



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

University of Georgia
Aug-Sep, 2022

Kelley L. Cullen, Ph.D.
National Economic Education Delegation



1

Available NEED Topics Include:

- Healthcare Economics
- US Economy
- 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



2

Course Outline

- **Contemporary Economic Policy**

- Week 1 (8/23): Climate Change Economics (Sarah Jacobson, Williams College)
- Week 2 (8/30): Economics of Immigration (Jennifer Alix-Garcia, Oregon St. Univ.)
- **Week 3 (9/6): Economic Inequality (Kelley Cullen, E. Washington University)**
- Week 4 (9/13): Federal Debt (Brian Peterson, Central College)



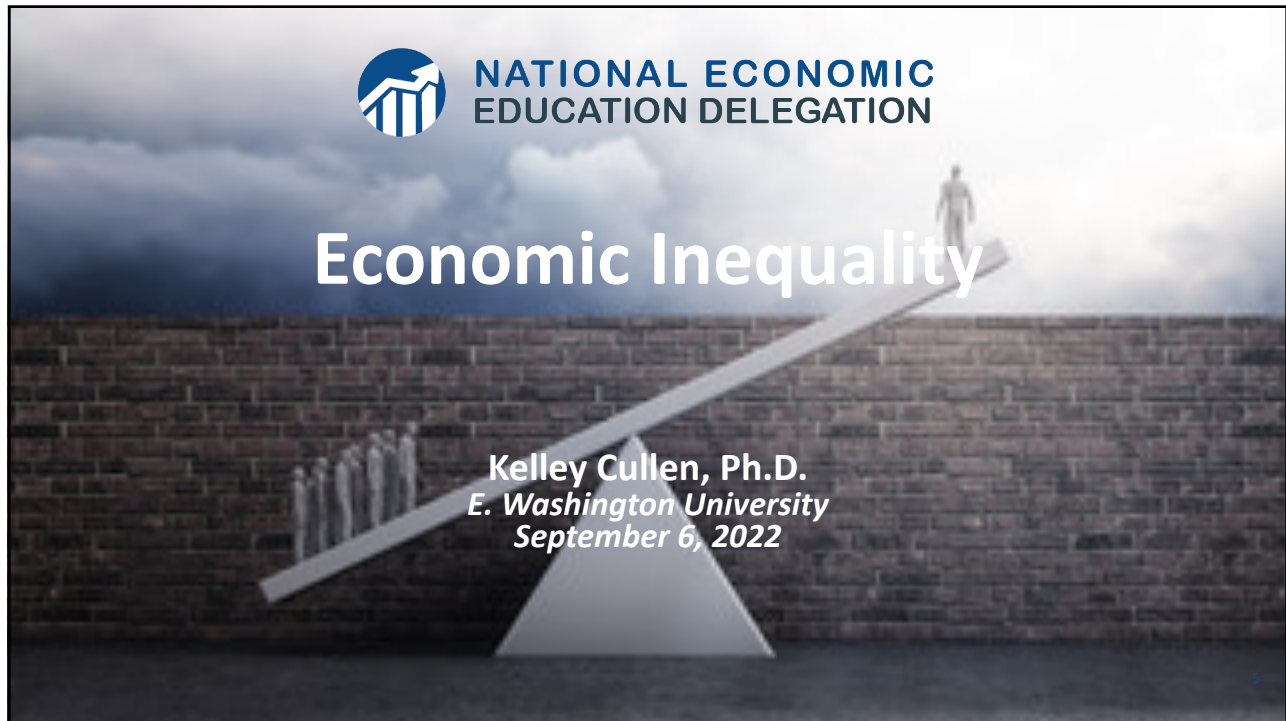
3

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)**




4



5

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)

 NATIONAL ECONOMIC EDUCATION DELEGATION

6

Outline

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



7

Economic Inequality: Income

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



8

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



Different Ways of Thinking About Inequality

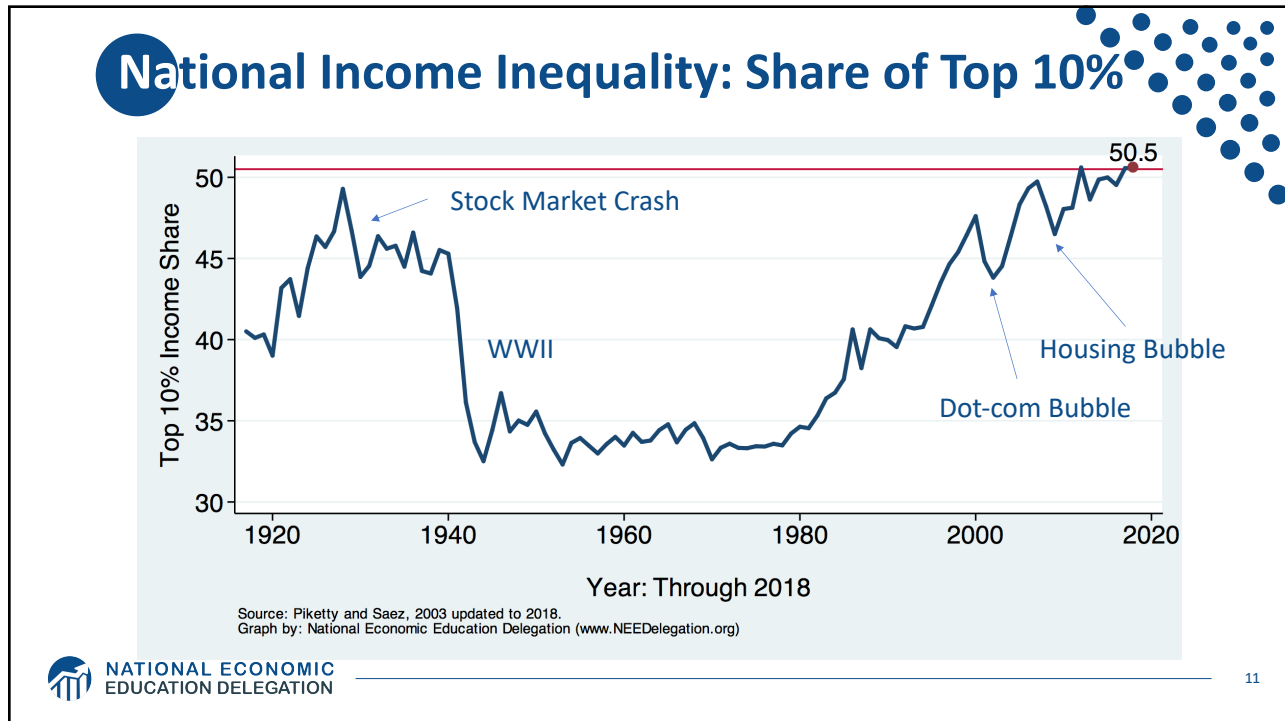
- **Income Inequality**
 - Before taxes and transfers
 - After taxes and transfers
- **Wealth Inequality**
- **Consumption Inequality**

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).





11

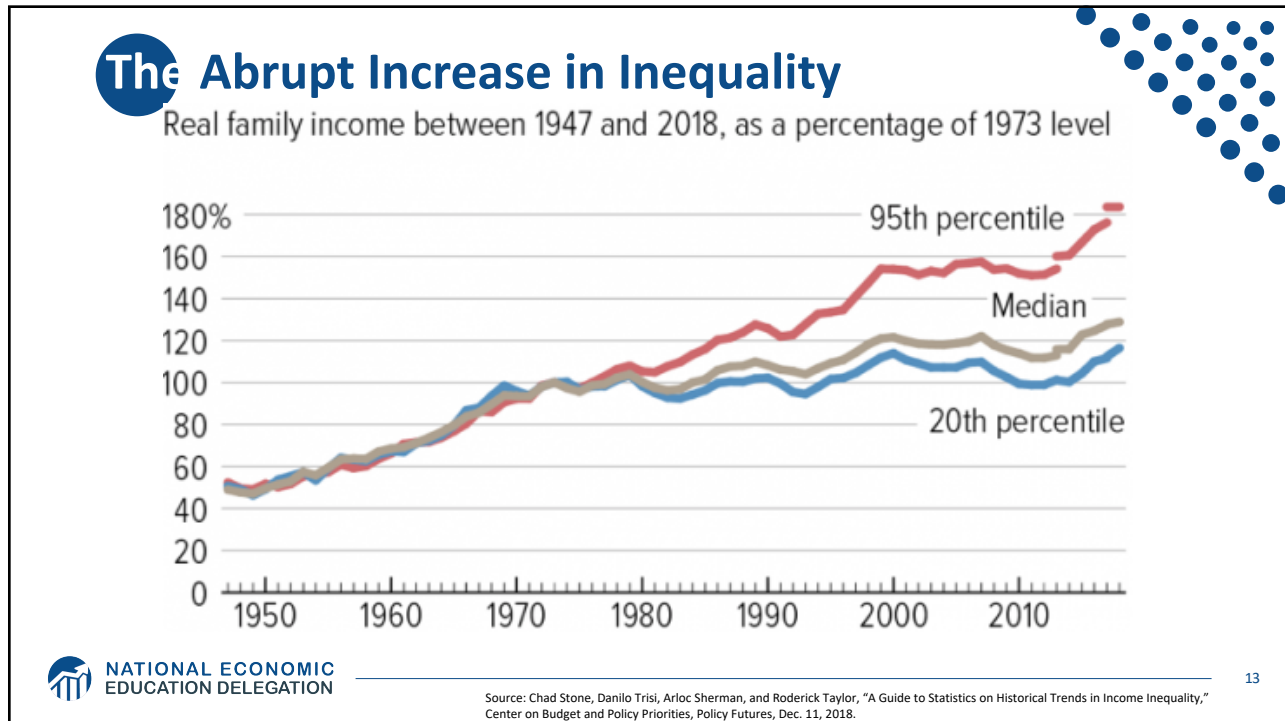
Recent Facts on Income Inequality

- **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.

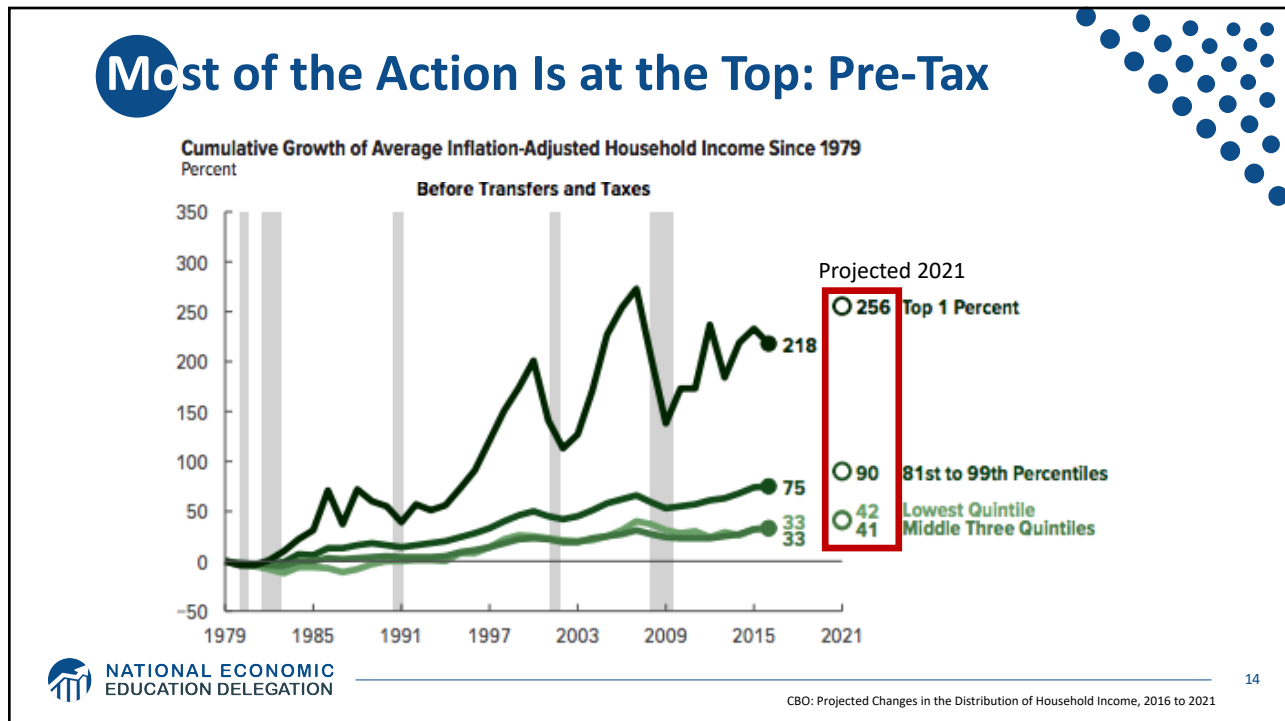
NATIONAL ECONOMIC EDUCATION DELEGATION

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.

12



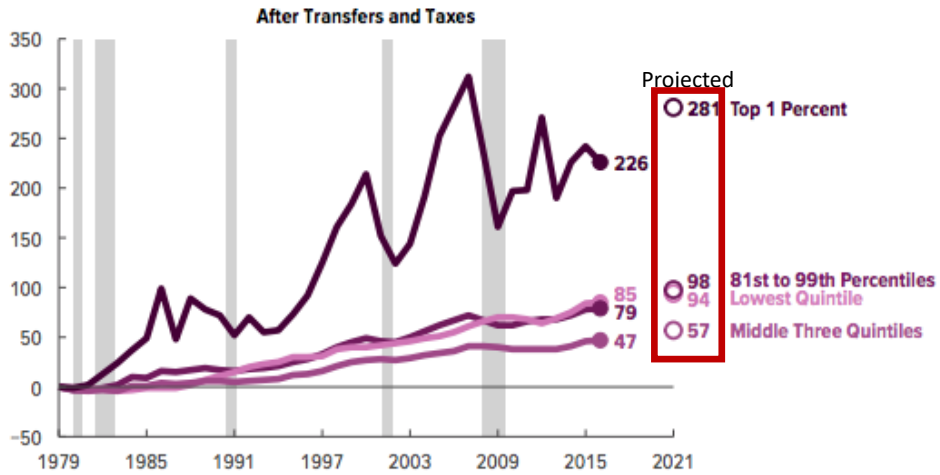
13



14

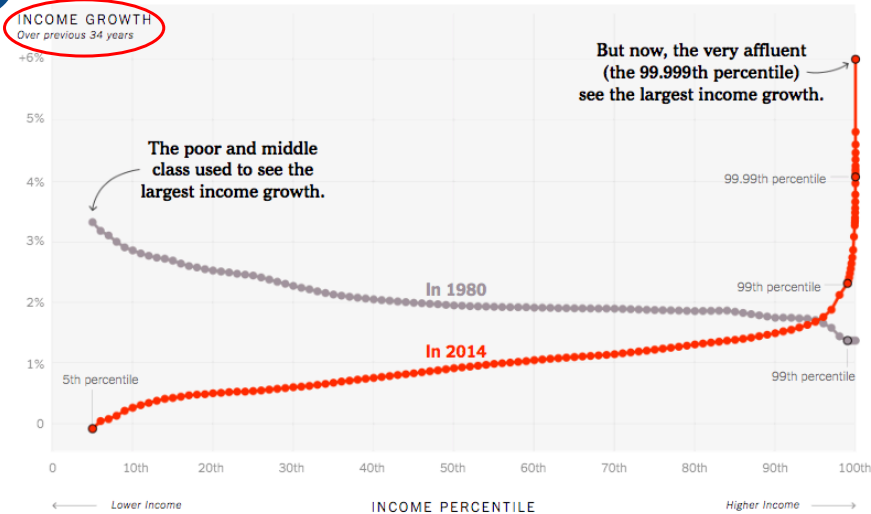
Most of the Action Is at the Top: Post-Tax

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



15

Wage Growth Patterns Have Changed!



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

16

Gini Coefficient

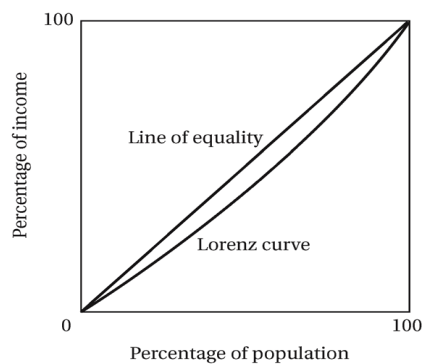
- **Gini coefficient – a numerical measure that summarizes the overall dispersion of income**
 - Ranges from 0 – 1
 - 0 = perfect equality – everyone has the same income
 - 1 = perfect inequality – one person has all the income
 - In practice:
 - 0.5 – 0.7 – highly unequal
 - 0.2 – 0.35 – relatively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



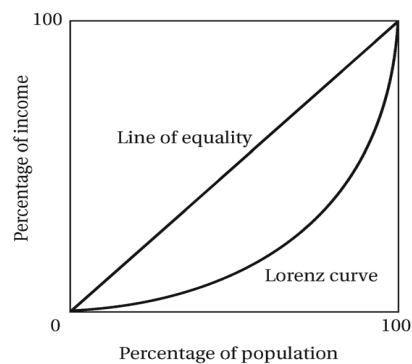
NATIONAL ECONOMIC
EDUCATION DELEGATION

17

Lorenz Curve of Income Distribution



(a) A relatively equal distribution



(b) A relatively unequal distribution

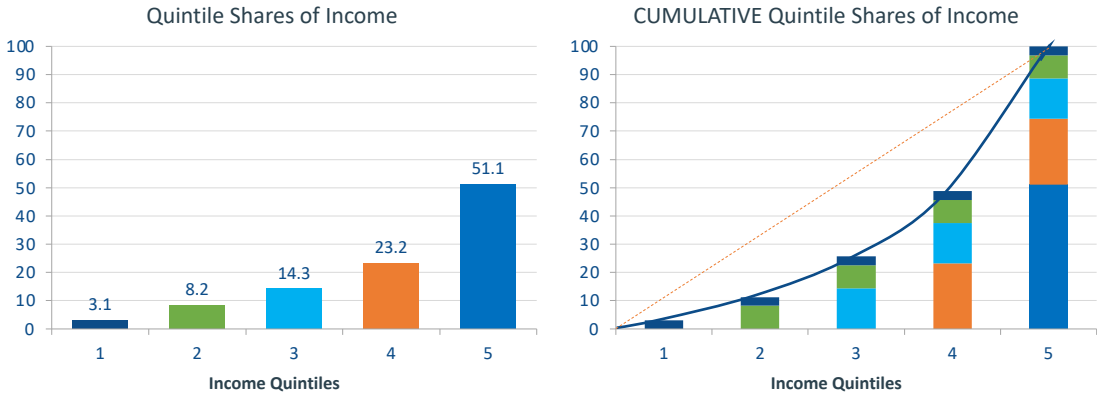
The greater the curvature of the Lorenz Curve, the greater is the degree of income inequality



NATIONAL ECONOMIC
EDUCATION DELEGATION

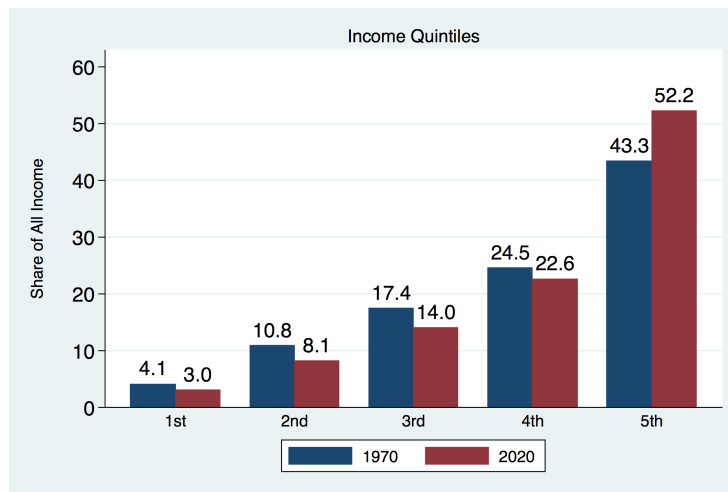
18

US Income Distribution: 2015



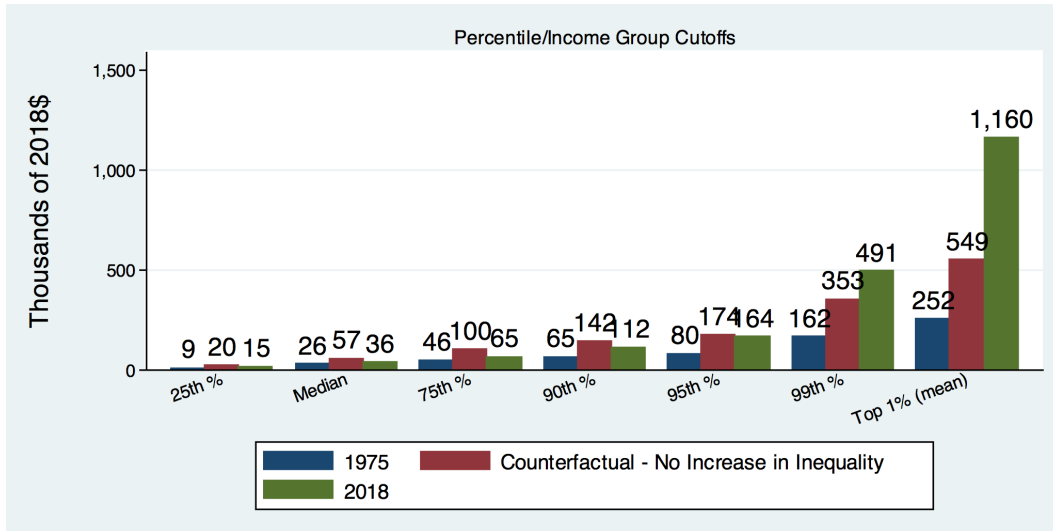
Source: 2015 1-year American Community Survey, based on pre-tax household income.

Income Share Changes Between 1970 and 2020



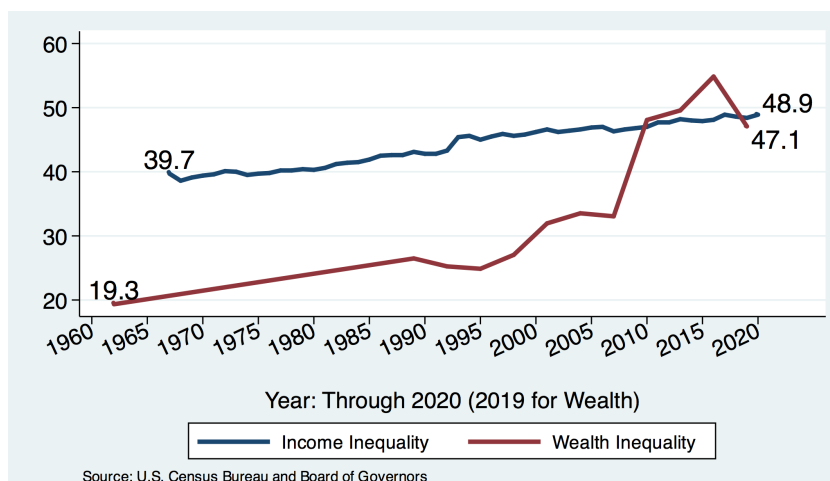
Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements.

How Has Inequality Influenced Incomes?



21

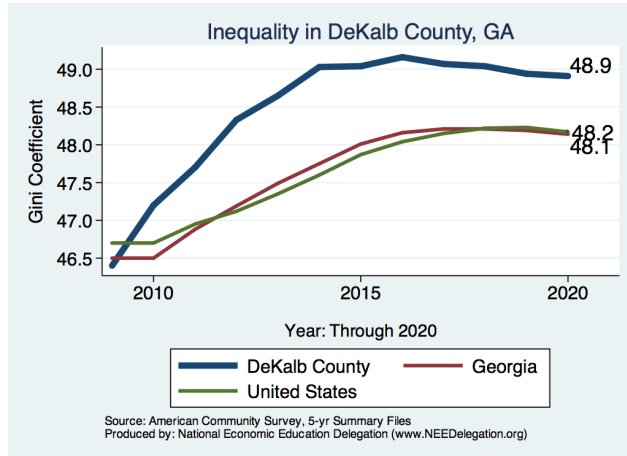
Income and Wealth Gini Coefficients



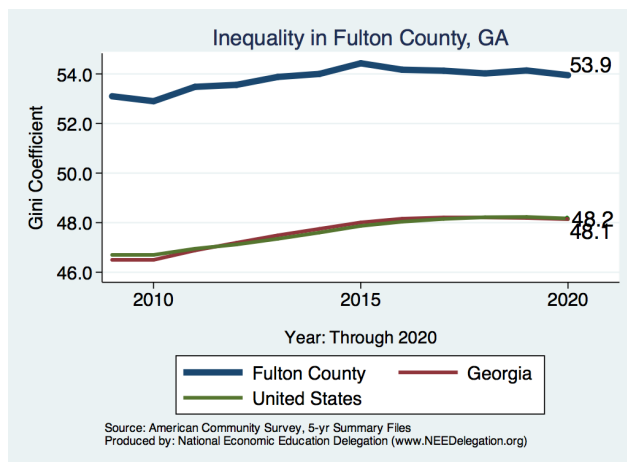
Source: U.S. Census Bureau and Board of Governors

22

Your Local Inequality Trend

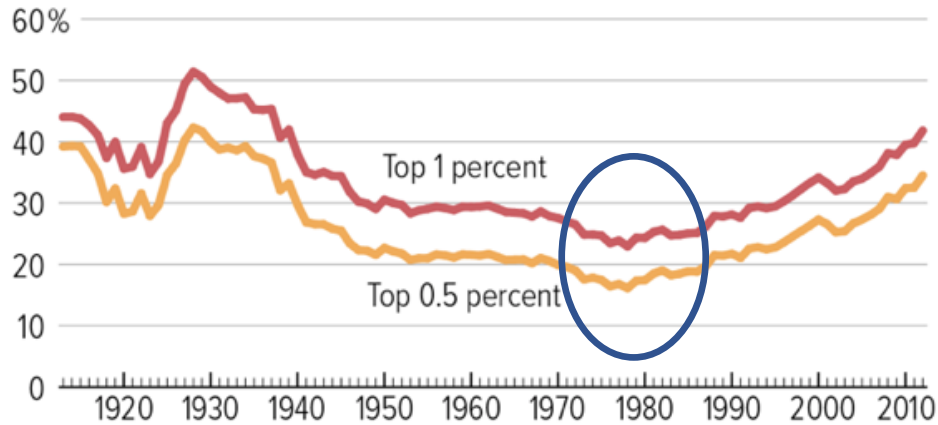


Your Local Inequality Trend



Wealth Concentration Has Been Rising

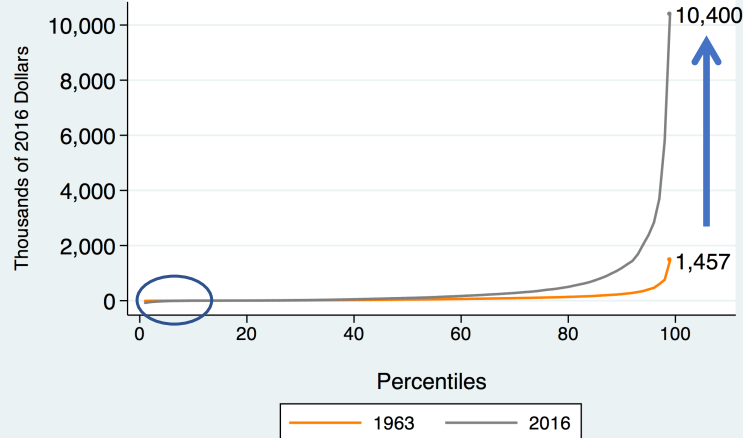
Share of total wealth held by the wealthiest families, 1913-2012



25

Wealth is More and More Concentrated

Change in the Wealth Distribution: 1963 to 2016



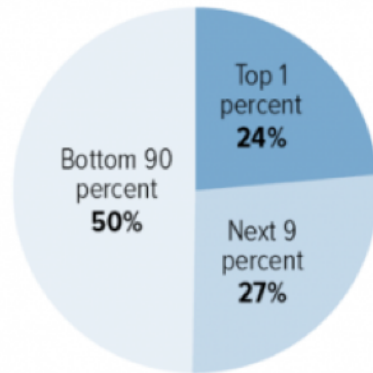
99th Percentile
2016 = 7x 1963

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

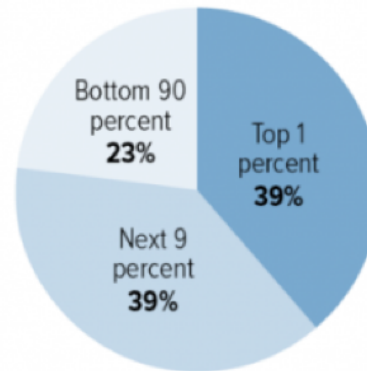
26

Wealth Inequality Exceeds Income Inequality

Distribution of before-tax income, 2016



Distribution of wealth, 2016



NATIONAL ECONOMIC
EDUCATION DELEGATION

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.

27

27

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



NATIONAL ECONOMIC
EDUCATION DELEGATION

28

Government Policy and Inequality

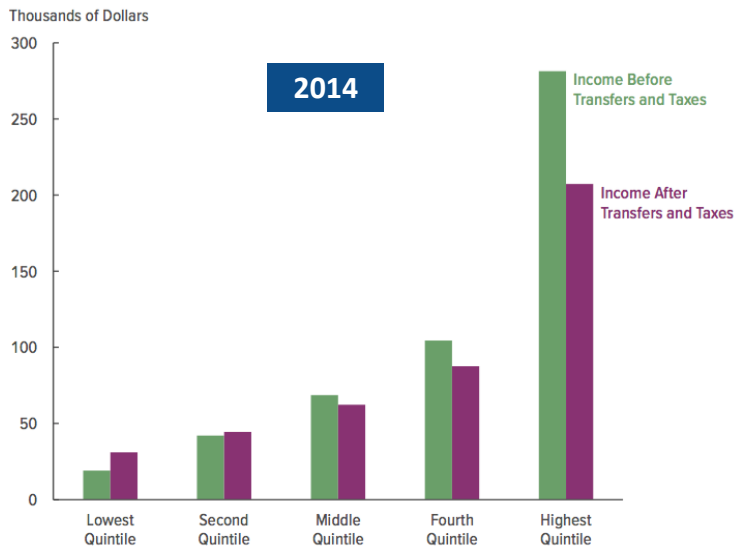
- **Market Influence: PRE-distribution**

- 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**

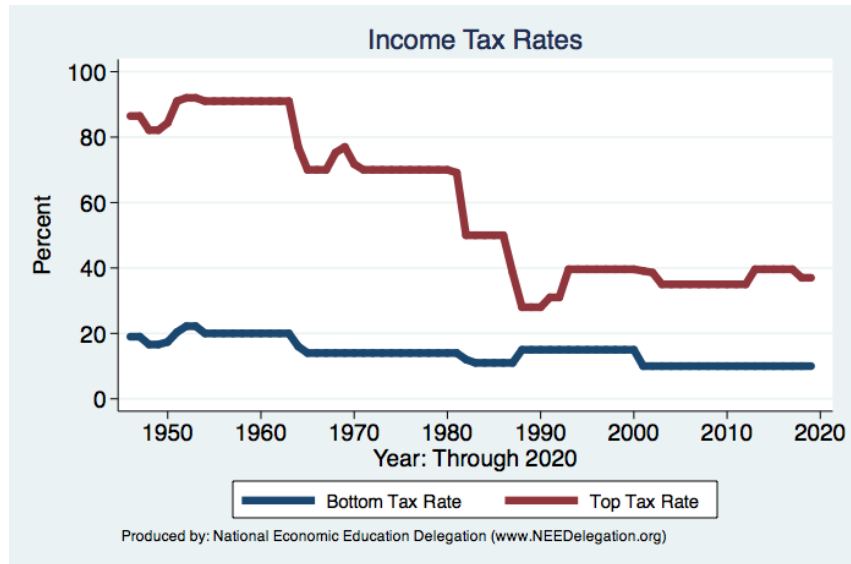
- Tax Rates
- Income support
 - o Direct aid
 - o Food stamps

Tax and Transfer Programs and Inequality



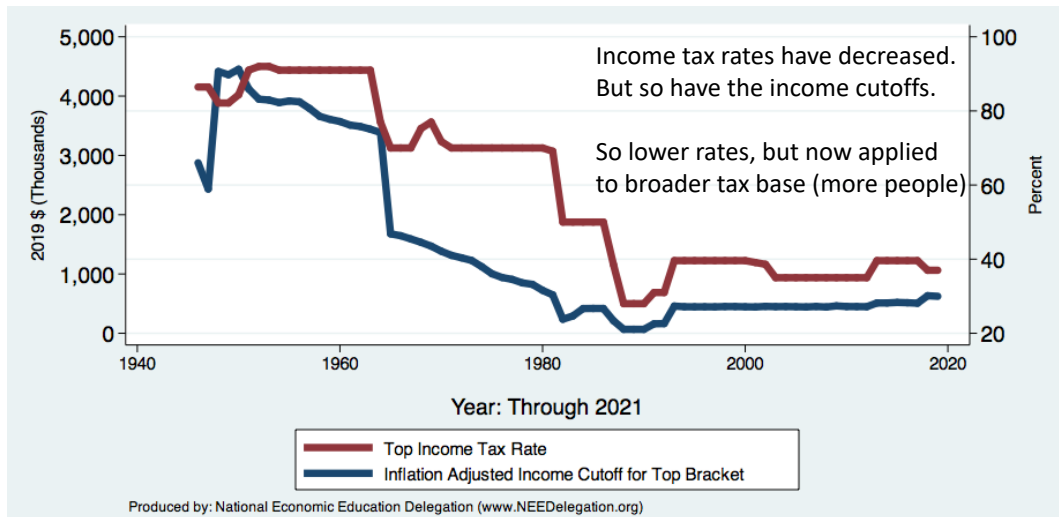
Source: U.S. Congressional Budget Office, "The Distribution of Household Income, 2014", Average Income Before and After Means-Tested Transfers and Federal Taxes, by Income Group, 2014.

Tax Rates Over Time

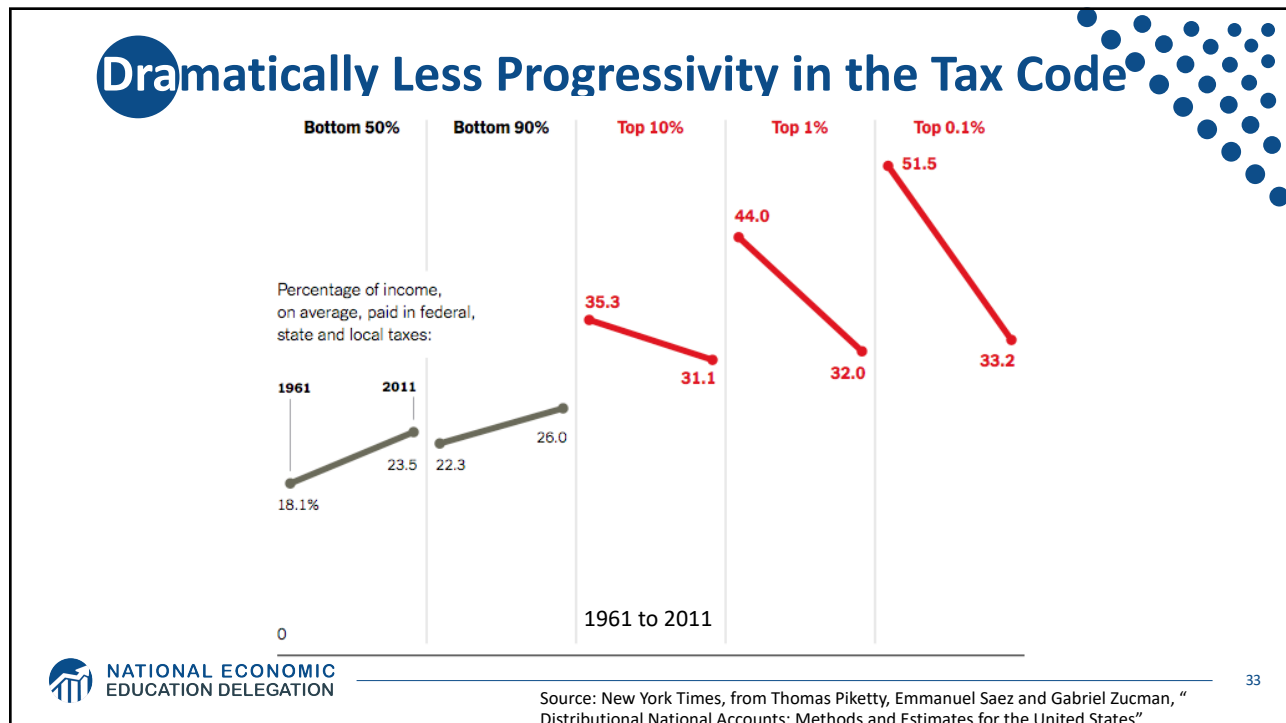


31

The Top Tax Rate and Income Cutoff



32



33

Market Forces and Inequality

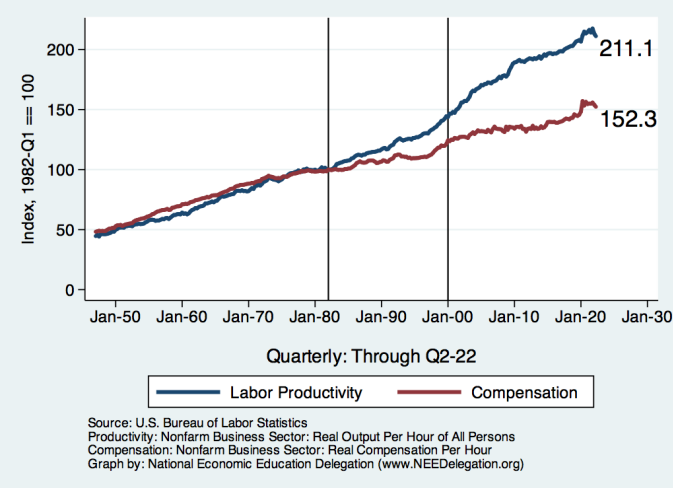
- **Changing demand patterns**
 - Technology and "skill-biased technological change"
 - Increased Trade and Globalization
 - Industry composition
 - PCs instead of typewriters
 - Services instead of goods
 - Professional services instead of personal services
- **Competition in labor markets**
 - Unionization
 - Market concentration

NATIONAL ECONOMIC EDUCATION DELEGATION

34

34

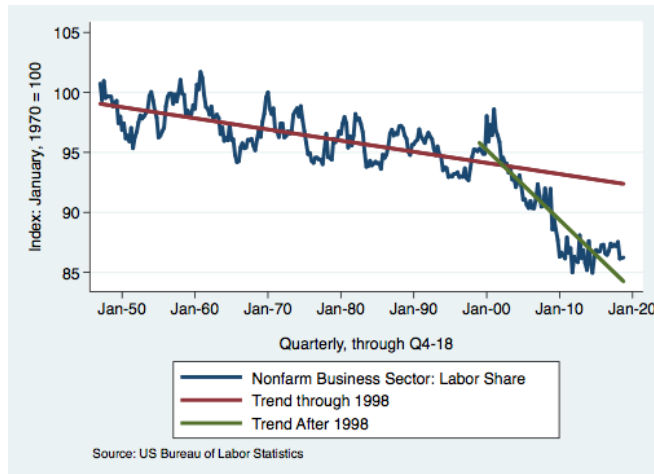
Labor Income is Unhinged from Productivity



Why? Some theories:

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

Effects of the Unhinging?



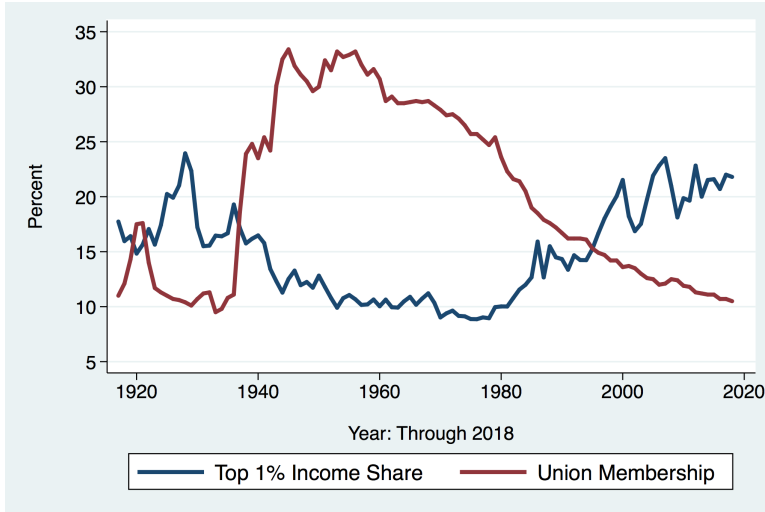
Labor’s Share of Income

1960: 66%

2011: 56%

2016: 58%

Declining Unionization



Unionization Rates

- 1983: 20.1%
- 2021: 10.3%

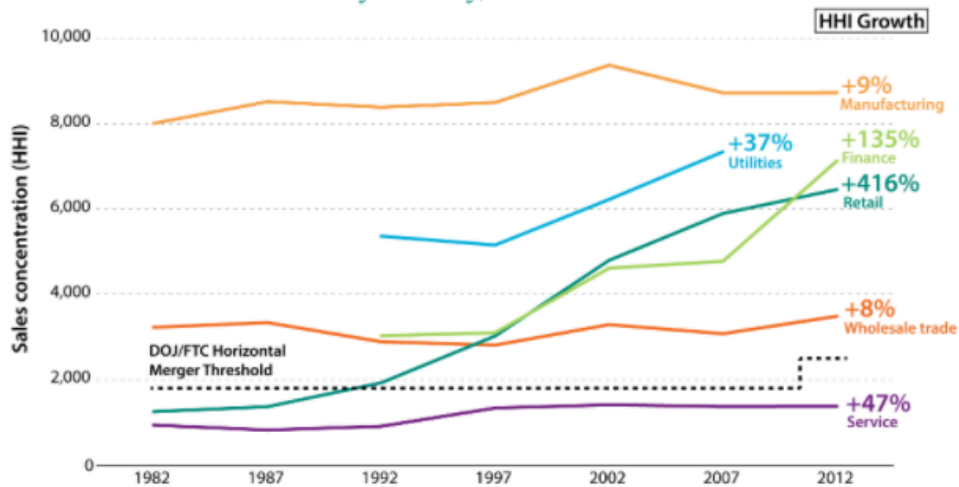
Unionization Rates

- Public: 33.9%
- Private: 6.1%

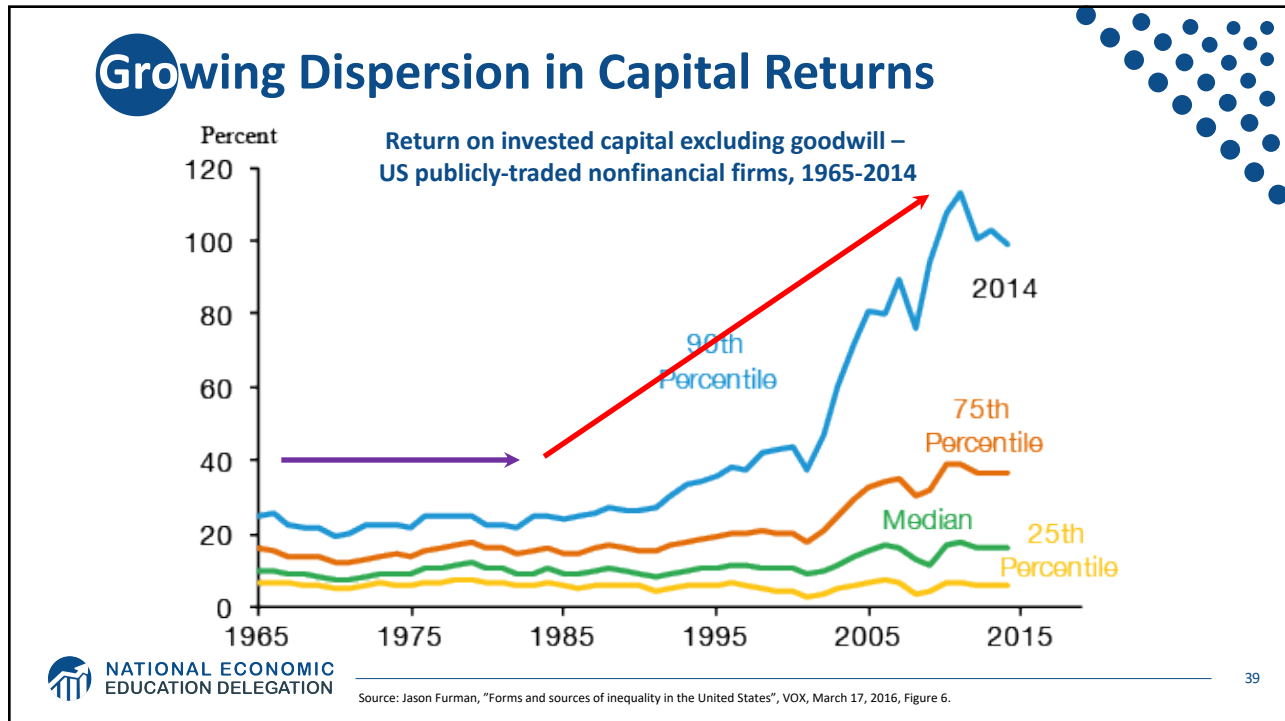
37

Growing Concentration within Industries

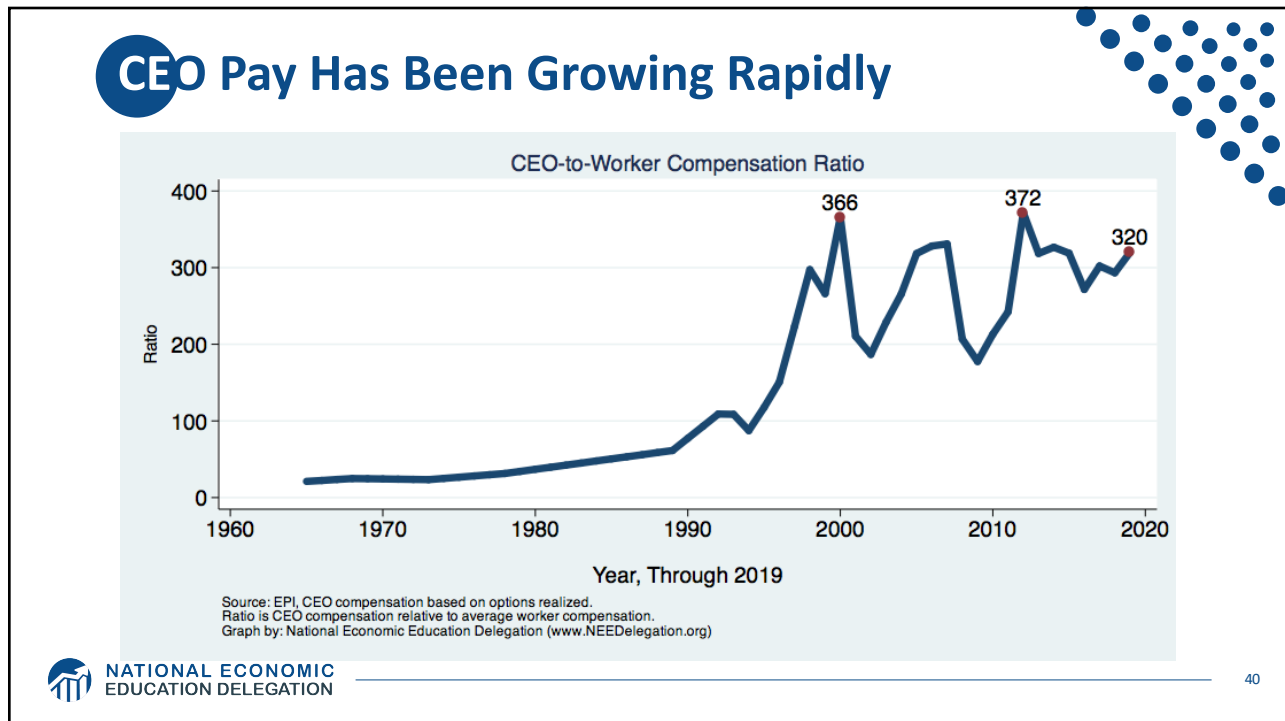
Market Concentration and Growth by Industry, 1982–2012



38

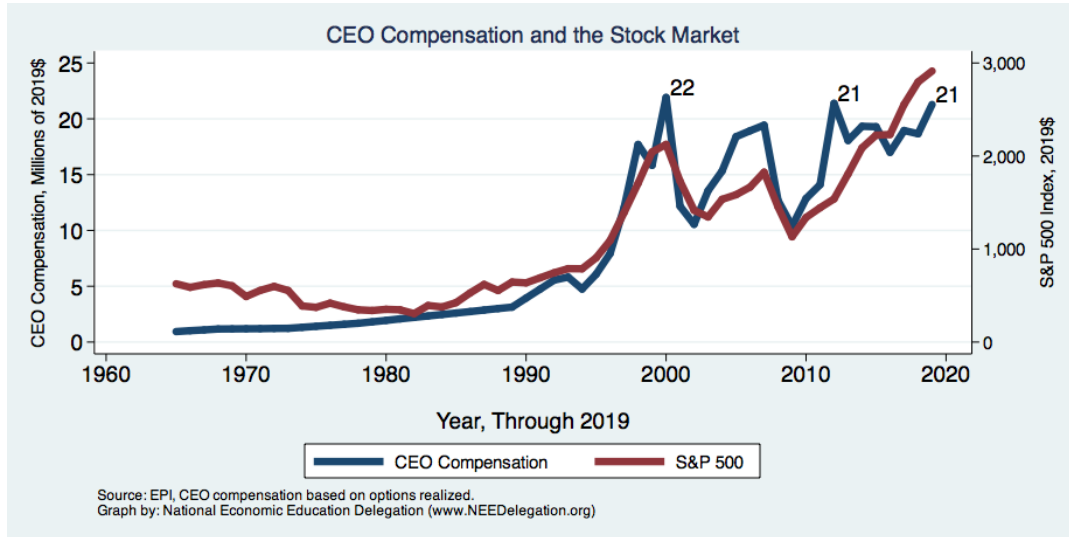


39



40

CEO Compensation – Tied to Stock Prices



NATIONAL ECONOMIC
EDUCATION DELEGATION

41

41

Immigration and Inequality

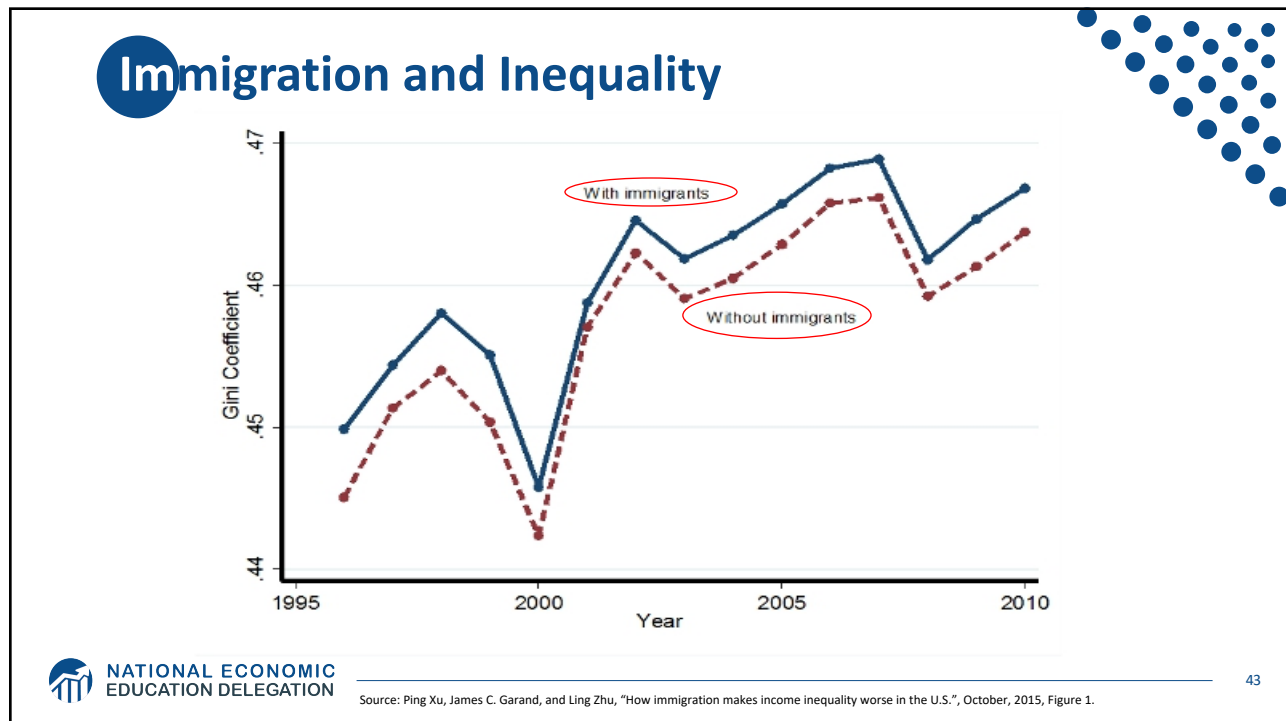
- **Beginning in about 1970, the immigrant share of the U.S. Population increased dramatically.**
 - 5% in 1970 and 14% in 2016
- **Immigration tends to happen most often among:**
 - Low-skilled low-wage workers
 - High-skilled high-wage workers
- **Immigration has likely increased income inequality.**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



NATIONAL ECONOMIC
EDUCATION DELEGATION

42

42



43

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

NATIONAL ECONOMIC EDUCATION DELEGATION

44

Technology Effects on Low Income Workers



Technology can improve worker productivity and create jobs



But technology can also displace jobs



NATIONAL ECONOMIC
EDUCATION DELEGATION

45

45

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



NATIONAL ECONOMIC
EDUCATION DELEGATION

46

46

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



NATIONAL ECONOMIC
EDUCATION DELEGATION

47

47

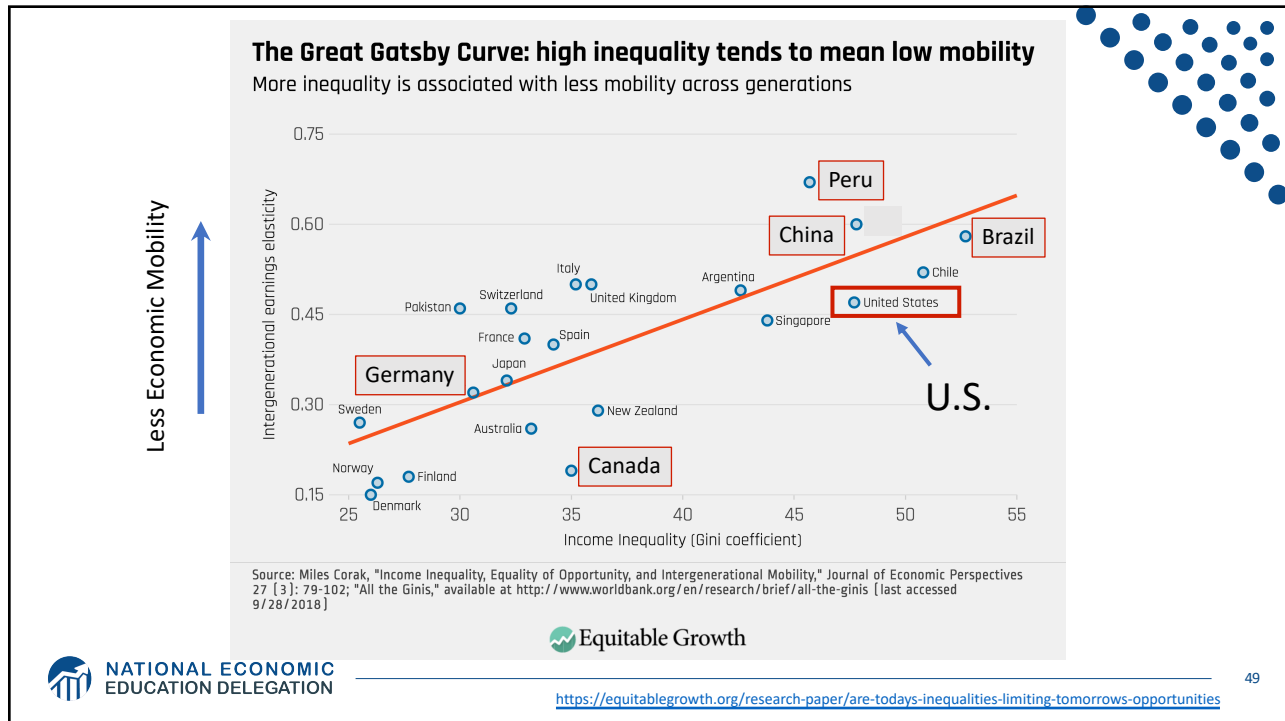
Why Does Inequality Matter?

- **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

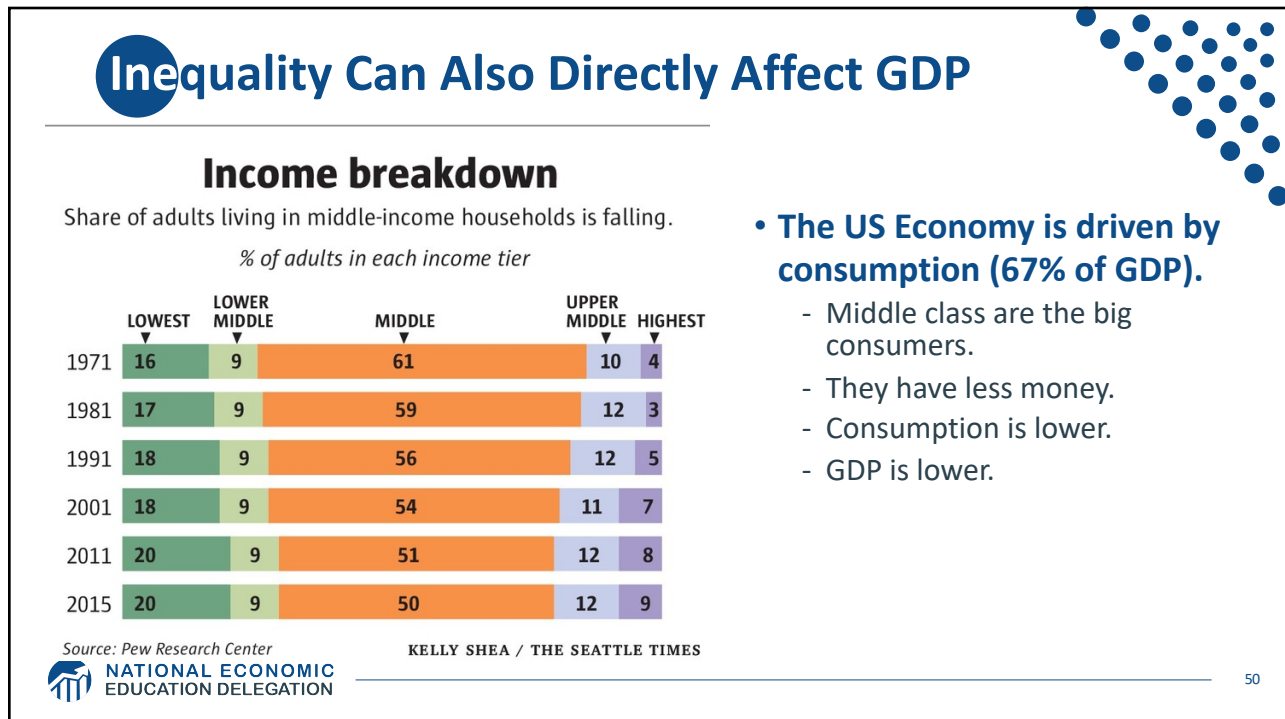


NATIONAL ECONOMIC
EDUCATION DELEGATION

48



49



50

Addressing Inequality: Long Term

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

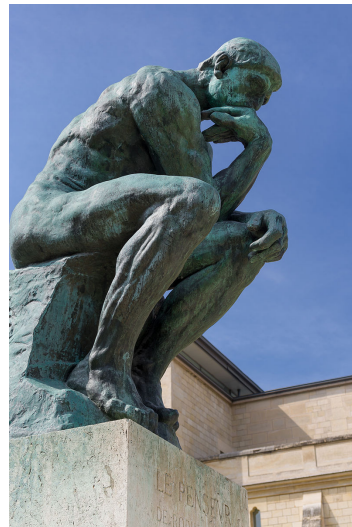
- Improve public education and reduce quality disparities across schools
- Improve counseling - paths to higher ed and funding for low-income students
- Invest in early childhood education, not later (e.g. universal pre-k)
- Promote opportunities for wealth-building
- Increase housing supply, especially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

55

The Federal Debt: Brian Peterson

The national debt is on an unsustainable path

DEBT HELD BY THE PUBLIC (% OF GDP)

SOURCE: Congressional Budget Office, The 2021 Long-Term Budget Outlook, March 2021.
 © 2021 Peter G. Peterson Foundation PGPF.ORG

56

Thank you!

Any Questions?

www.NEEDelegation.org

Kelley Cullen, Ph.D.

kcullen@ewu.edu

Contact NEED: info@NEEDelegation.org

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

Become a Friend of NEED: www.NEEDelegation.org/friend.php



NATIONAL ECONOMIC
EDUCATION DELEGATION