



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

Florida Atlantic University
Fall, 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



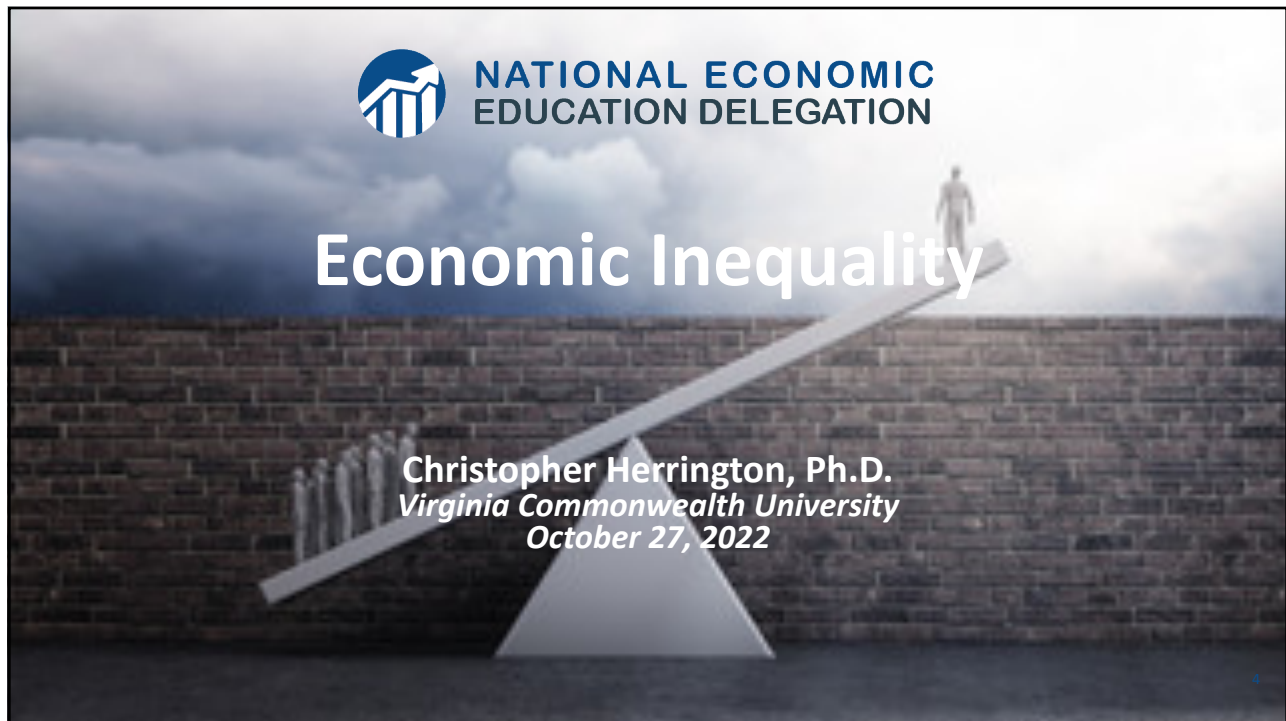
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Course Outline


- **Contemporary Economic Policy**

- Week 1 (10/6): U.S. Economic Update (Jon Haveman, NEED)
- Week 2 (10/13): Trade and Globalization (Alan Deardorff, University of Michigan)
- Week 3 (10/20): Autonomous Vehicles (Jon Haveman, NEED)
- **Week 4 (10/27): Economic Inequality (Chris Herrington, VCU)**
- Week 5 (11/3): The Black-White Wealth Gap (Jon Haveman, NEED)
- Week 6 (11/10): Trade Deficits and Exchange Rates (Alan Deardorff, UM)

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The slide features a background image of a seesaw on a brick wall. On the high end of the seesaw, a single person stands. On the low end, a group of many people stands. The sky is cloudy and bright.

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Economic Inequality

Christopher Herrington, Ph.D.
Virginia Commonwealth University
October 27, 2022

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Credits and Disclaimer

- **This slide deck was authored by:**
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 - Timothy Smeeding, University of Wisconsin
 - Robert Wright, Augustana University
- **Disclaimer**
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 - It is, however, inevitable that the presenter will be asked for and will provide their own views
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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).

National Income Inequality: Share of Top 10%



Source: Piketty and Saez, 2003 updated to 2018.
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

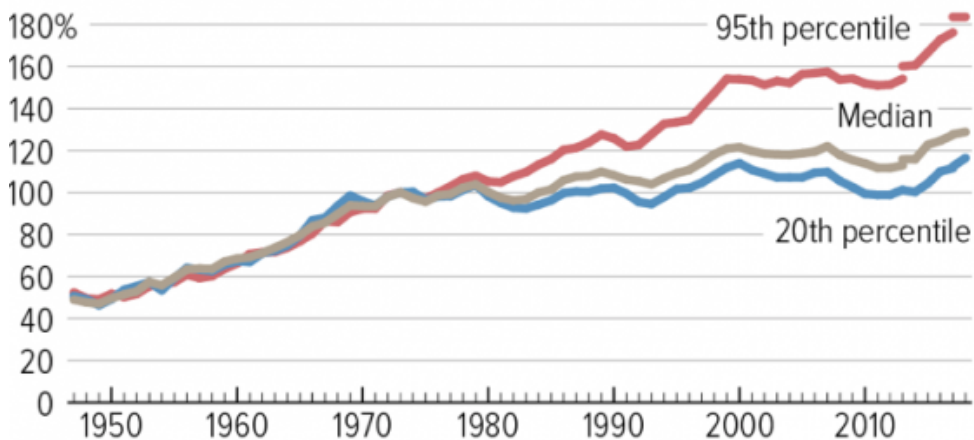
Recent Facts on Income Inequality

- **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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The Abrupt Increase in Inequality

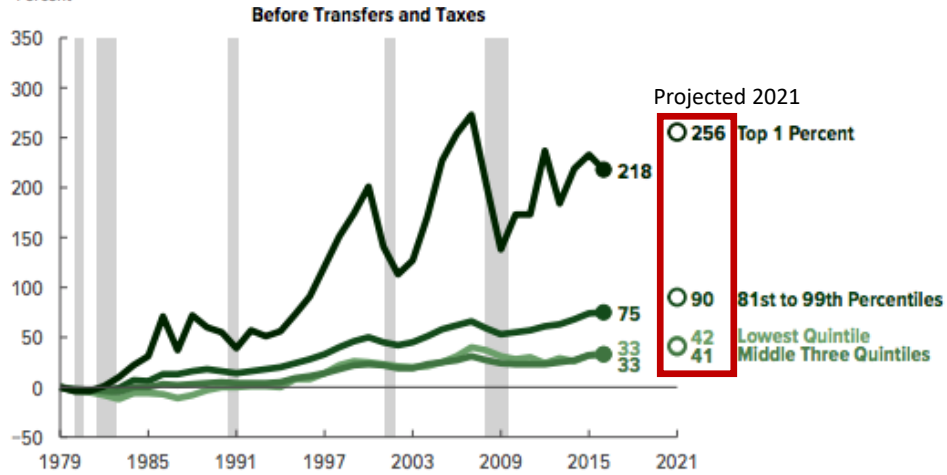
Real family income between 1947 and 2018, as a percentage of 1973 level



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

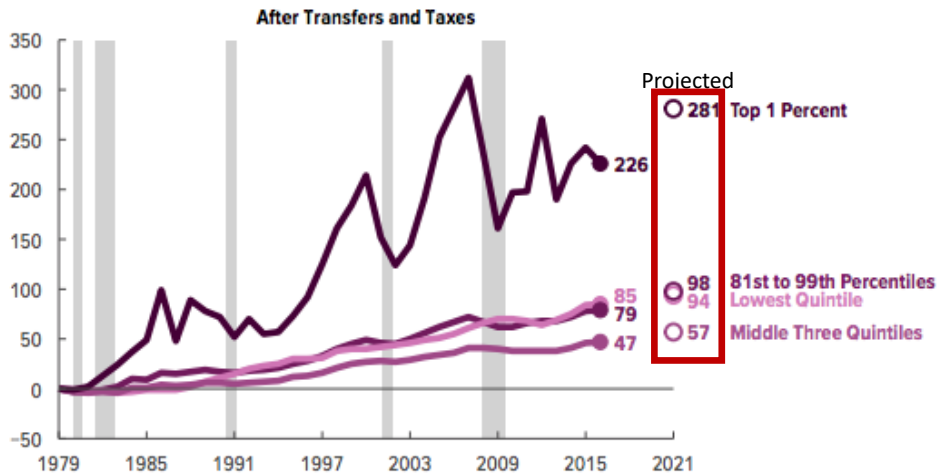
Cumulative Growth of Average Inflation-Adjusted Household Income Since 1979
Percent



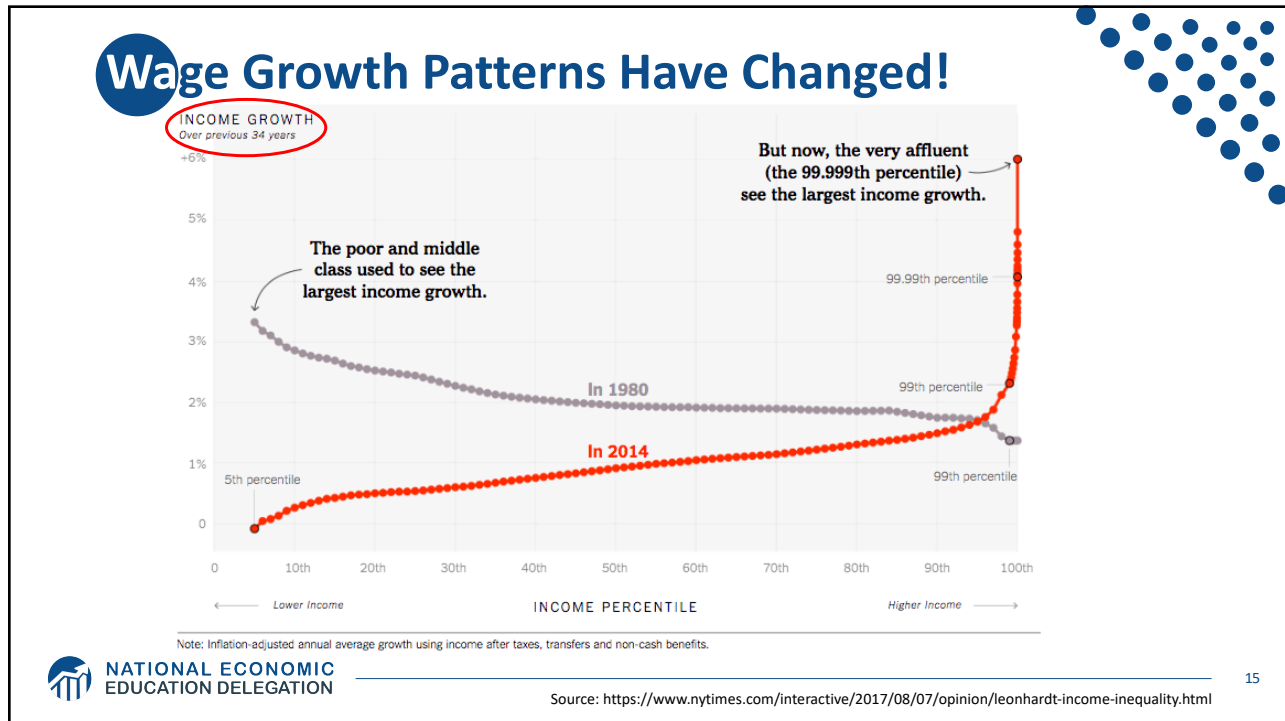
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Most of the Action Is at the Top: Post-Tax

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



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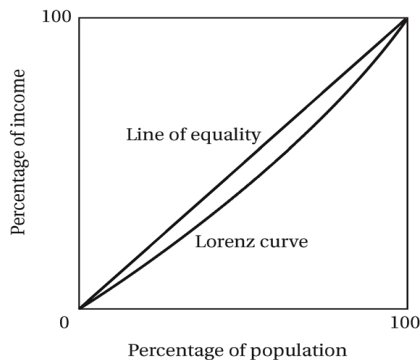
Gini Coefficient

- **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

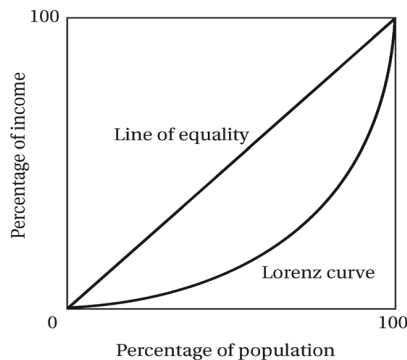
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Lorenz Curve of Income Distribution



(a) A relatively equal distribution

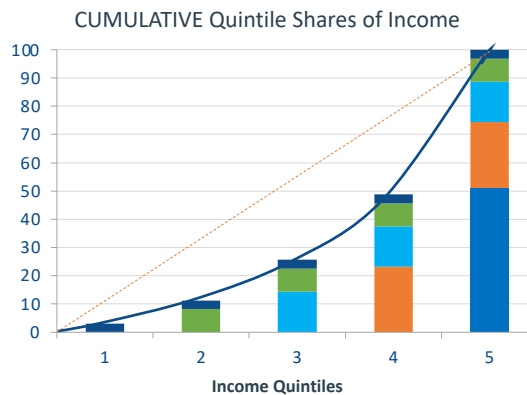
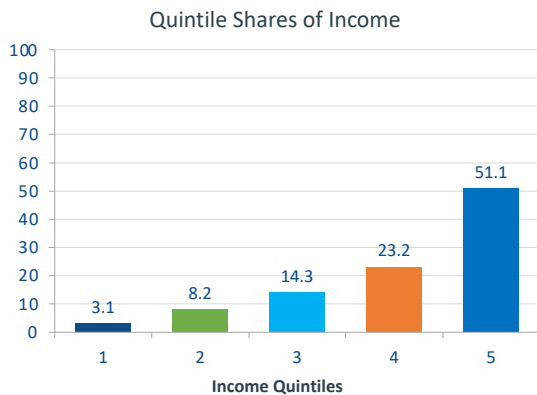


(b) A relatively unequal distribution

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

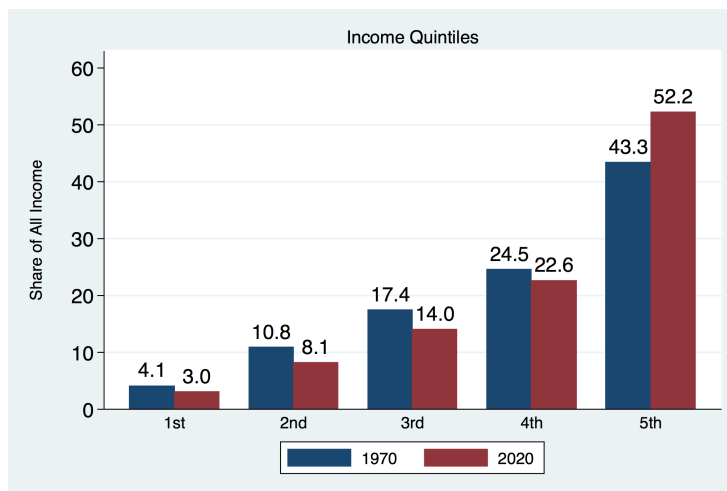


US Income Distribution: 2015



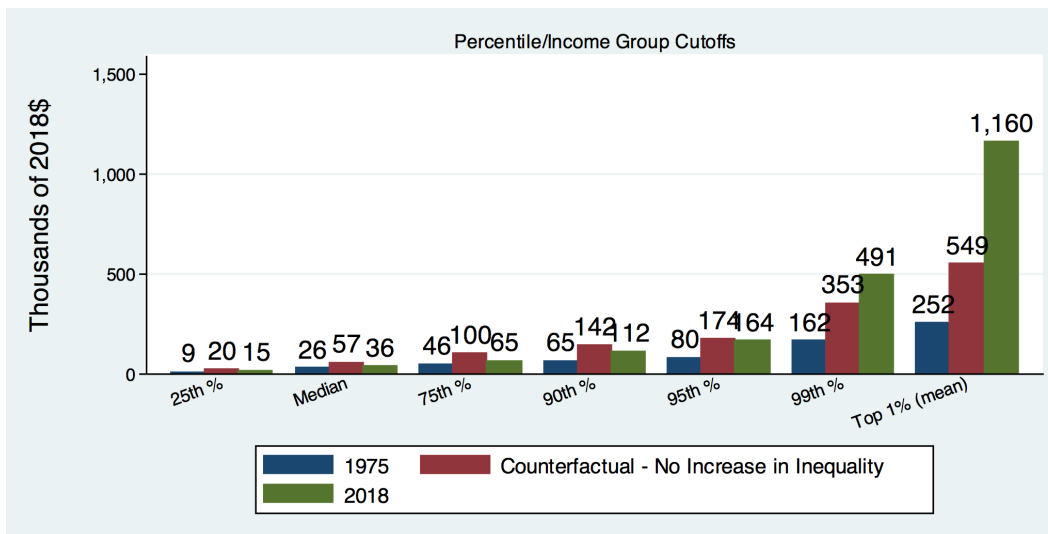
Source: 2015 1-year American Community Survey, based on pre-tax household income.

Income Share Changes Between 1970 and 2020



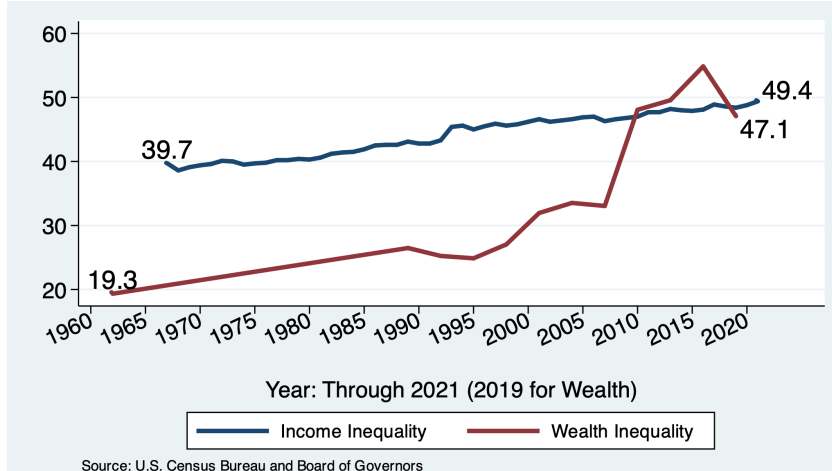
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How Has Inequality Influenced Incomes?



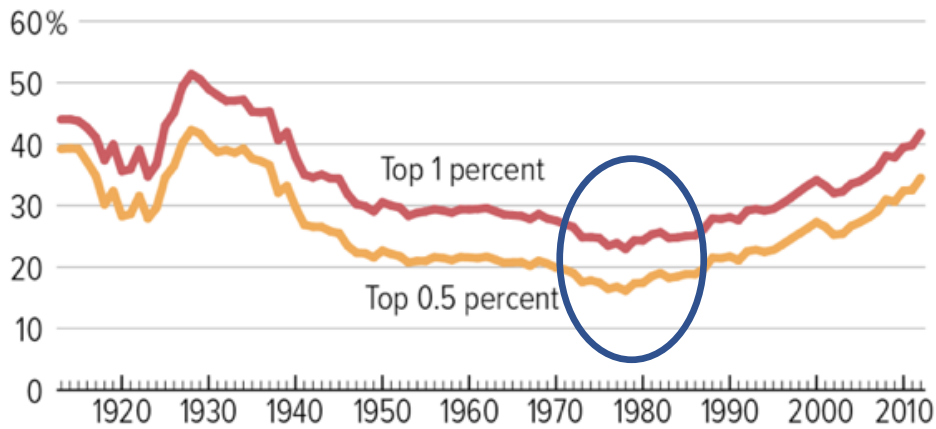
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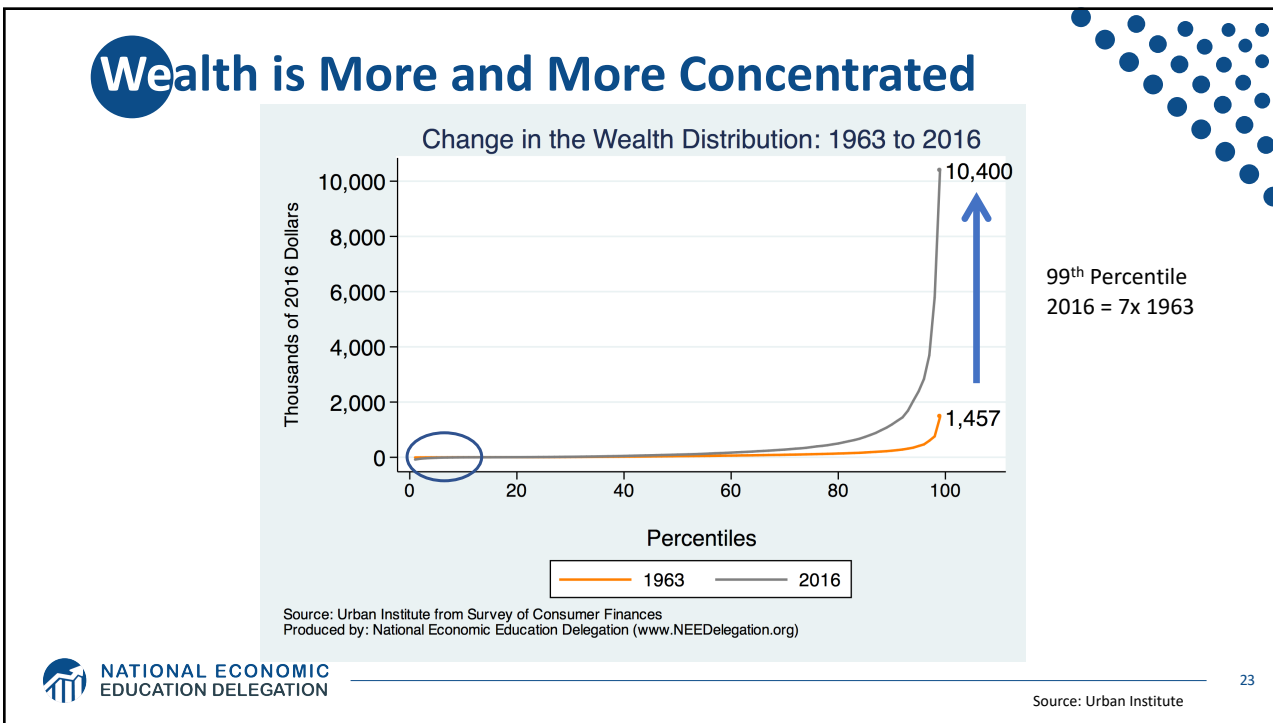
Income and Wealth Gini Coefficients



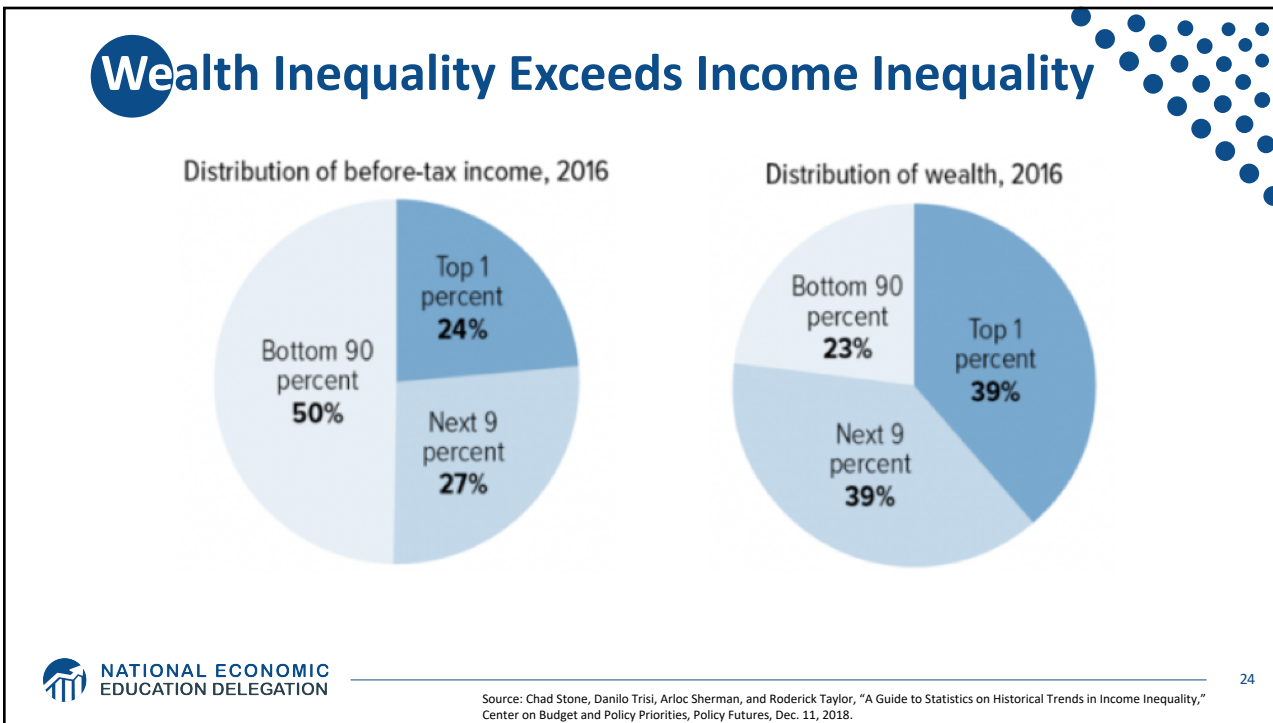
Wealth Concentration Has Been Rising

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





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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

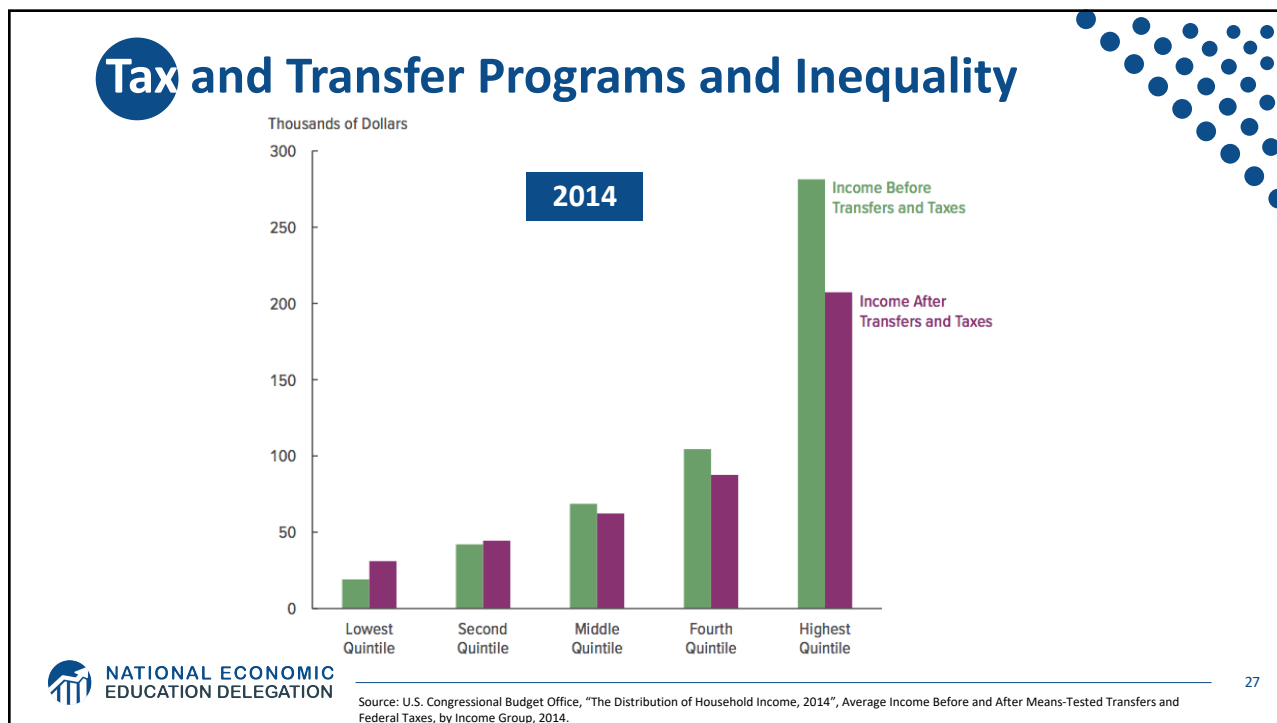
- Tax Rates
- Income support
 - Direct aid
 - Food stamps



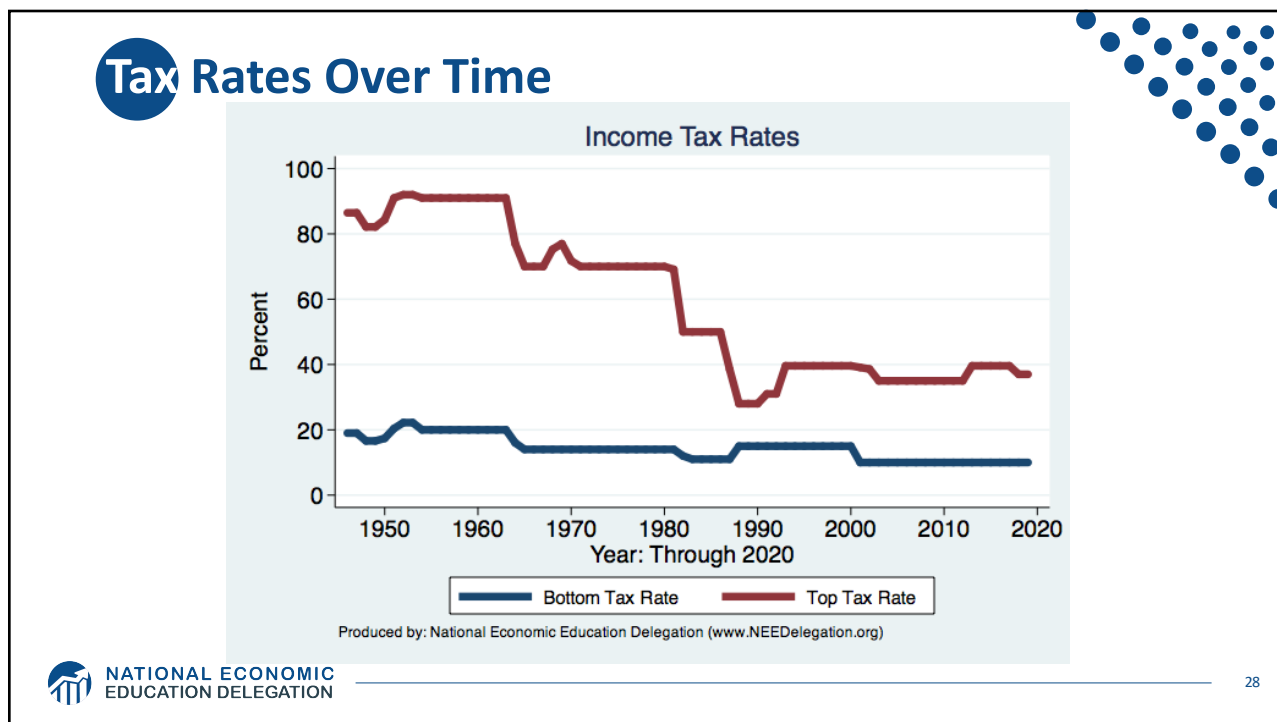
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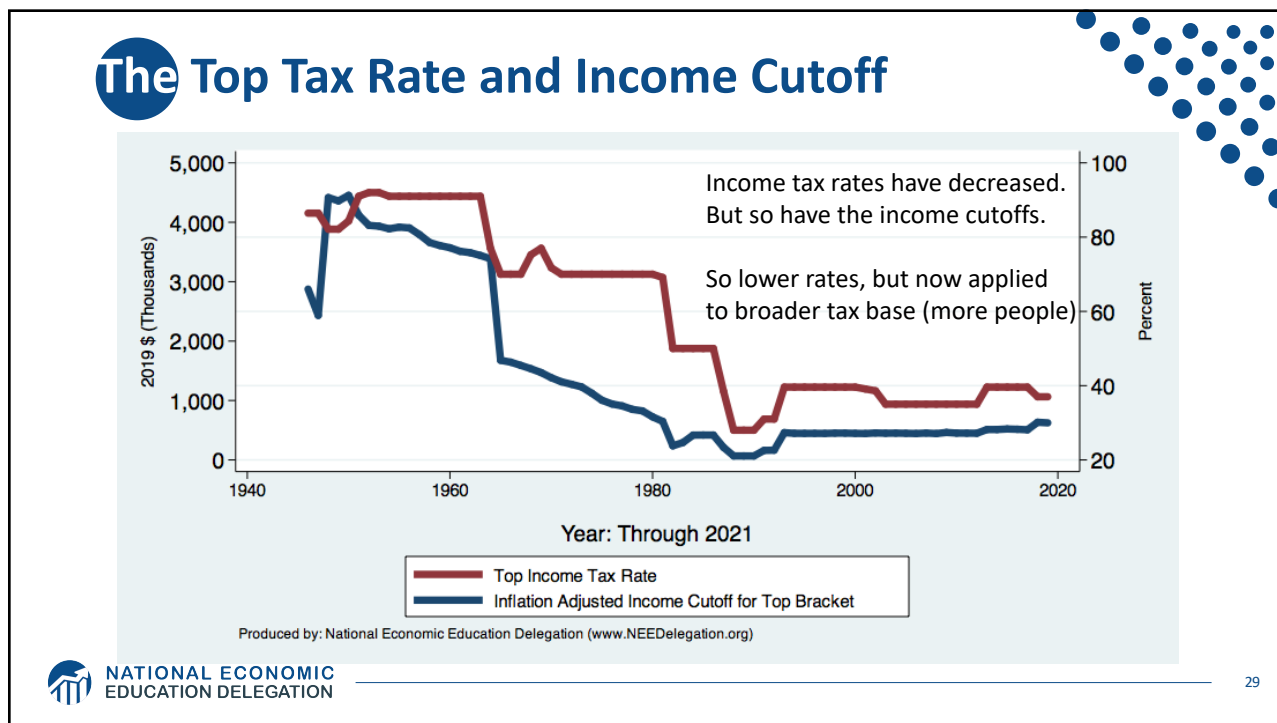
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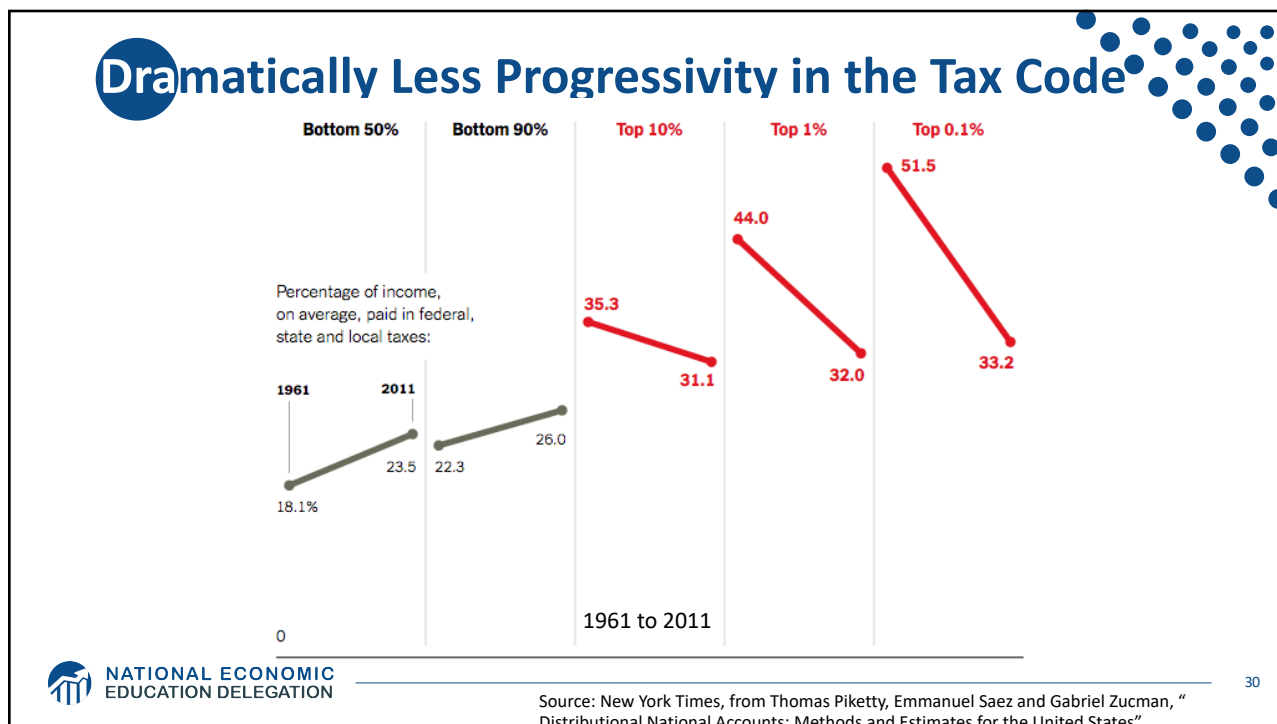
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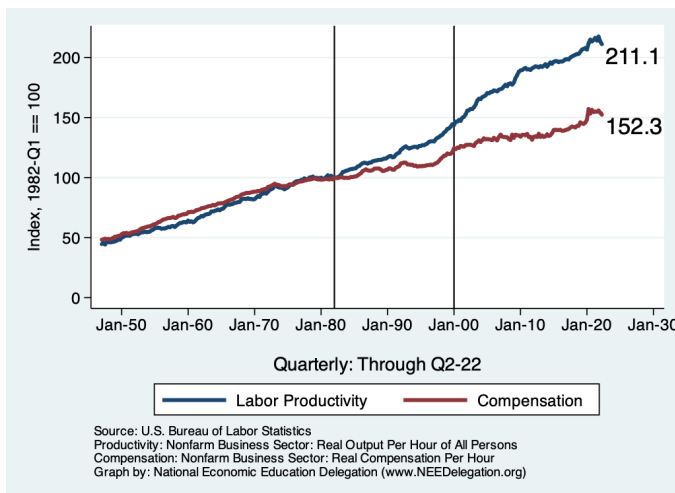
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Market Forces and Inequality

- **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

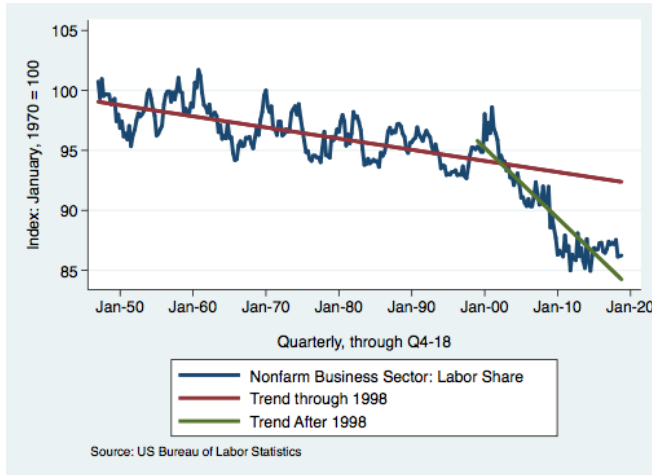


Why? Some theories:

- 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

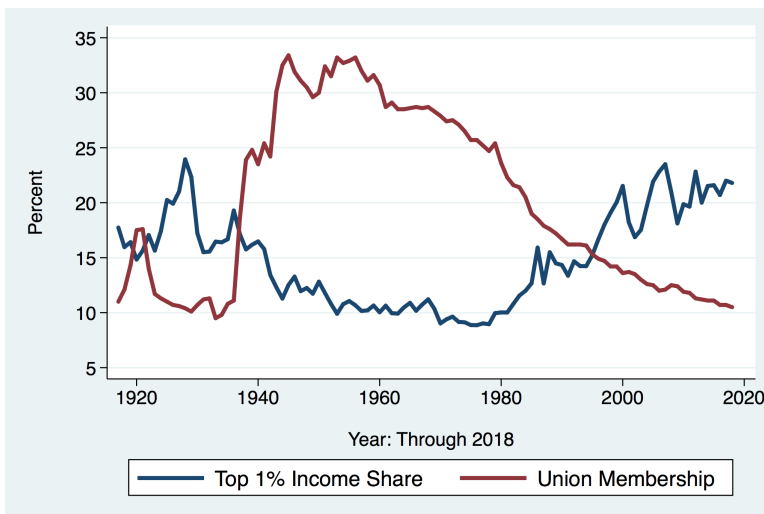
1960: 66%

2011: 56%

2016: 58%

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Declining Unionization



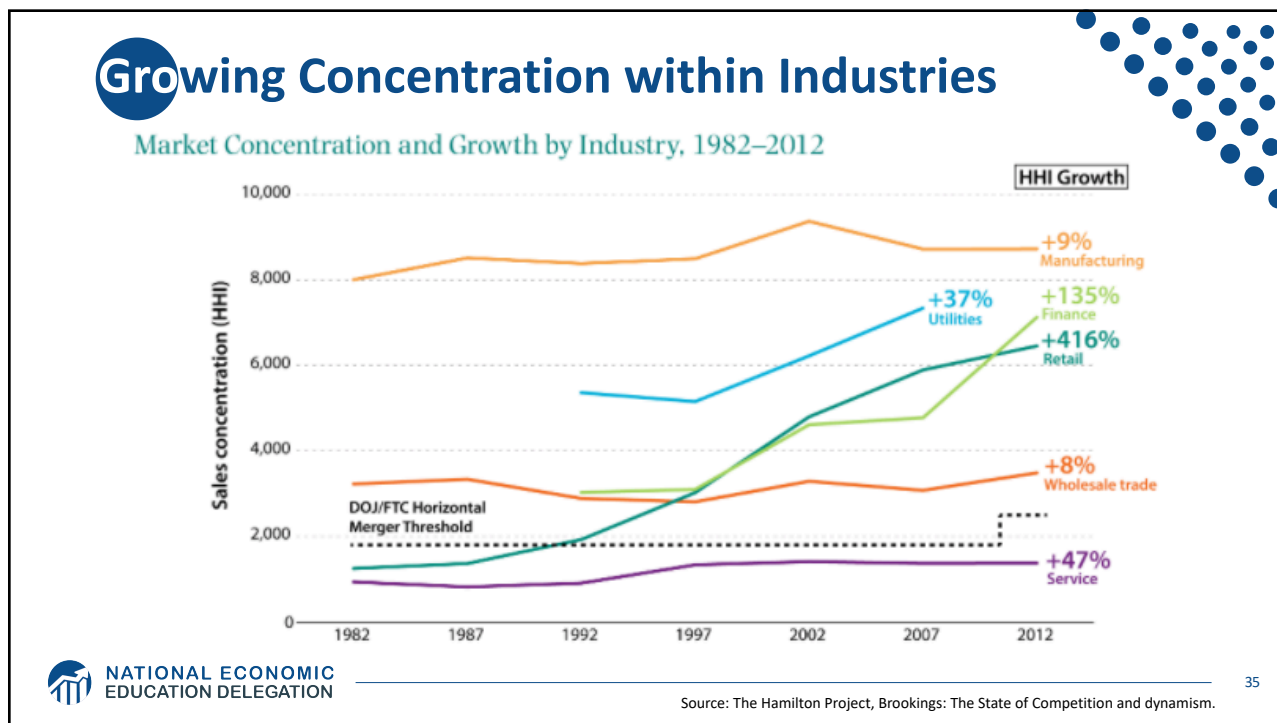
Unionization Rates

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

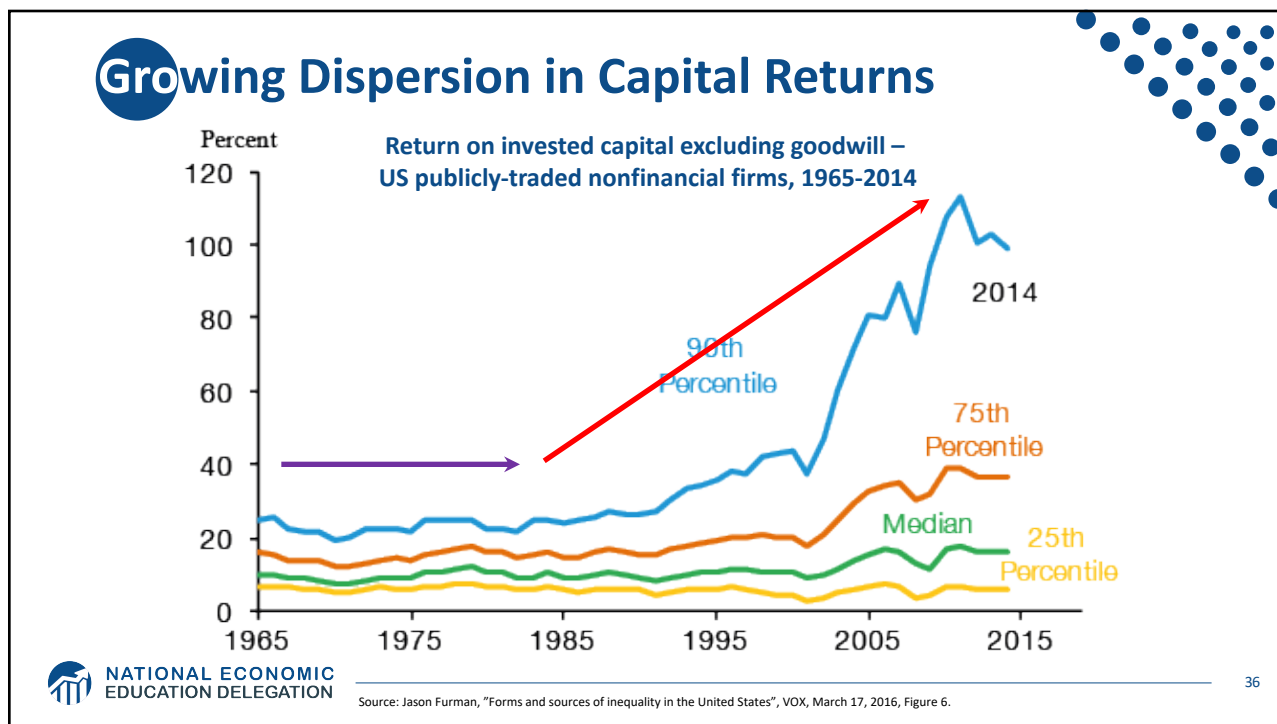
Unionization Rates

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

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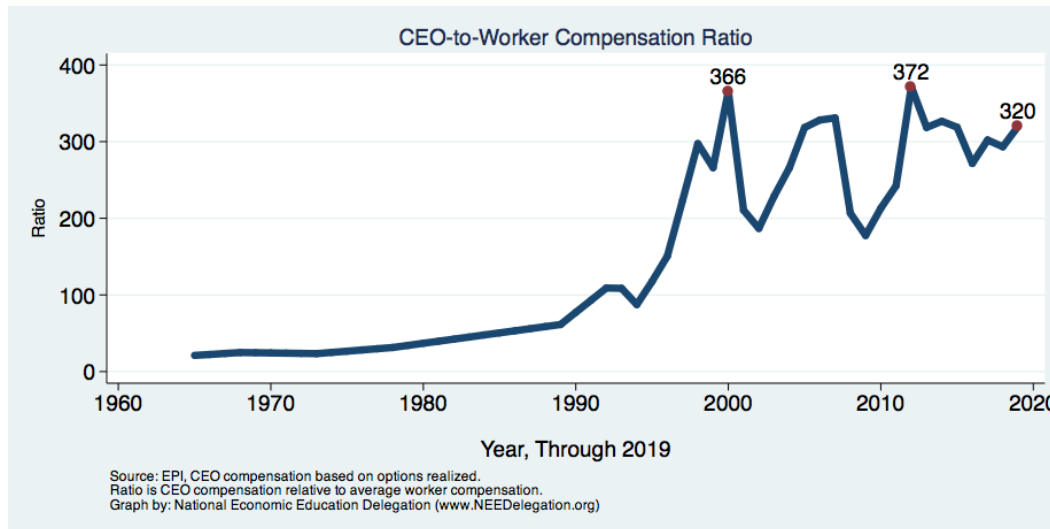


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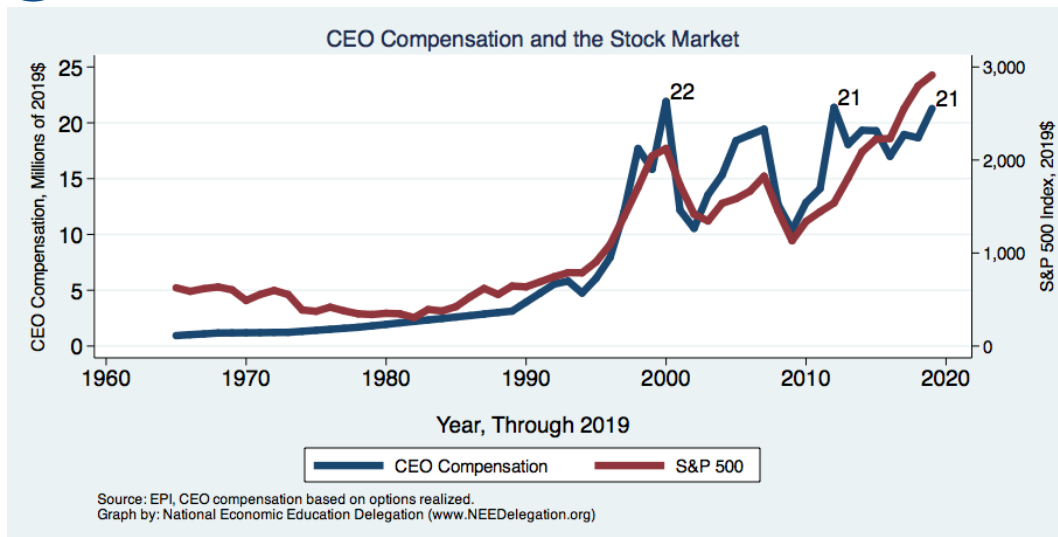
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CEO Pay Has Been Growing Rapidly



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CEO Compensation – Tied to Stock Prices



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Immigration and Inequality

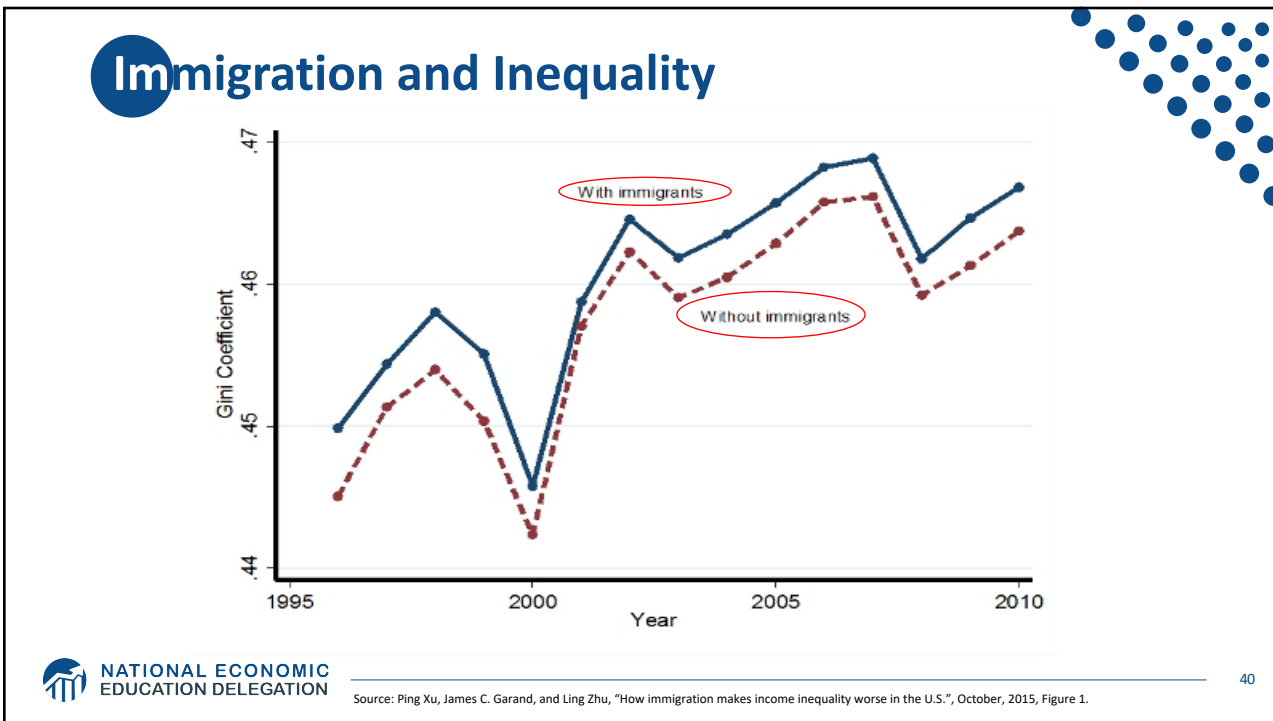
- **Beginning in about 1970, the immigrant share of the U.S. Population increased dramatically.**
 - 5% in 1970 and 14% in 2016
- **Immigration tends to happen most often among:**
 - Low-skilled low-wage workers
 - High-skilled high-wage workers
- **Immigration has likely increased income inequality.**
- **Its effect has likely been small.**
 - ~5% between 1980 and 2000
 - No reason to think it has been bigger since



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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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Why Does Inequality Matter?

- **Too little inequality can:**

- Reduce individual motivation
- Slow economic growth

- **Too much inequality can:**

- Reduce individual motivation
- Slow economic growth

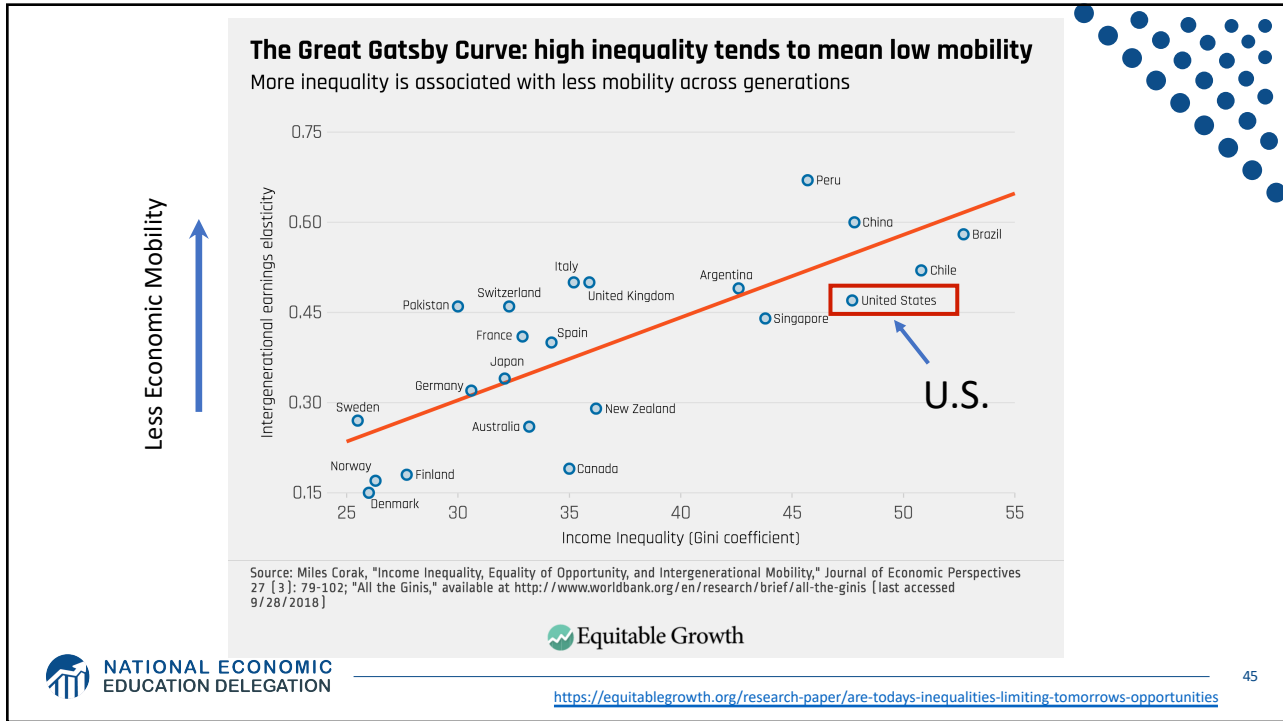
- **Too much inequality may also:**

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

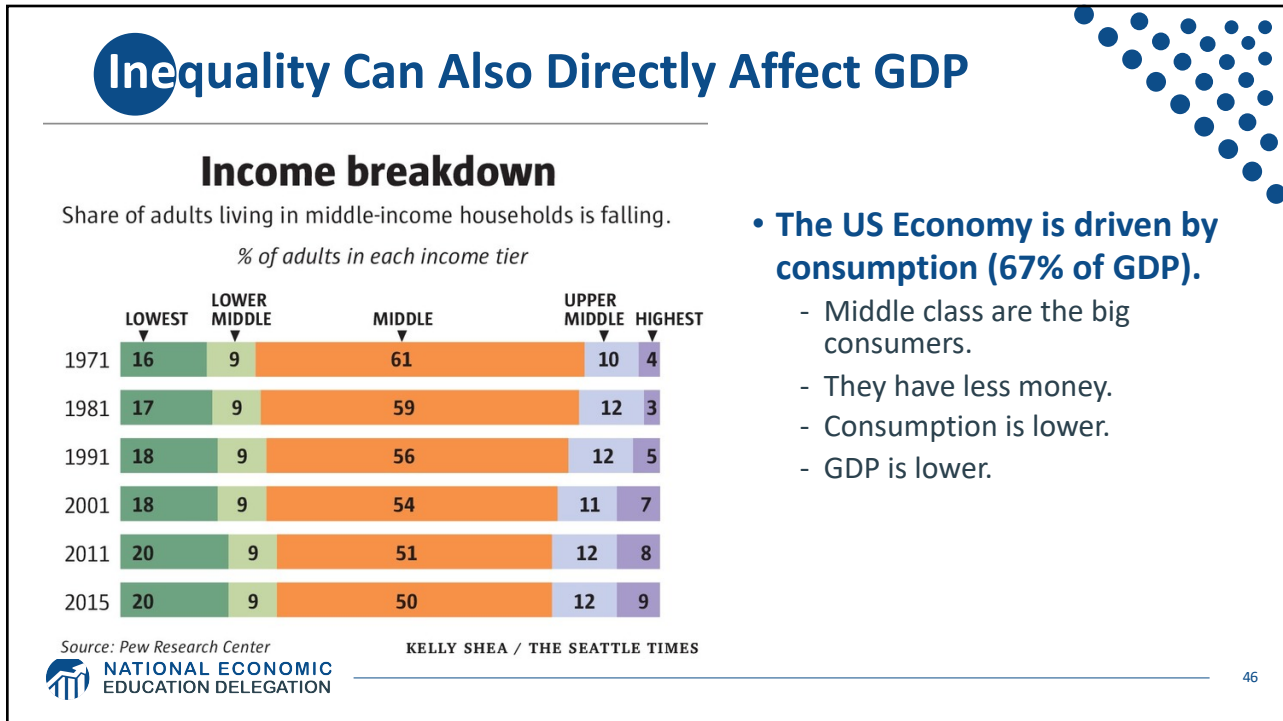


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Addressing Inequality: Long Term

- **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?**



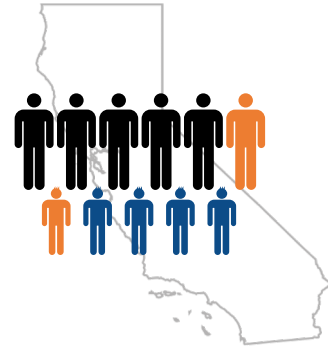
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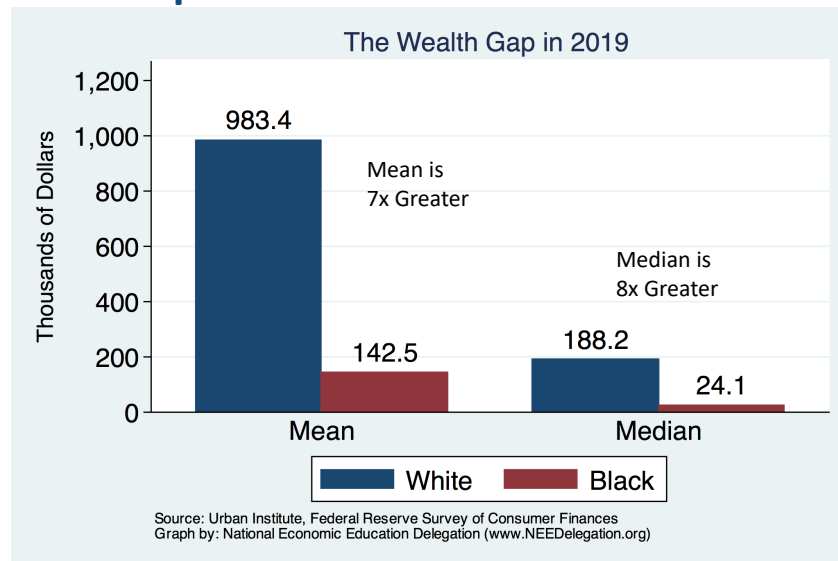
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Summary

- **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.**



B-W Wealth Gap: Jon Haveman



Thank you!

Any Questions?

www.NEEDelegation.org

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Contact NEED: info@NEEDelegation.org

Submit a testimonial: www.NEEDelegation.org/testimonials.php

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Extra Slides

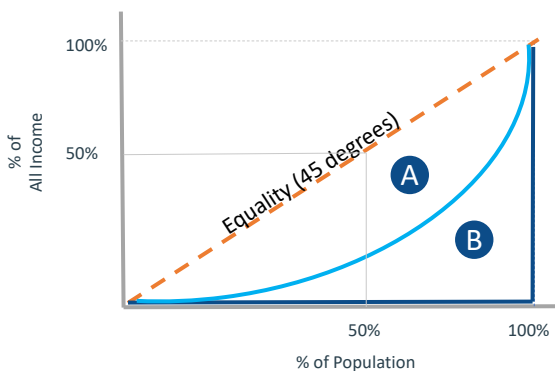


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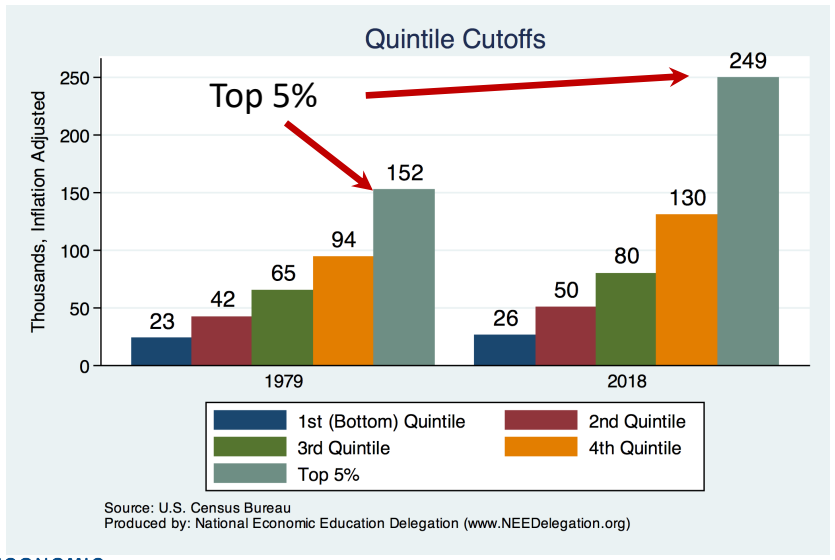
Calculating the Gini Coefficient



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

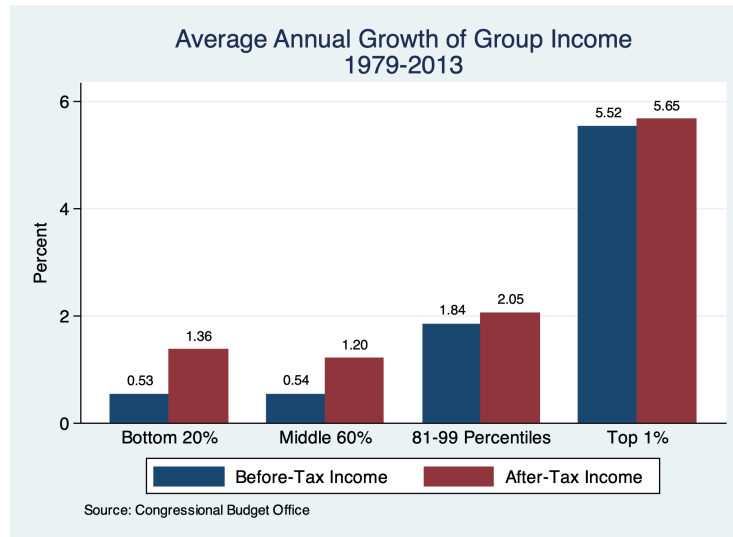
Bigger A: More inequality
Smaller A: Less inequality

Quintile Income Cutoffs



Source: U.S. Census Bureau
Produced by: National Economic Education Delegation (www.NEEDelegation.org)

Growth Has Been Primarily at the Very Top



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A Modern Example: Uber & Lyft

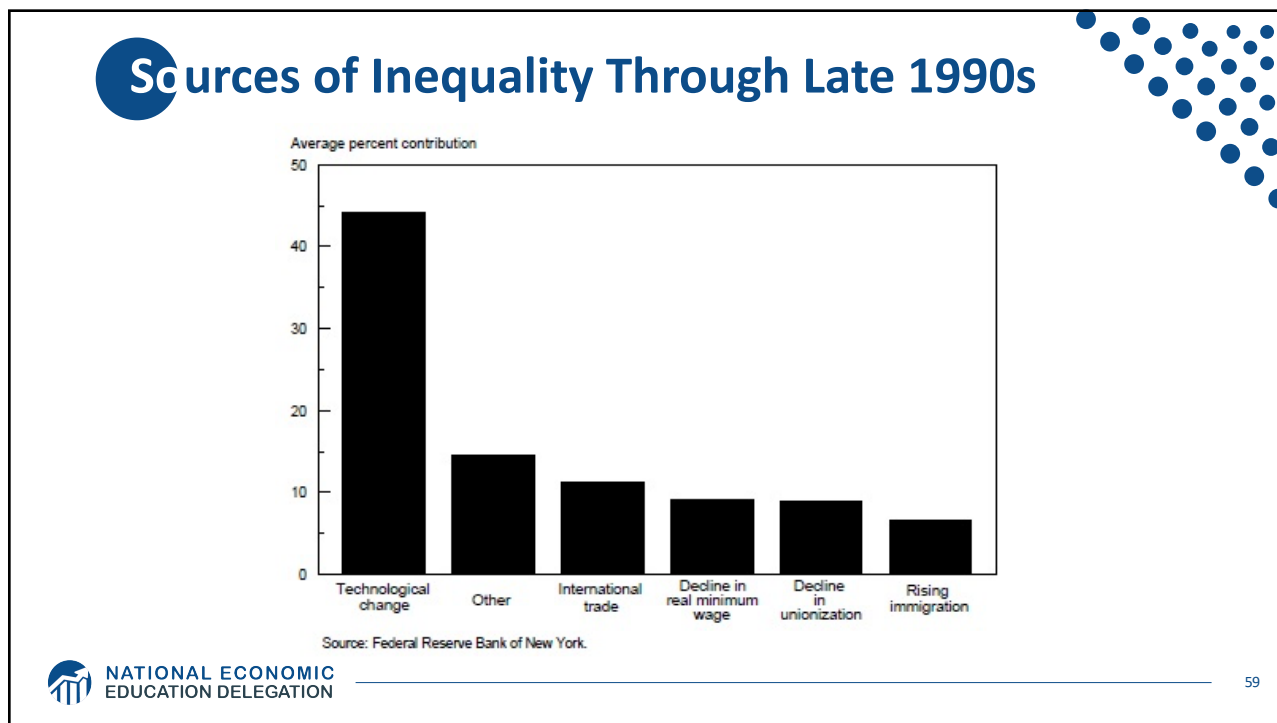
• Ride-Share Technology:

- 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

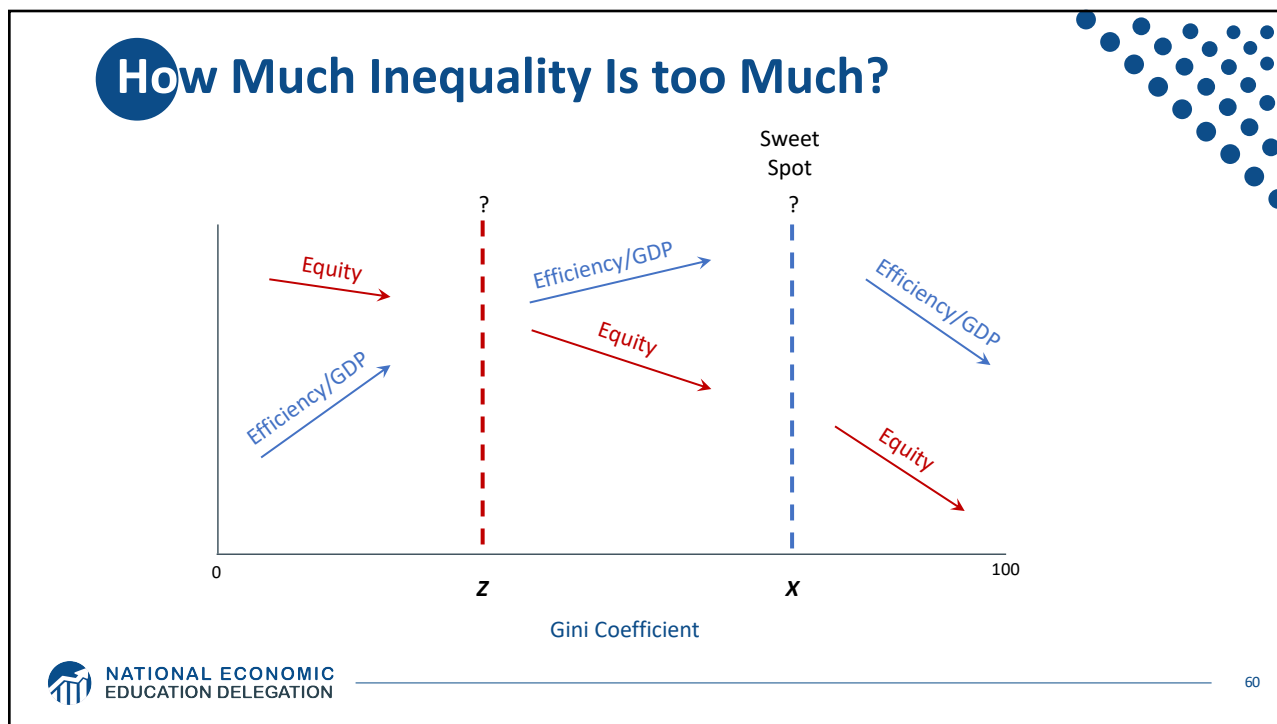
• Other trade-offs and considerations:

- Increased flexibility for drivers (of course, difficult to value)
- Cost and convenience improvements for riders

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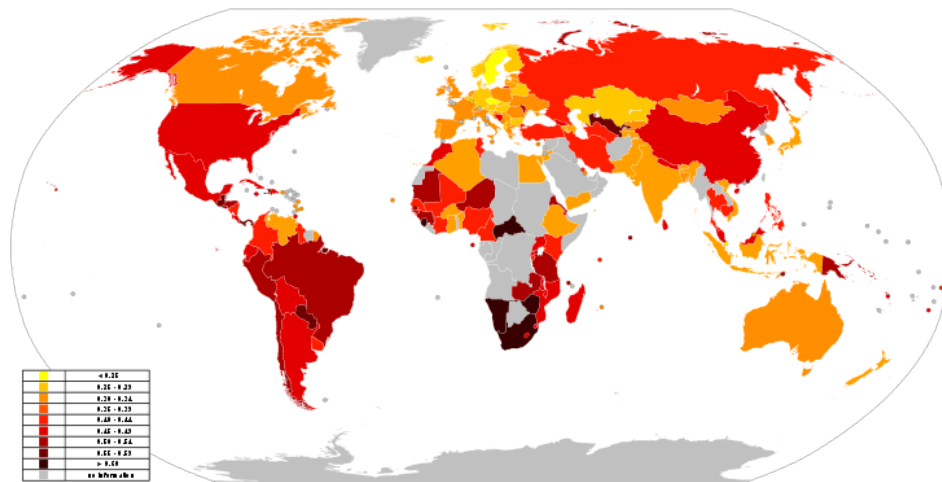


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An International Perspective



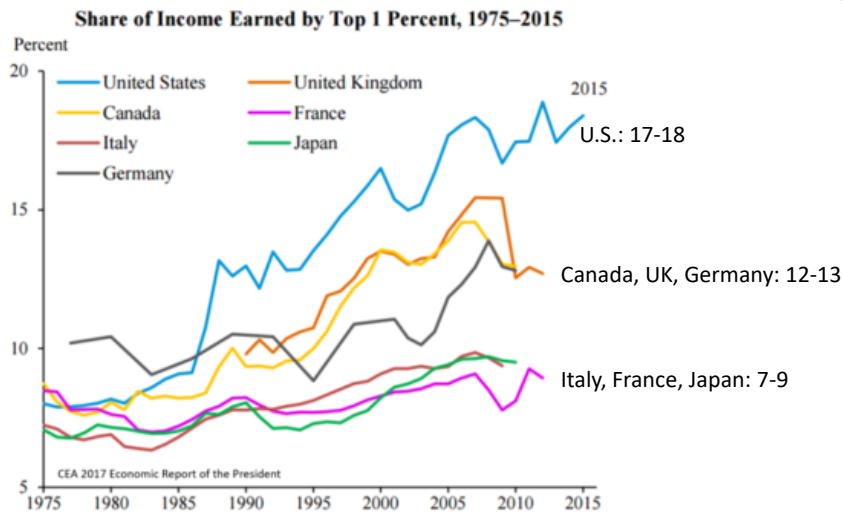
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Source: Data taken from the 2014 CIA World Factbook.

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An International Perspective: Comparables



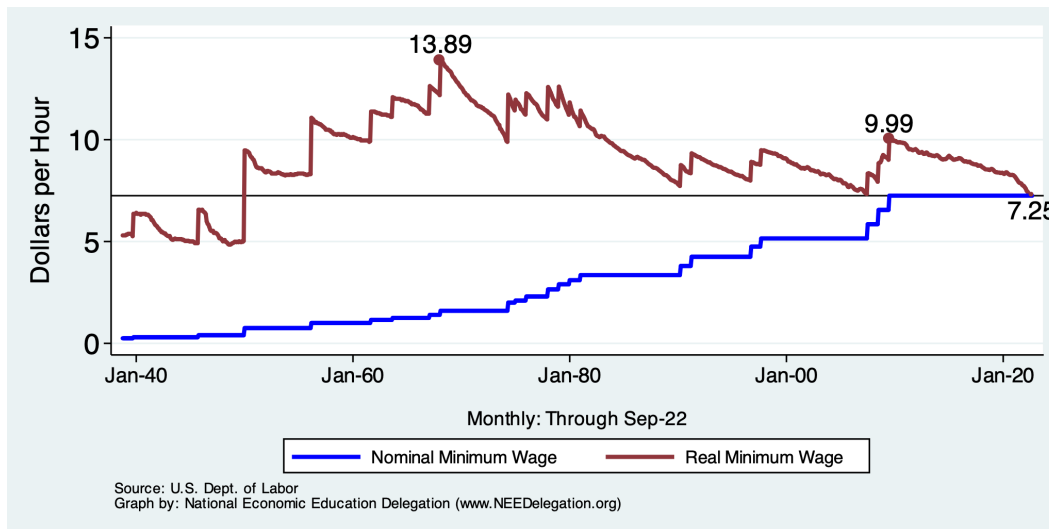
Source: World Wealth and Income Database.

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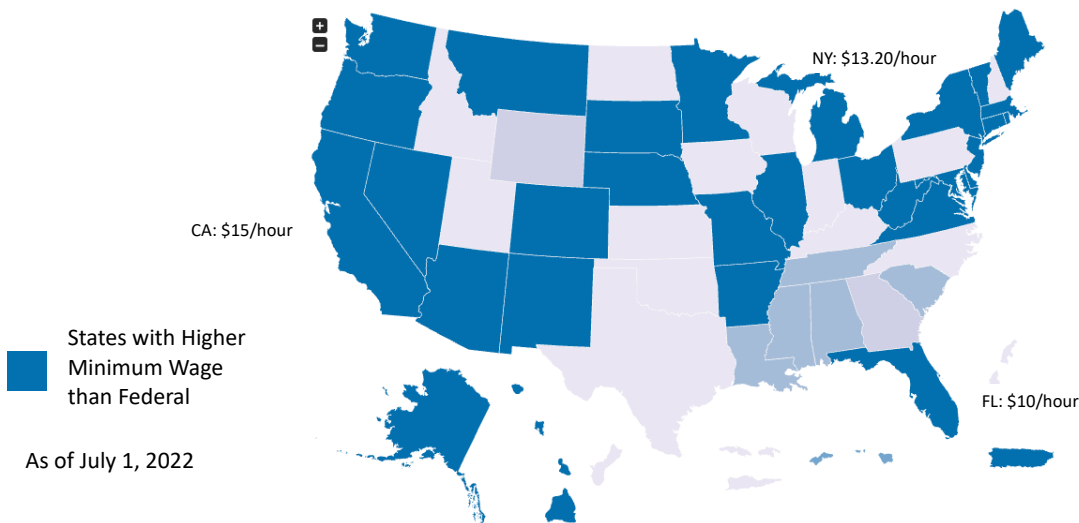
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Historical Values of Minimum Wages



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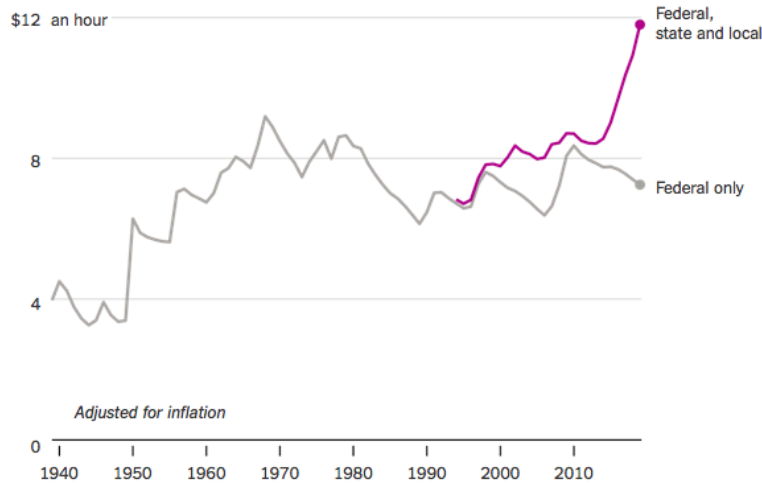
Many States Have A Higher Min Wage



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States and Local Gov'ts are Raising Min Wages

The average job at the federal, state or local minimum wage pays almost \$12 an hour.



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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



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