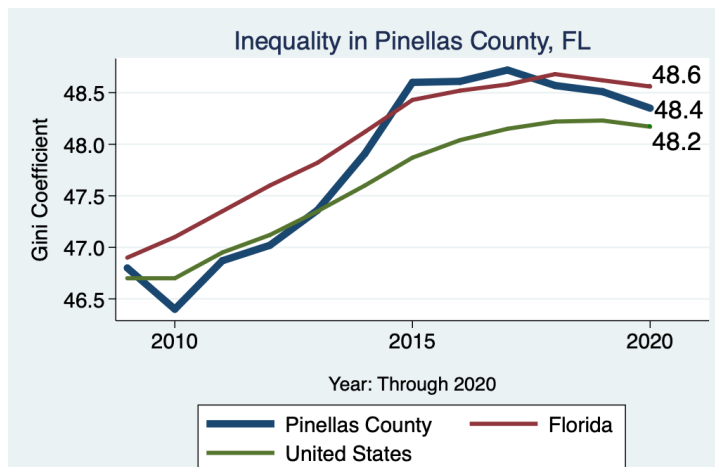


Source: U.S. Census Bureau and Board of Governors



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Your Local Inequality Trend



Source: American Community Survey, 5-yr Summary Files
Produced by: National Economic Education Delegation (www.NEEDelegation.org)



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www.NEEDelegation.org/LocalGraphs

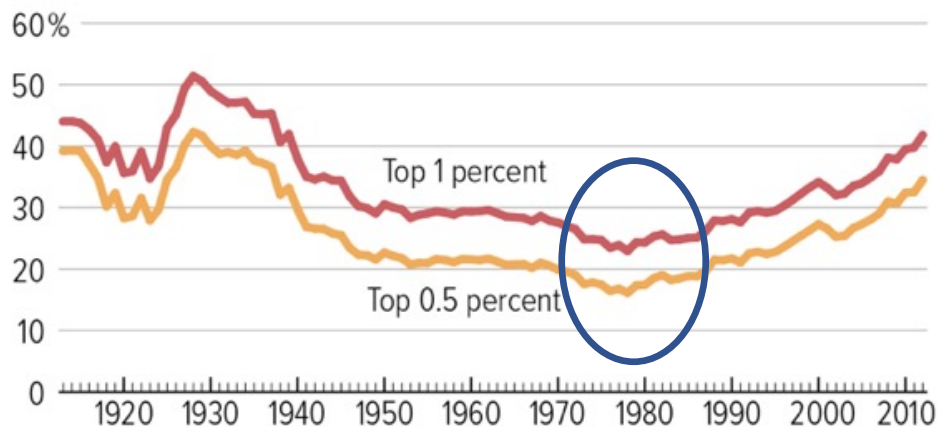
For every state and county in the United States.

Detailed graphs on employment, housing, moves, and other statistics.

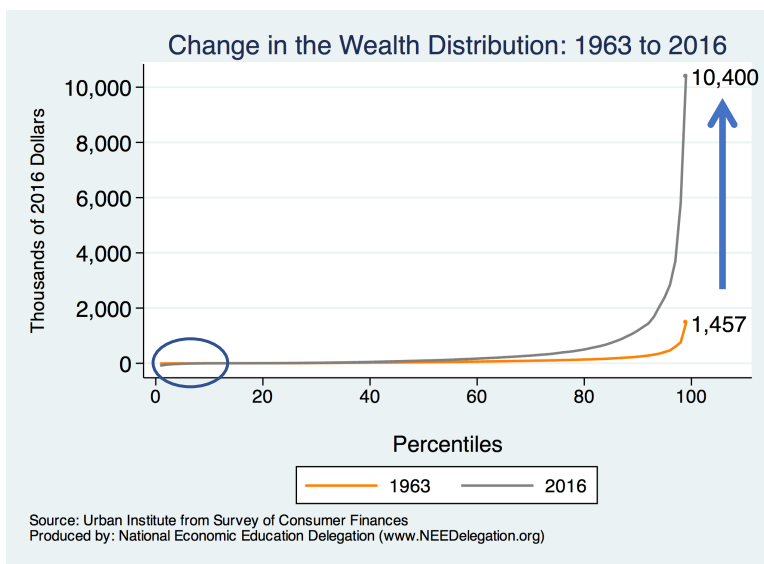


Wealth Concentration Has Been Rising

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



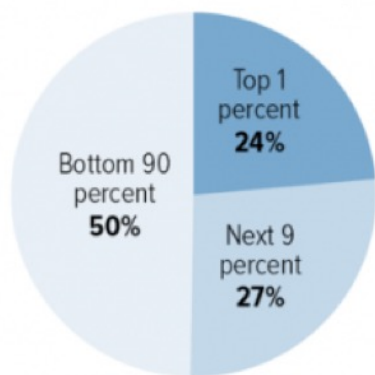
Wealth is More and More Concentrated



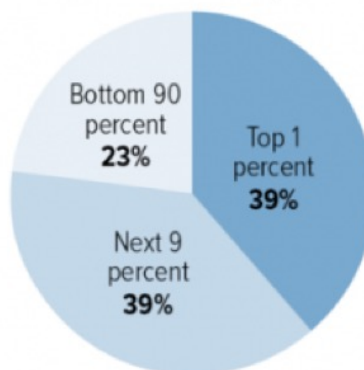
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Wealth Inequality Exceeds Income Inequality

Distribution of before-tax income, 2016



Distribution of wealth, 2016



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Where Does Income Inequality Come From?

• Labor Characteristics

- Demographics
 - Age distribution
- Personal Choices
 - Educational attainment
 - Effort
 - Priorities
 - 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
 - Access to education
- Effects on labor demand
 - Market regulation
 - Competition policy
 - Labor regulations
 - Minimum wage, overtime, health insurance, union regulations, etc.

• RE-distribution

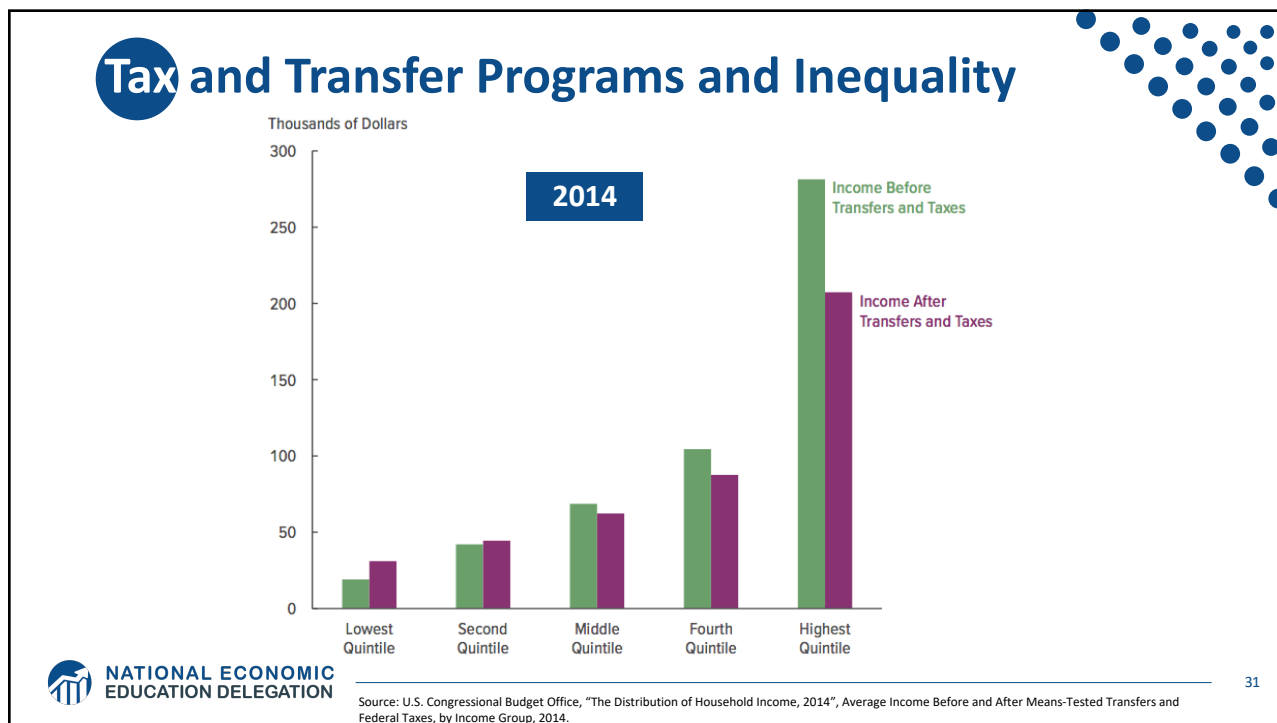
- Tax Rates
- Income support
 - Direct aid
 - Food stamps



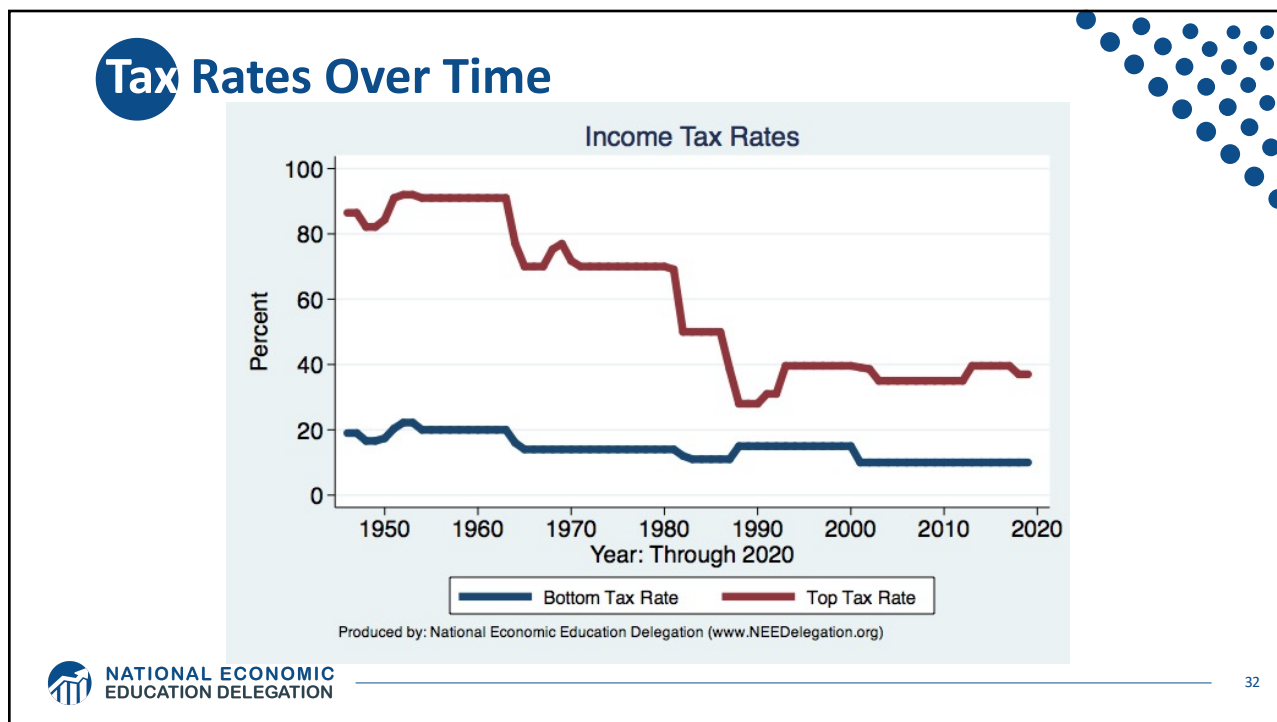
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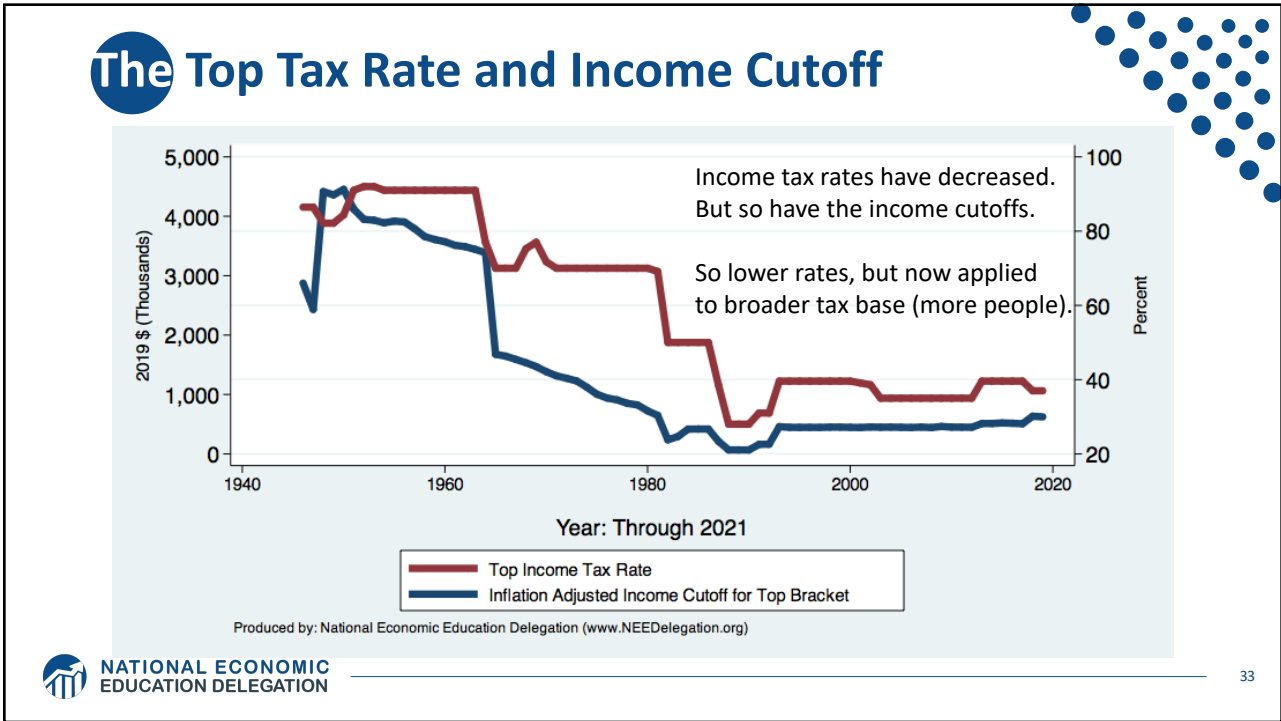
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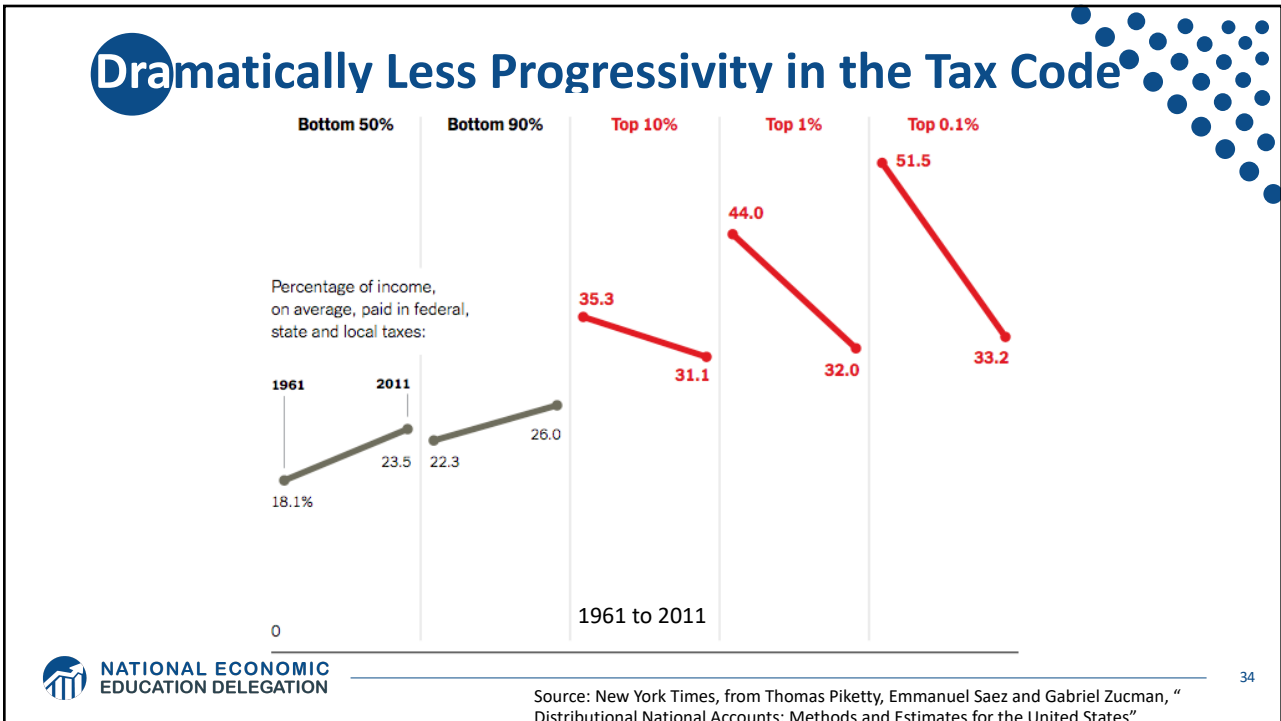
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Market Forces and Inequality

- **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

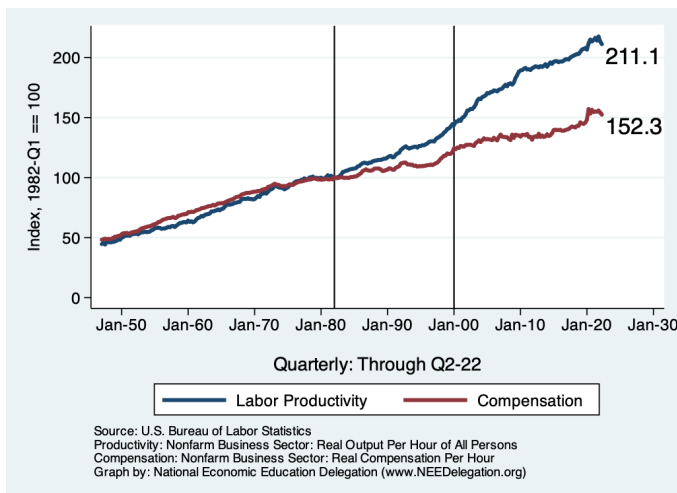


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Labor Income is Unhinged from Productivity



Why? Some theories:

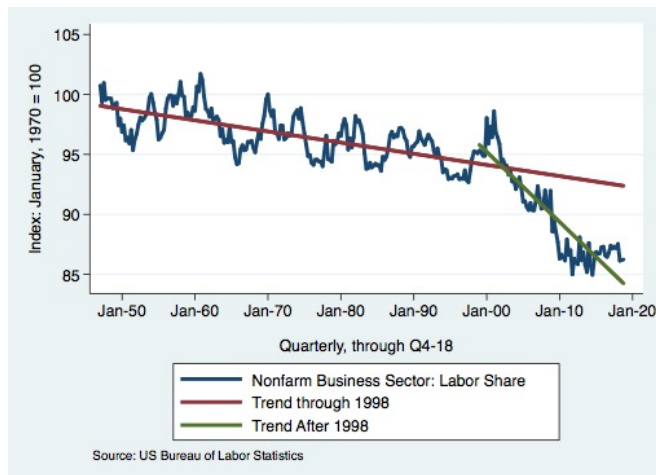
- Declining unionization
- Competition policy
- More “superstar” firms/workers
- Immigration
- Technological change
- Globalization



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Effects of the Unhinging?



Labor's Share of Income

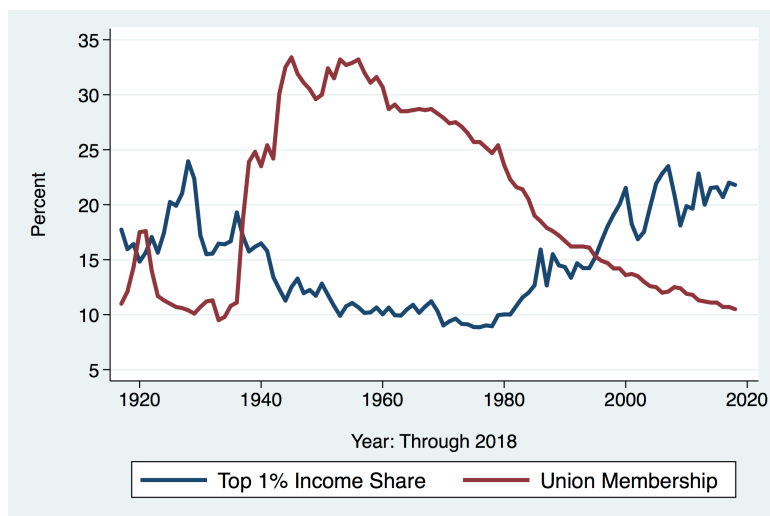
1960: 66%

2011: 56%

2016: 58%

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Declining Unionization



Unionization Rates

- **1983:** 20.1%

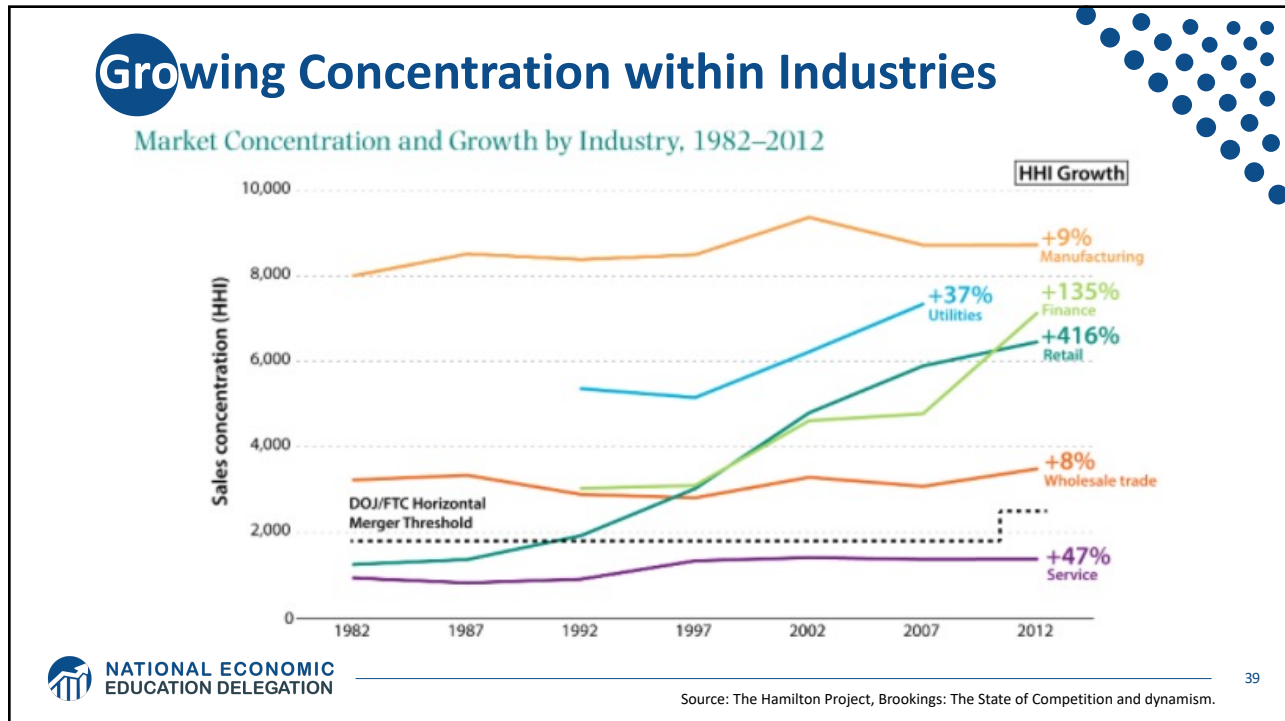
- **2021:** 10.3%

Unionization Rates

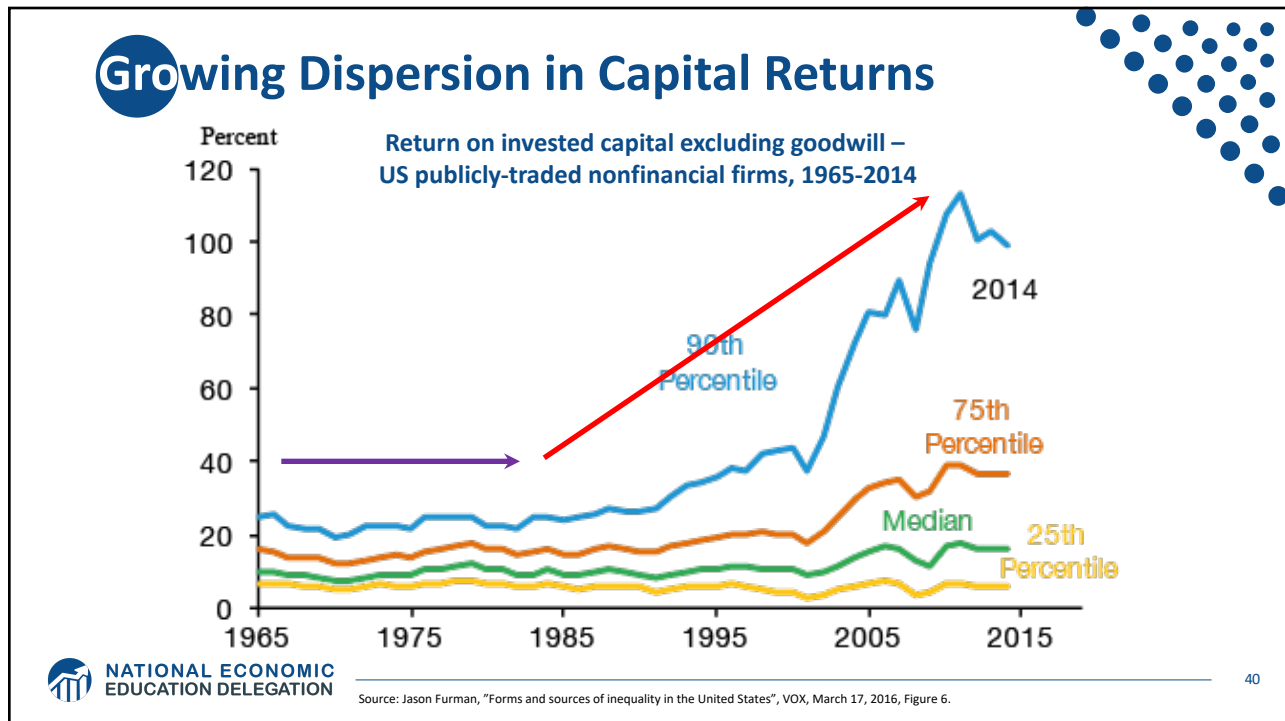
- **Public:** 33.9%

- **Private:** 6.1%

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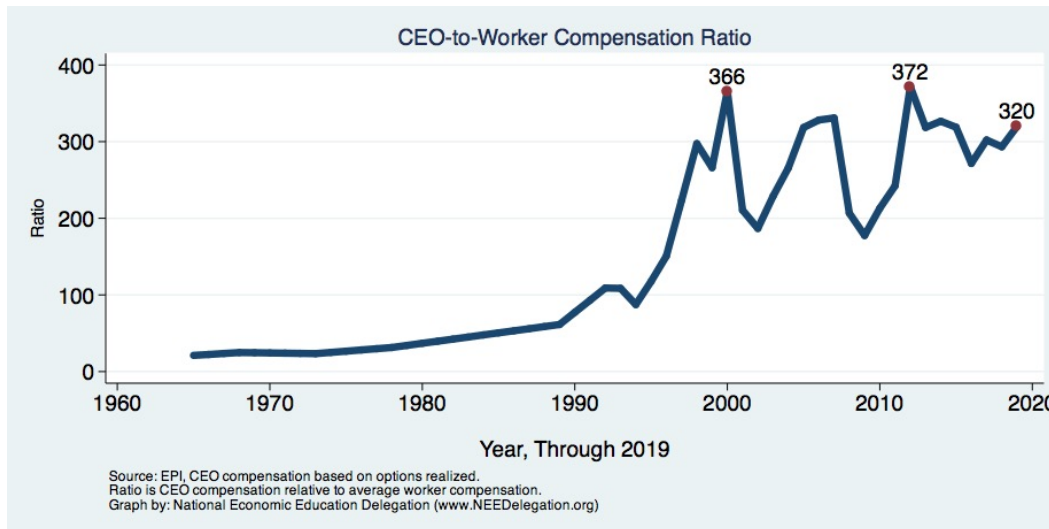


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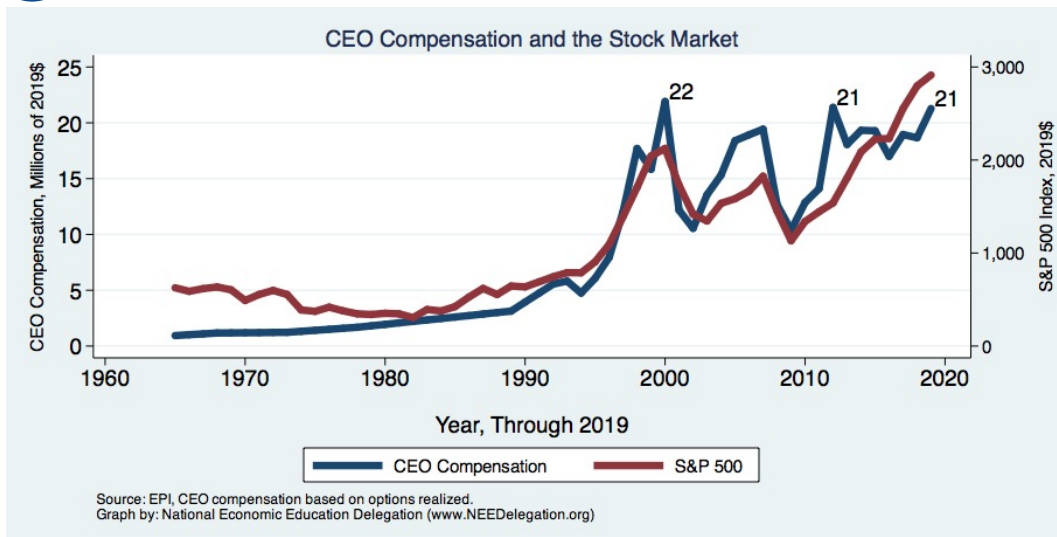
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CEO Pay Has Been Growing Rapidly



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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

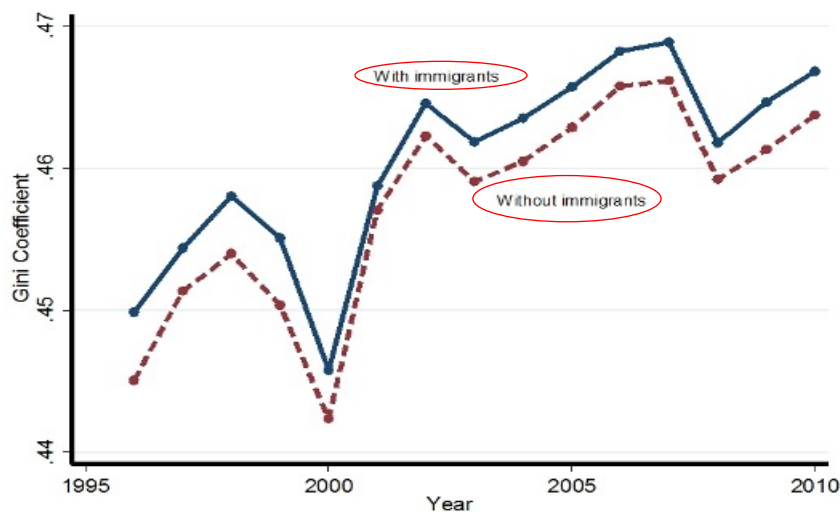


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Immigration and Inequality



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Source: Ping Xu, James C. Garand, and Ling Zhu, "How immigration makes income inequality worse in the U.S.", October, 2015, Figure 1.

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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



But technology can also eliminate jobs.

Technology can improve worker productivity and create jobs.



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Globalization

- **What is globalization?**

- Flow of goods, services, capital, and labor across international borders

- **How does it affect inequality?**

- 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.



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



Why Does Inequality Matter?

- **Too little inequality can:**

- Reduce individual motivation
- Slow economic growth

- **Too much inequality can:**

- Reduce individual motivation
- Slow economic growth

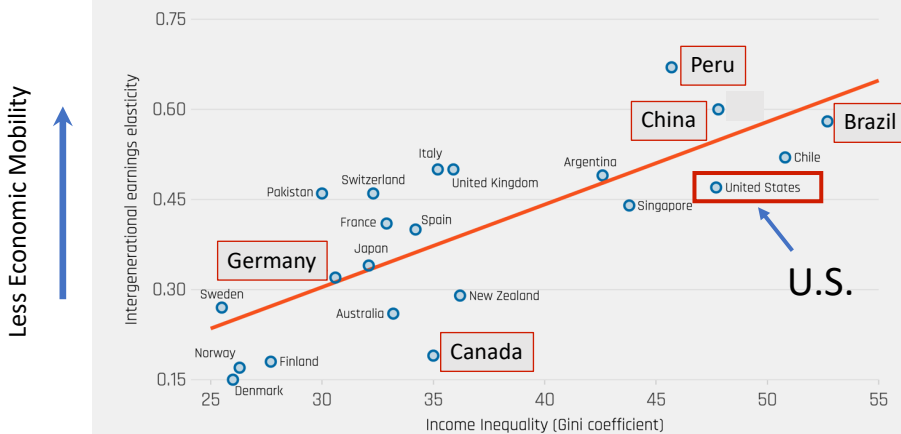
- **Too much inequality may also:**

- Divide society
- Distort political environment
- Reduce political participation
- Affect public goods spending and distribution
 - o Education
 - o Environmental protections



The Great Gatsby Curve: high inequality tends to mean low mobility

More inequality is associated with less mobility across generations



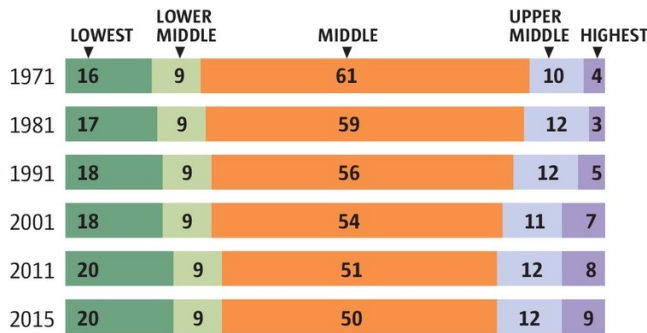
Source: Miles Corak, "Income Inequality, Equality of Opportunity, and Intergenerational Mobility," Journal of Economic Perspectives 27 [3]: 79-102; "All the Ginis," available at <http://www.worldbank.org/en/research/brief/all-the-ginis> [last accessed 9/28/2018]

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

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- **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.

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Too Much Inequality Can:

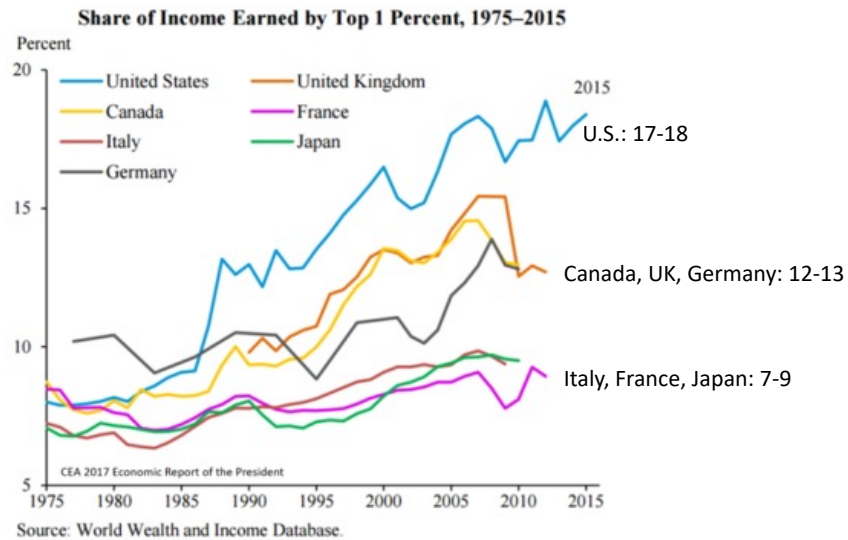
- **Reduce work effort, which reduces GDP.**
- **Reduce purchasing power of the middle class, which reduces GDP.**
- **Reduce the ability of people to get ahead, which reduces mobility.**
 - Puts the American Dream at risk.
- **Increase the share of the population living on low incomes.**
 - Desire for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

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An International Perspective: Comparables



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Addressing Inequality: Is It A Problem?

- **Why it might be a problem.**

- Economic issues (*Efficiency*)
 - o Inequality can misallocate resources and slow economic growth
 - o Or: inequality can concentrate resources with the most capable investors
- Noneconomic issues (*Equity*)
 - o Values, ethics and morals will drive individual evaluations of inequality
 - o Depends on personal beliefs about origins and consequences of inequality

- **Suppose you think it's a problem. How might it be addressed?**

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Addressing Inequality: Immediately Available Policy Solutions

- **RE-distribution**
 - Tax and transfer programs
- **PRE-distribution**
 - Reduce market power
 - Unionization
 - Collective bargaining
 - Minimum wages
 - Job training and interview skills
 - Family care policies



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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

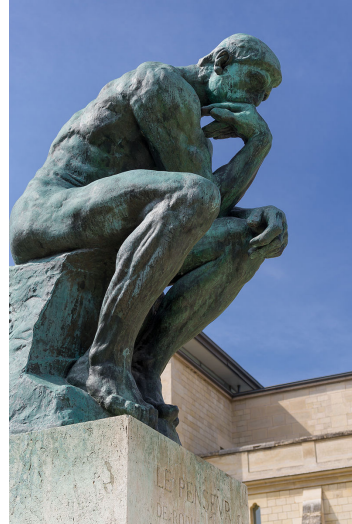


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What to do About Inequality?

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



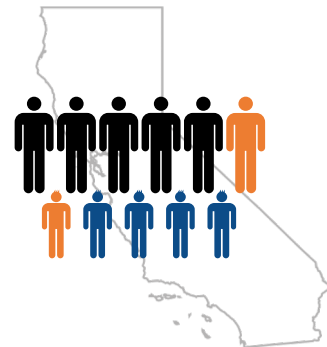
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Summary

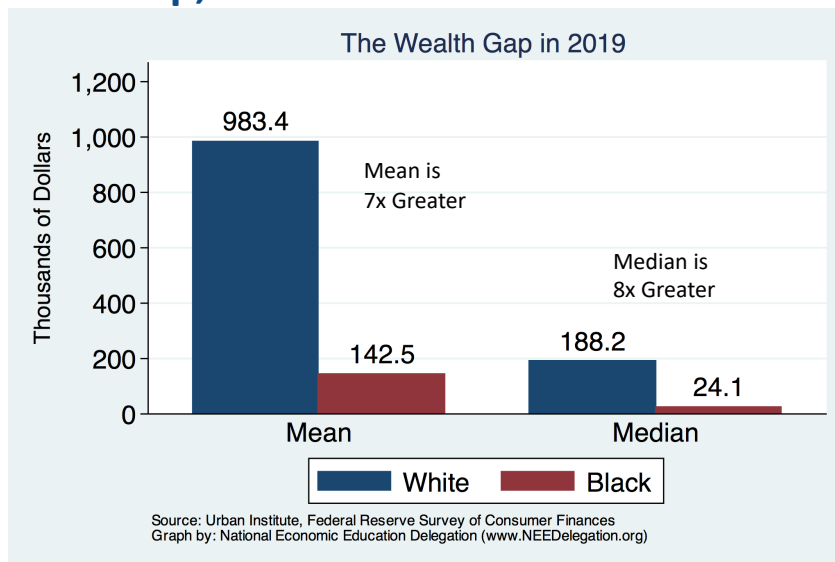
- **Income inequality is clearly increasing.**
 - Owners of productive resources seeing greater income growth than workers reliant on labor income only.
- **The causes appear to be largely driven by:**
 - Technology, competition, and trade
 - Institutions and public policies
- **Open questions are:**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



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B-W Wealth Gap, November 15



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Thank you!

Any Questions?

www.NEEDelegation.org

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Contact NEED: info@NEEDelegation.org

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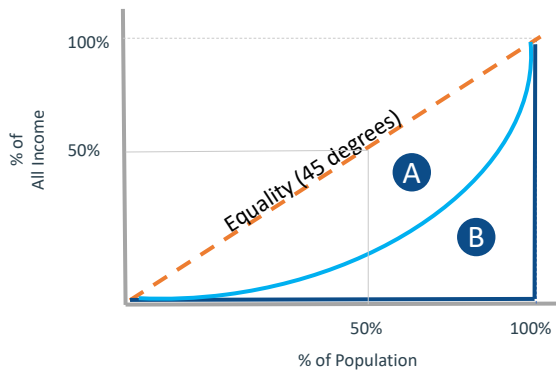
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Extra Slides

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Calculating the Gini Coefficient

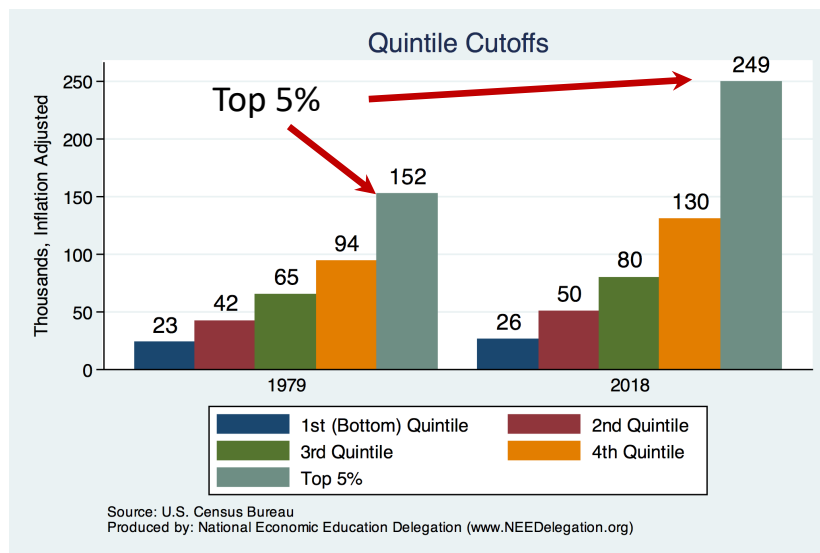


$$\text{Gini} = \frac{A}{A + B}$$

Bigger A: More inequality
Smaller A: Less inequality

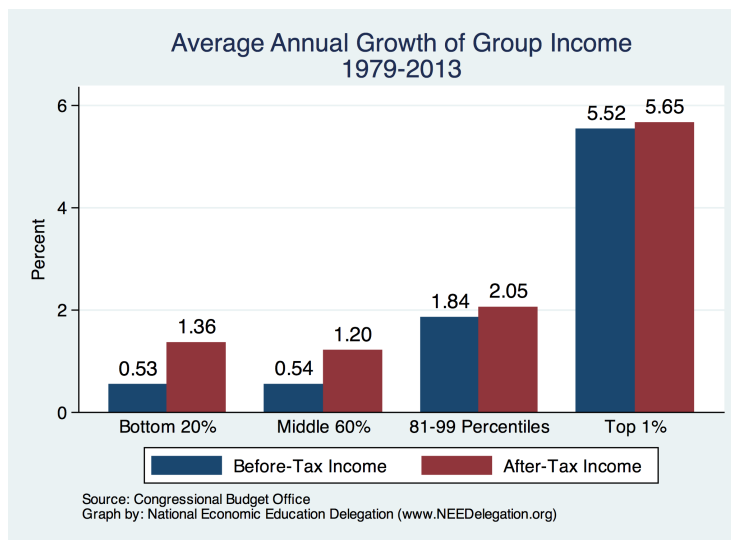
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Quintile Income Cutoffs



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Growth Has Been Primarily at the Very Top



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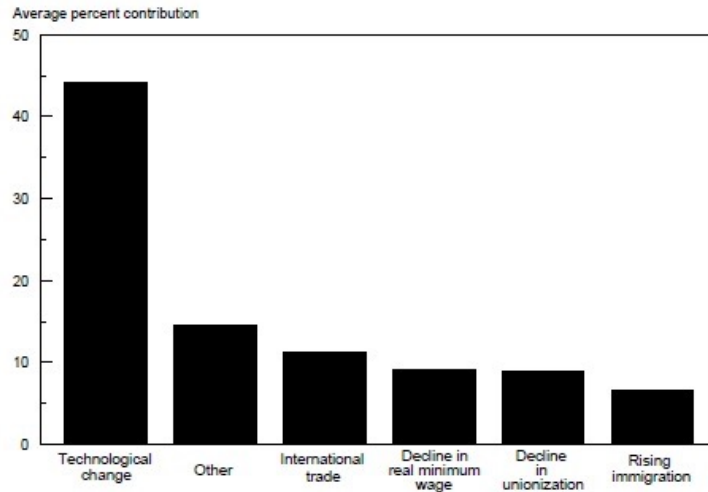
A Modern Example: Uber & Lyft

- **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

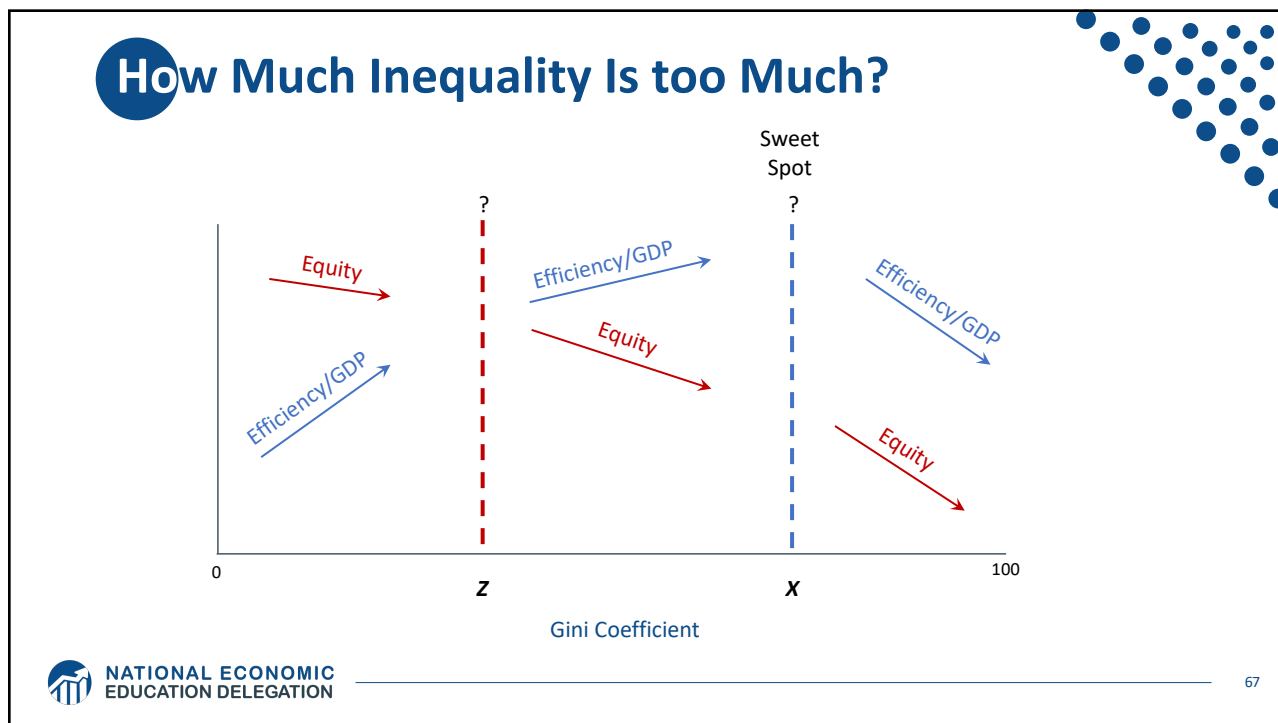
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Sources of Inequality Through Late 1990s

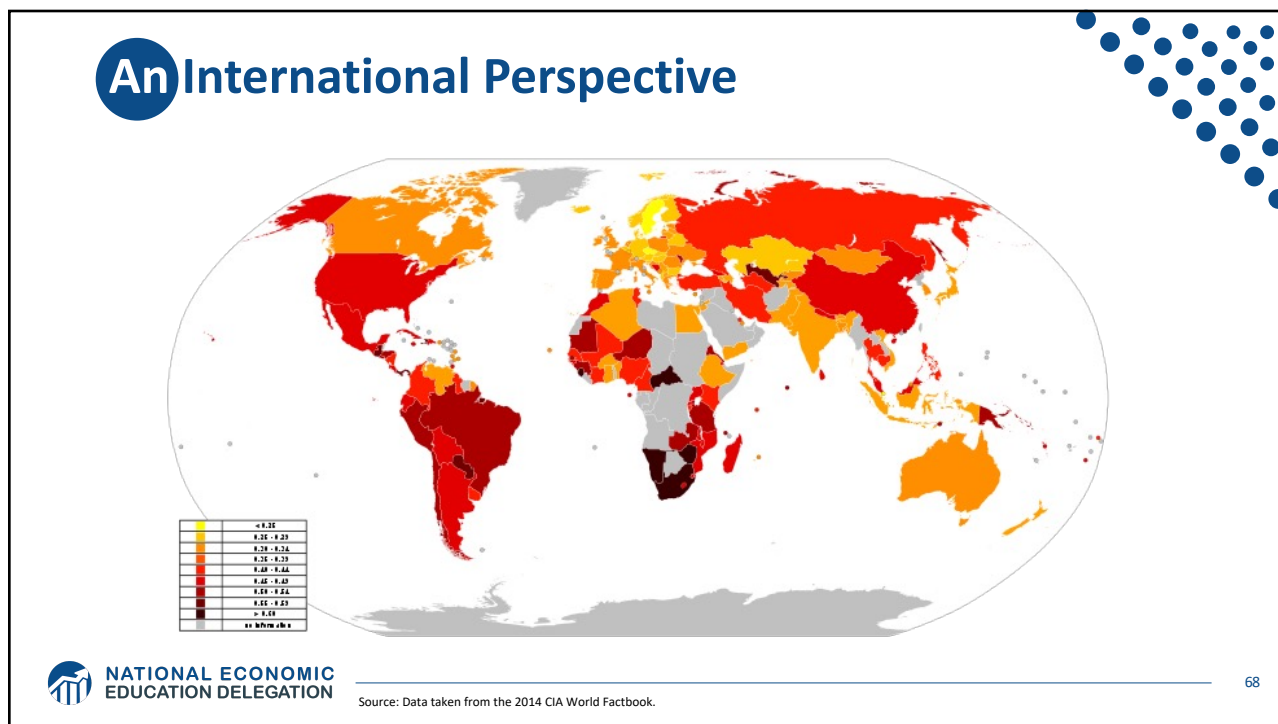


Source: Federal Reserve Bank of New York.

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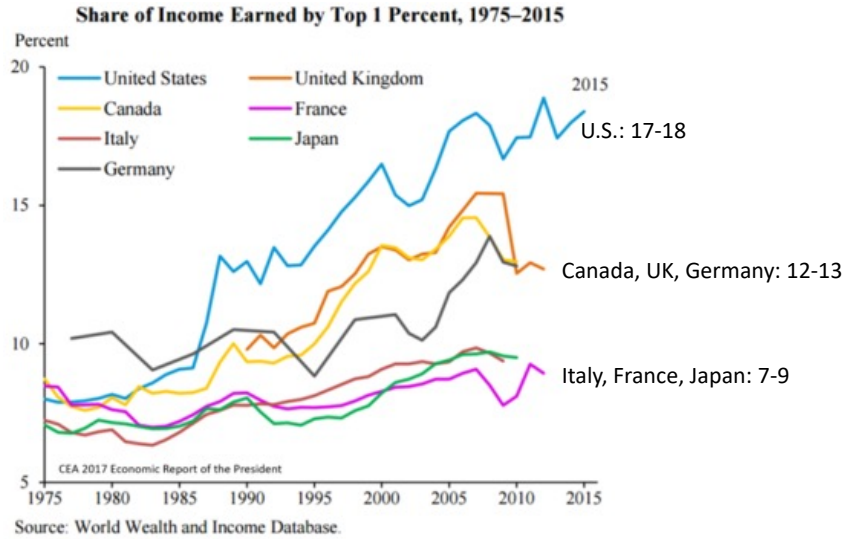


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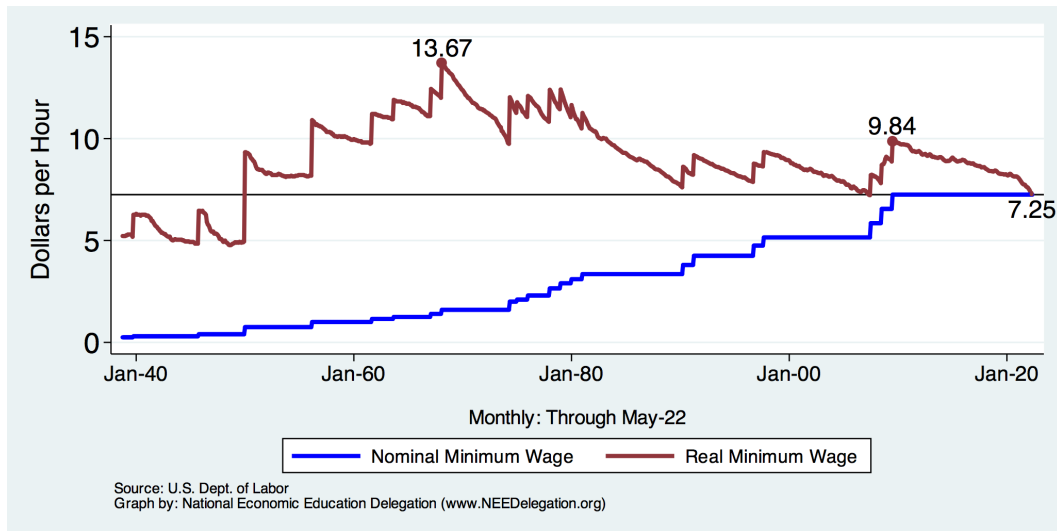
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An International Perspective: Comparables

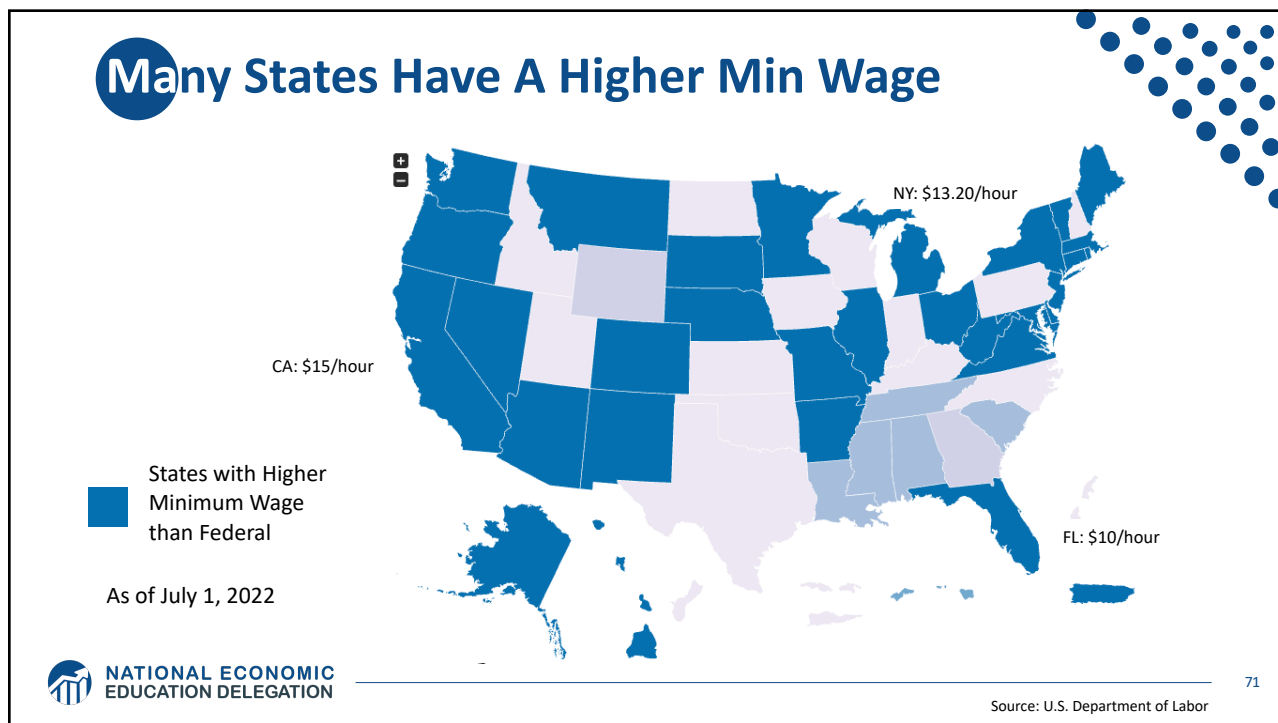


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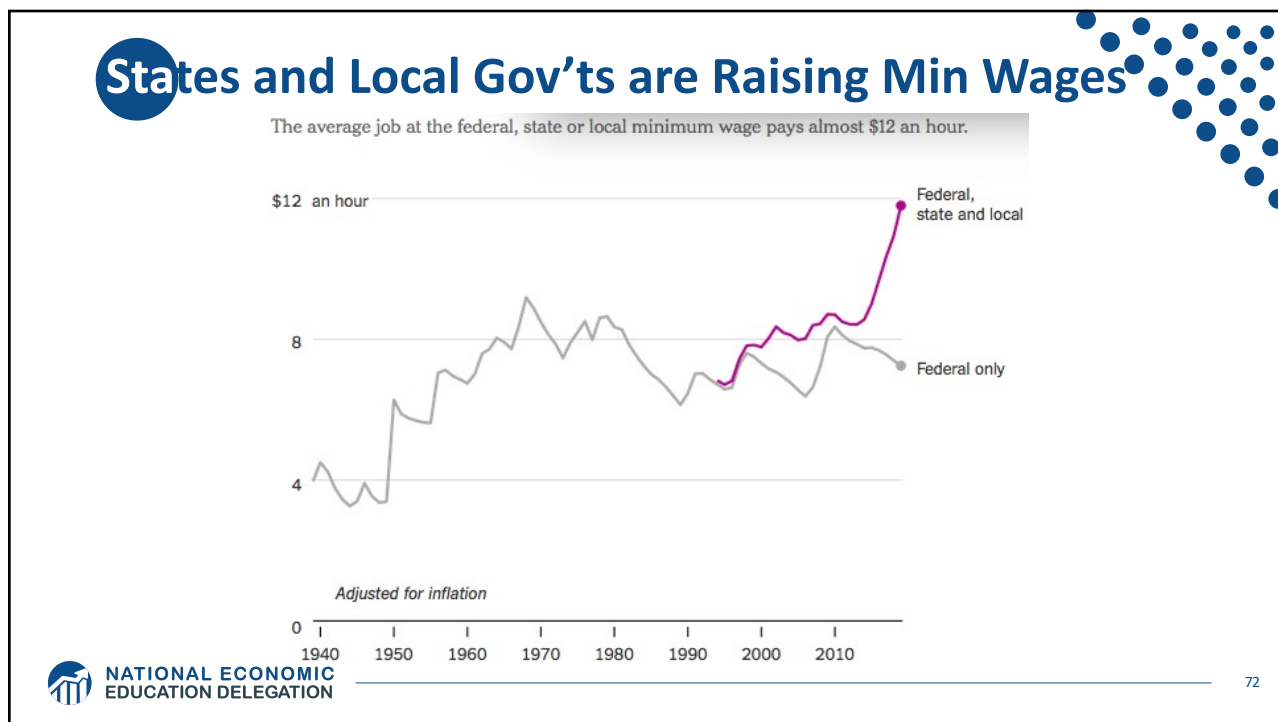
Historical Values of Minimum Wages



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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

