

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

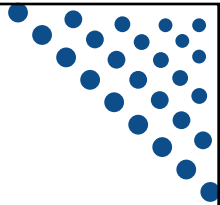
University of Kentucky  
June-July, 2022

Host: Jon Haveman, Ph.D.  
National Economic Education Delegation



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## **Available** NEED Topics Include:

- **Coronavirus 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**
- **US Social Policy**



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## Course Outline

- **Contemporary Economic Policy**

- Week 1 (6/15): Trade and Globalization (Alan Deardorff, University of Michigan)
- Week 2 (6/22): Climate Change (Sarah Jacobson, Williams College)
- Week 3 (6/29): The Federal Debt (Goeffrey Woglom, Amherst College)
- **Week 4 (7/6): Economic Inequality (Jon Haveman, NEED)**
- Week 5 (7/13): The Black-White Wealth Gap (Jon Haveman, NEED)
- Week 6 (7/20): Trade Deficits and Exchange Rates(Alan Deardorff, University of Michigan)



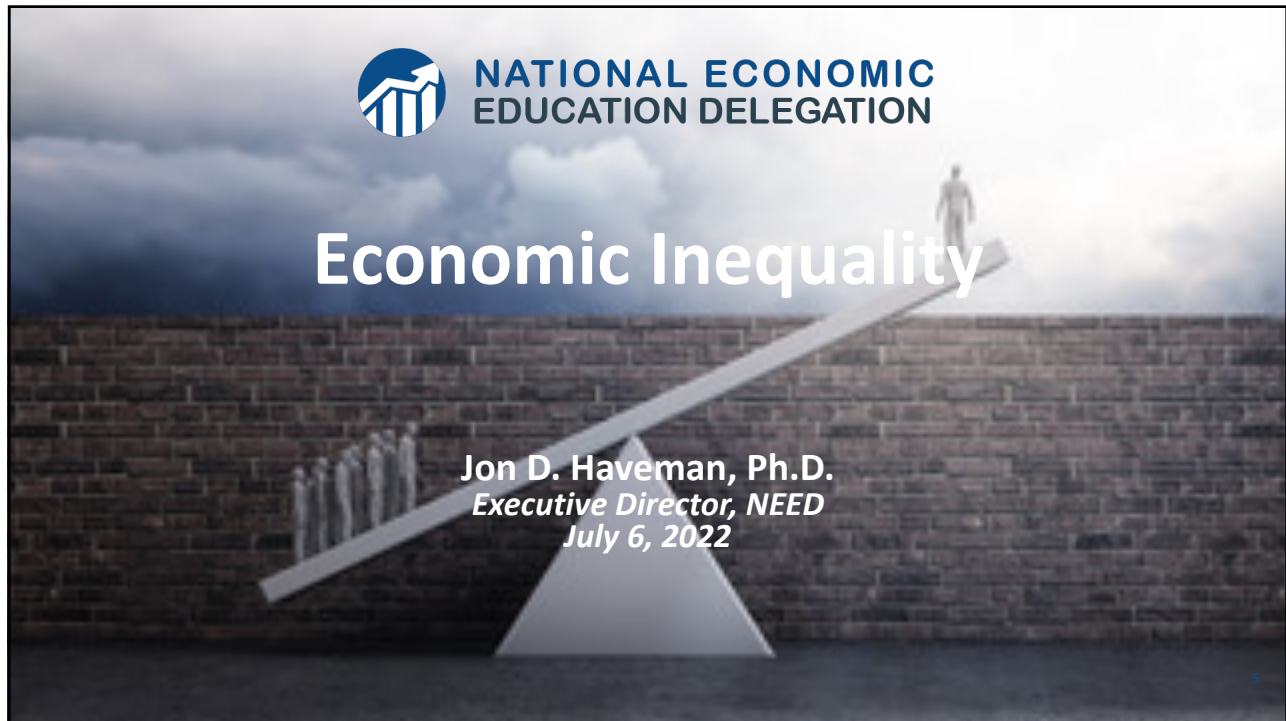
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## Submitting Questions

- **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 on Need website( [www.NEEDelegation.org](http://www.NEEDelegation.org))**




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  - Jon Haveman, Executive Director of NEED
- **This slide deck was reviewed by:**
  - Timothy Smeeding, University of Wisconsin
  - Robert Wright, Augustana University
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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



## Different Ways of Thinking About Inequality

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

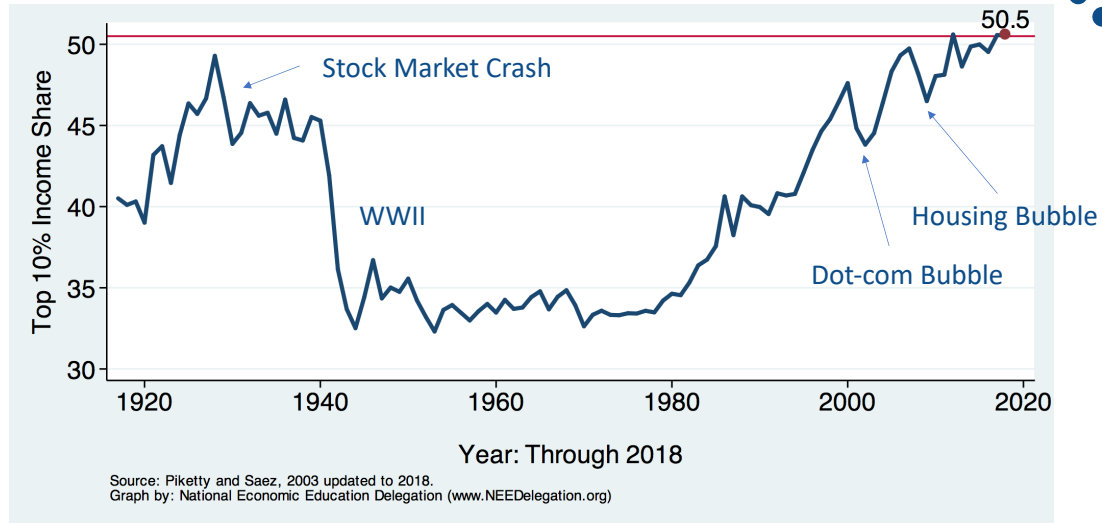
### How does wealth differ from income?

**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%



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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.

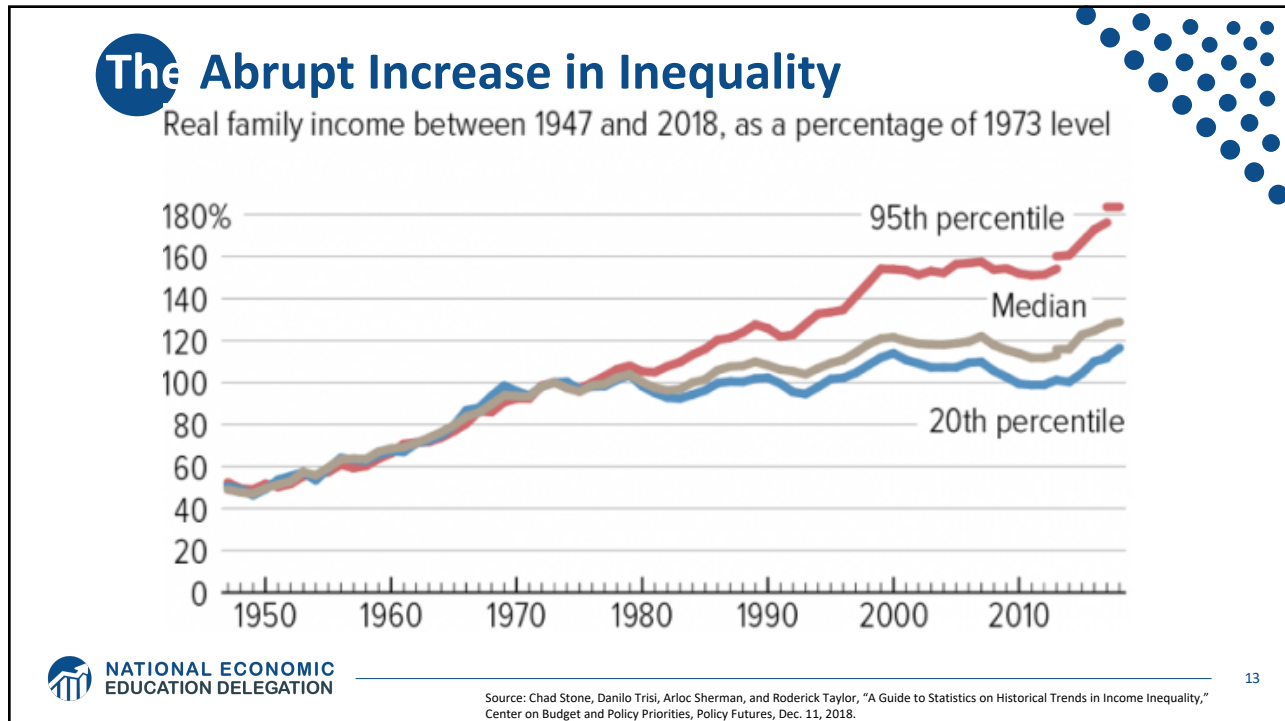


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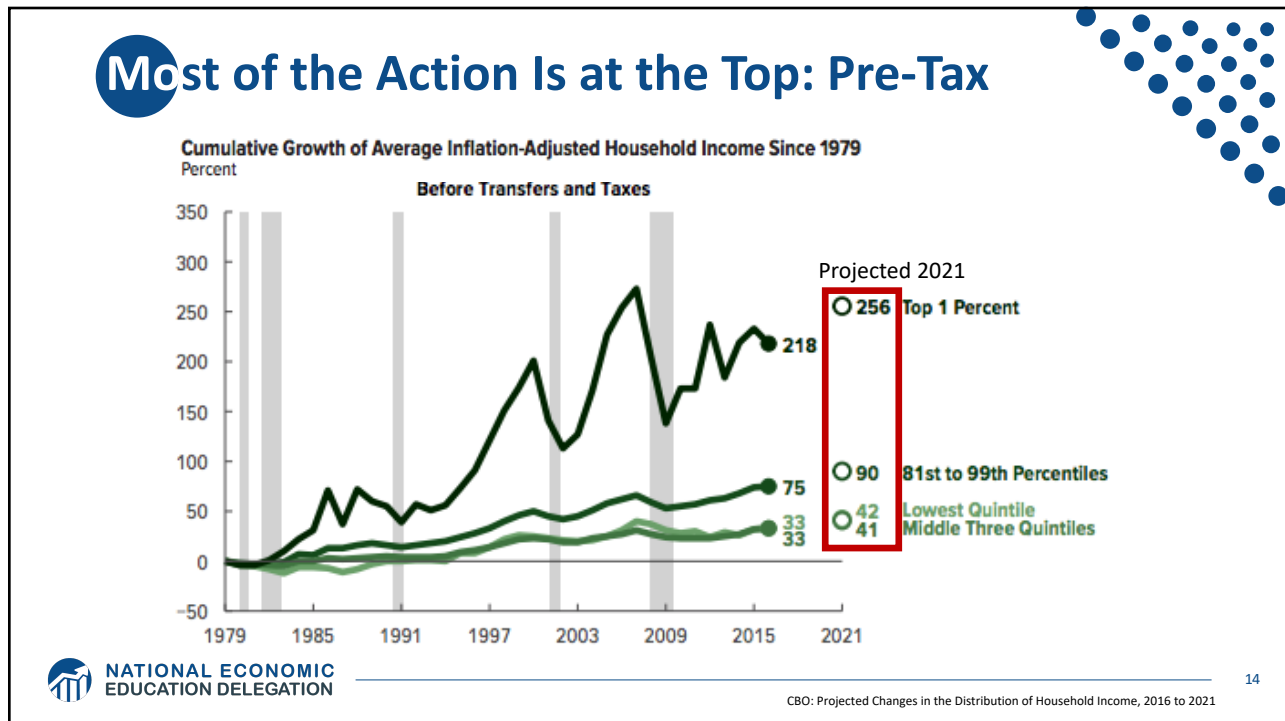
Source: Chad Stone, Danilo Trisi, Arloc Sherman, and Roderick Taylor, "A Guide to Statistics on Historical Trends in Income Inequality," Center on Budget and Policy Priorities, Policy Futures, May 15, 2018.

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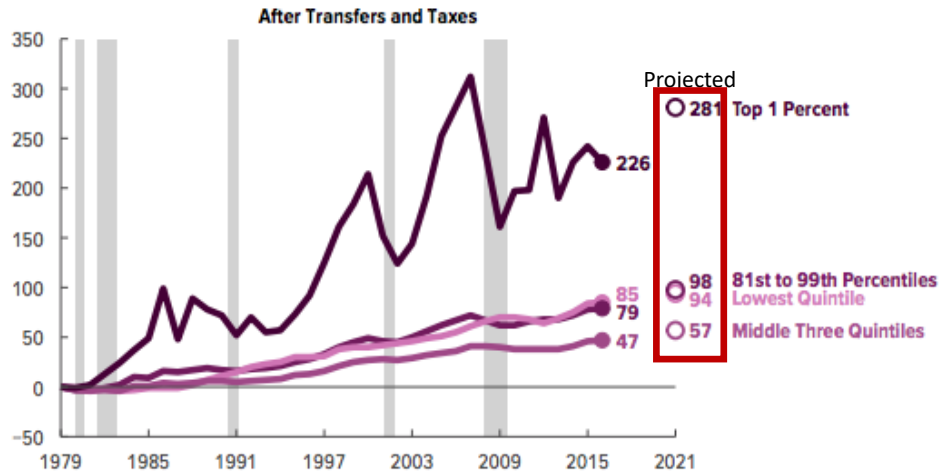
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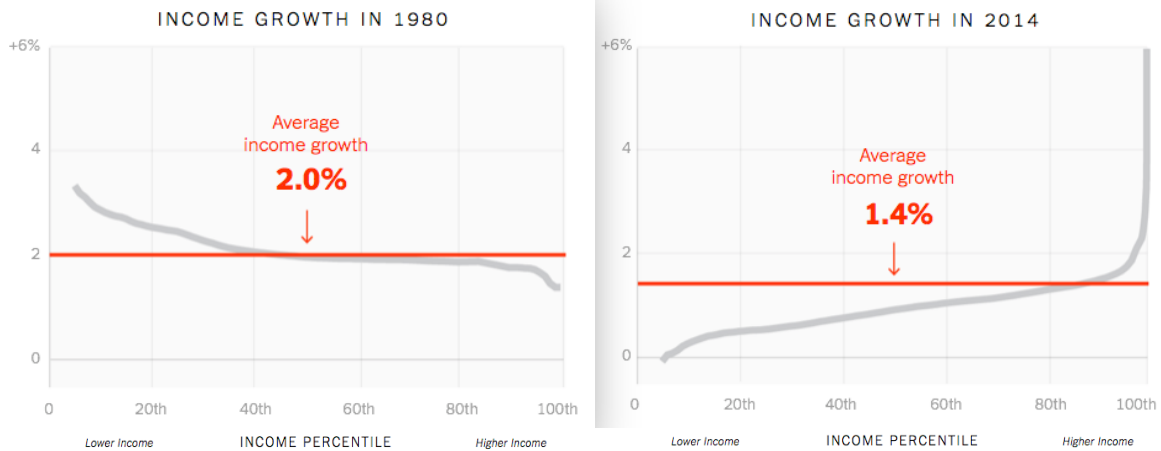
## Most of the Action Is at the Top: Post-Tax

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



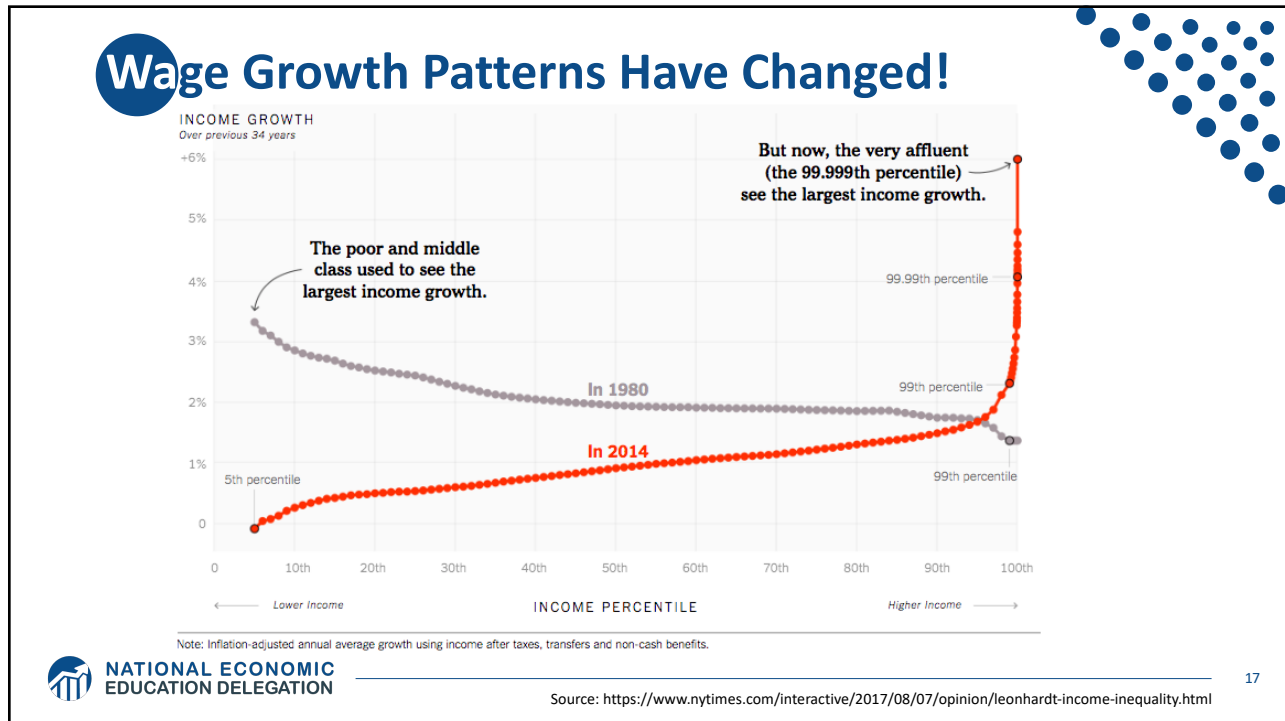
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## Income Growth Pattern – Has Changed

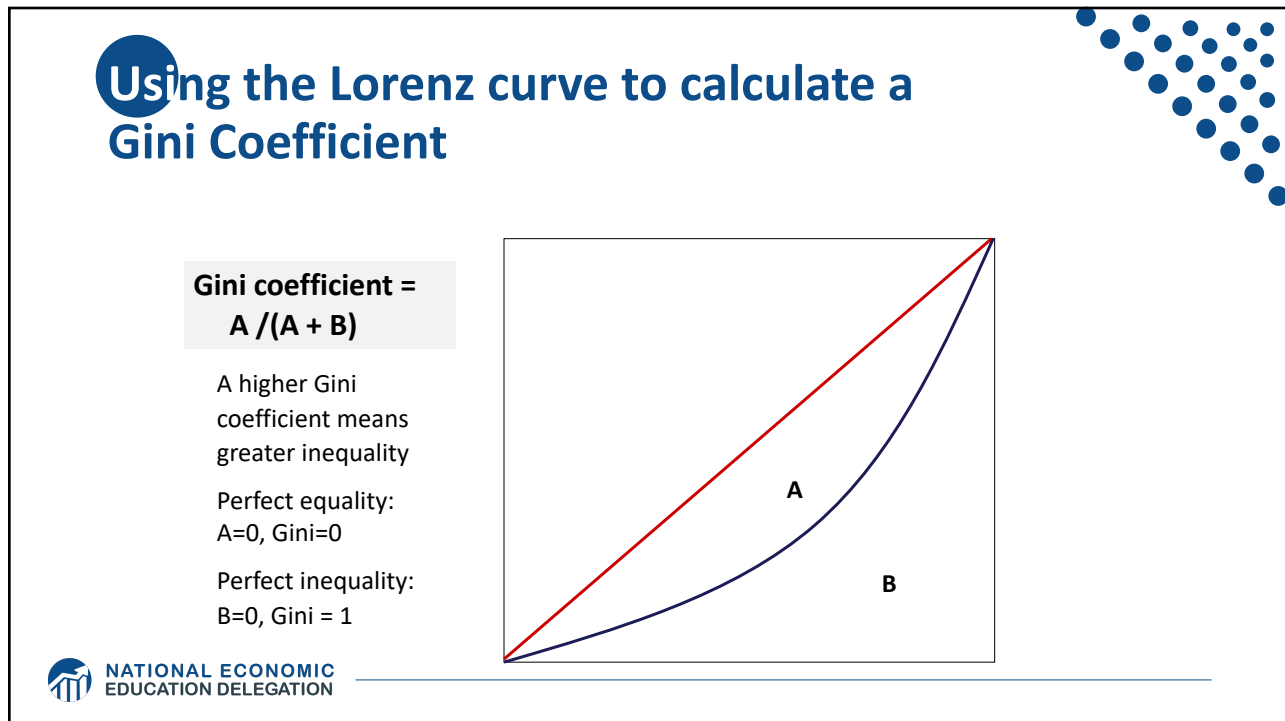


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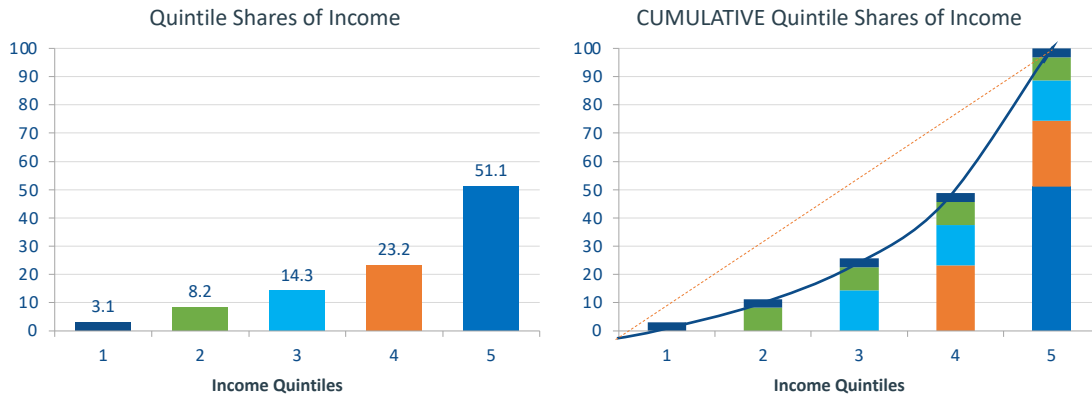


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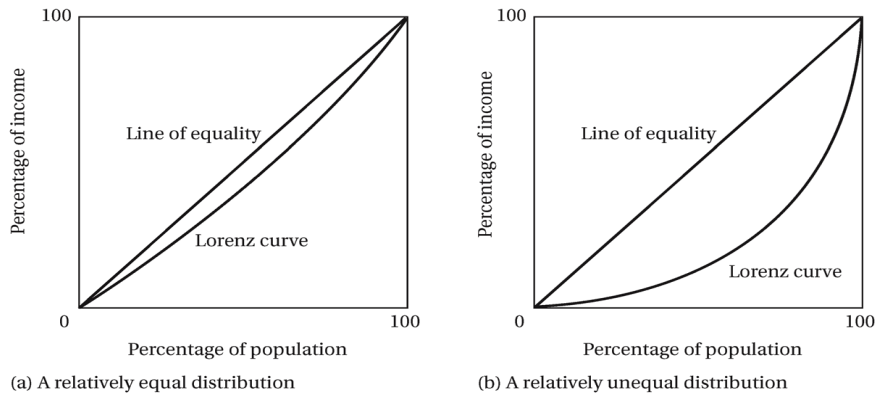
# Forming the GINI Coefficient: 2015



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

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# Lorenz Curve of Income Distribution



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



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## Gini Coefficient

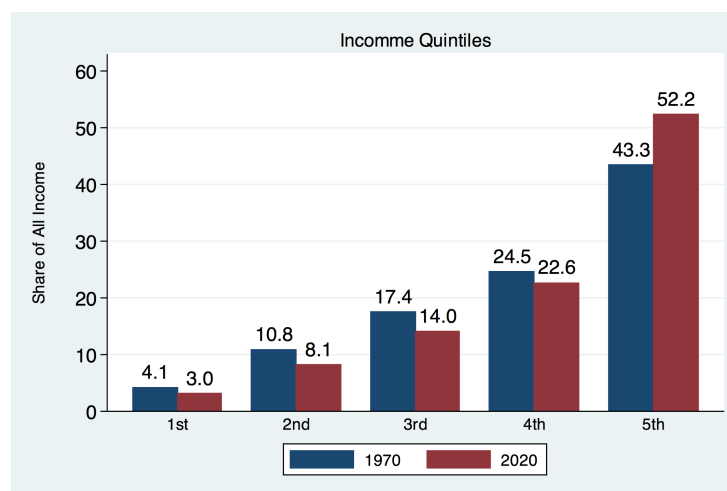
- Another way to describe income inequality is by using a Gini coefficient.
- Gini coefficient – a numerical measure of the overall dispersion of income
  - Ranges from 0 – 1
  - 0= perfect equality – everyone has same income
  - 1=perfect inequality – one person makes all income
  - In practice:
    - 0.5 – 0.7 – highly unequal
    - 0.2 – 0.35 – relatively equal



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## Income Share Changes Between 1970 and 2020



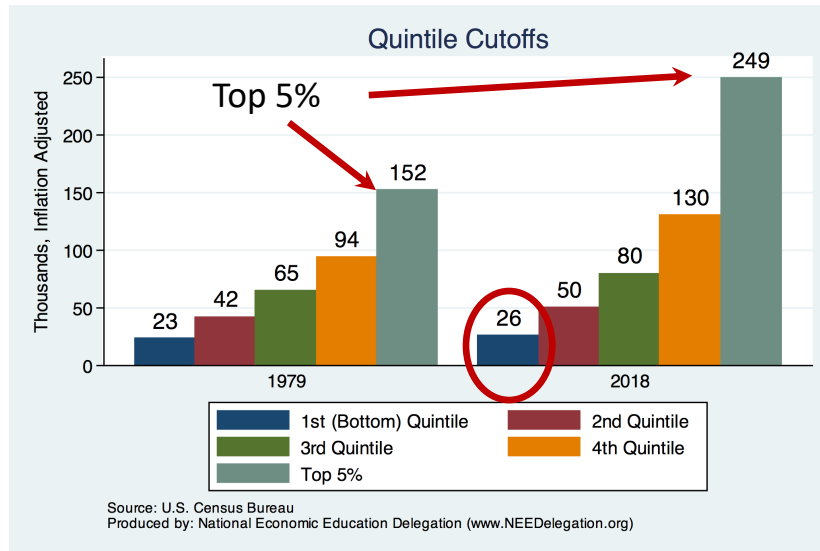
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Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements.

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## Quintile Income Cutoffs



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## Income Changes from Growing Inequality

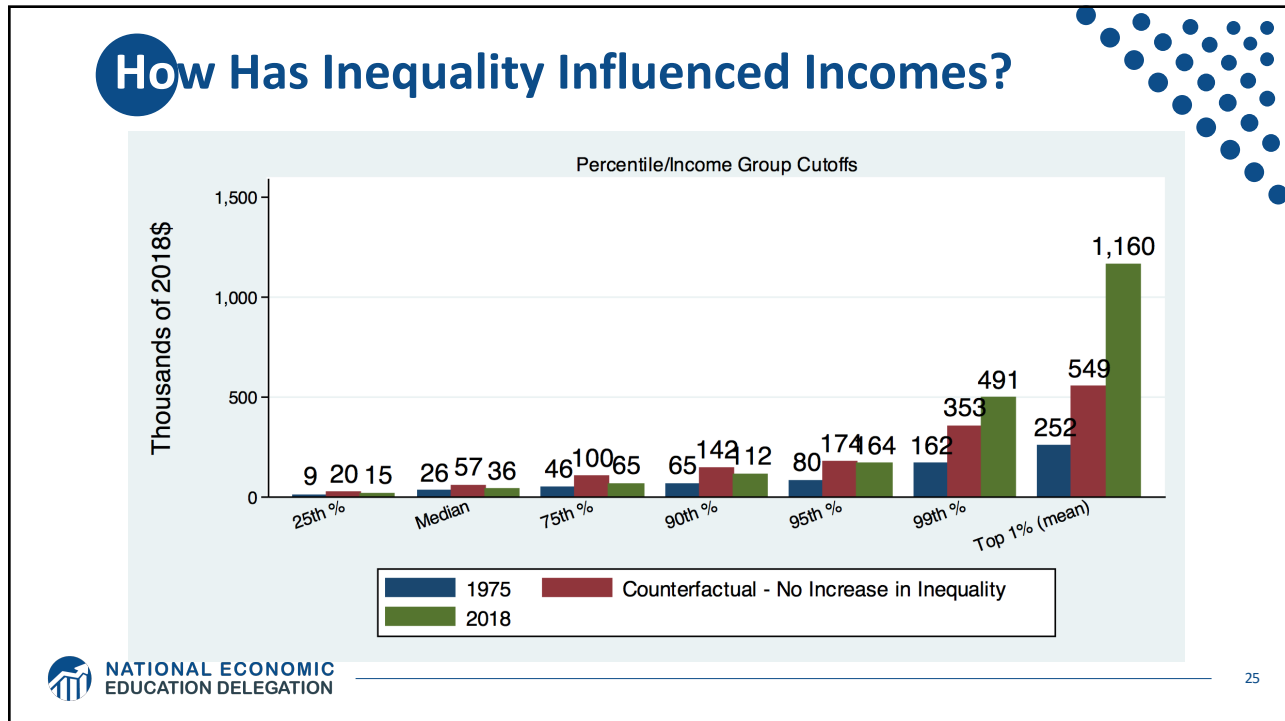
INCOME GROUP	TOTAL LOSS/GAIN IN ANNUAL INCOME*	AVERAGE LOSS/GAIN PER HOUSEHOLD PER YEAR*
<b>TOP 1%</b>	\$673 billion more	\$597,241 more
<b>96-99</b>	\$140 billion more	\$29,895 more
<b>91-95</b>	\$29 billion more	\$4,912 more
<b>81-90</b>	\$43 billion less	\$3,733 less
<b>61-80</b>	\$194 billion less	\$8,598 less
<b>41-60</b>	\$224 billion less	\$10,100 less
<b>21-40</b>	\$189 billion less	\$8,582 less
<b>BOTTOM 20%</b>	\$136 billion less	\$5,623 less

Bottom 90% of Households

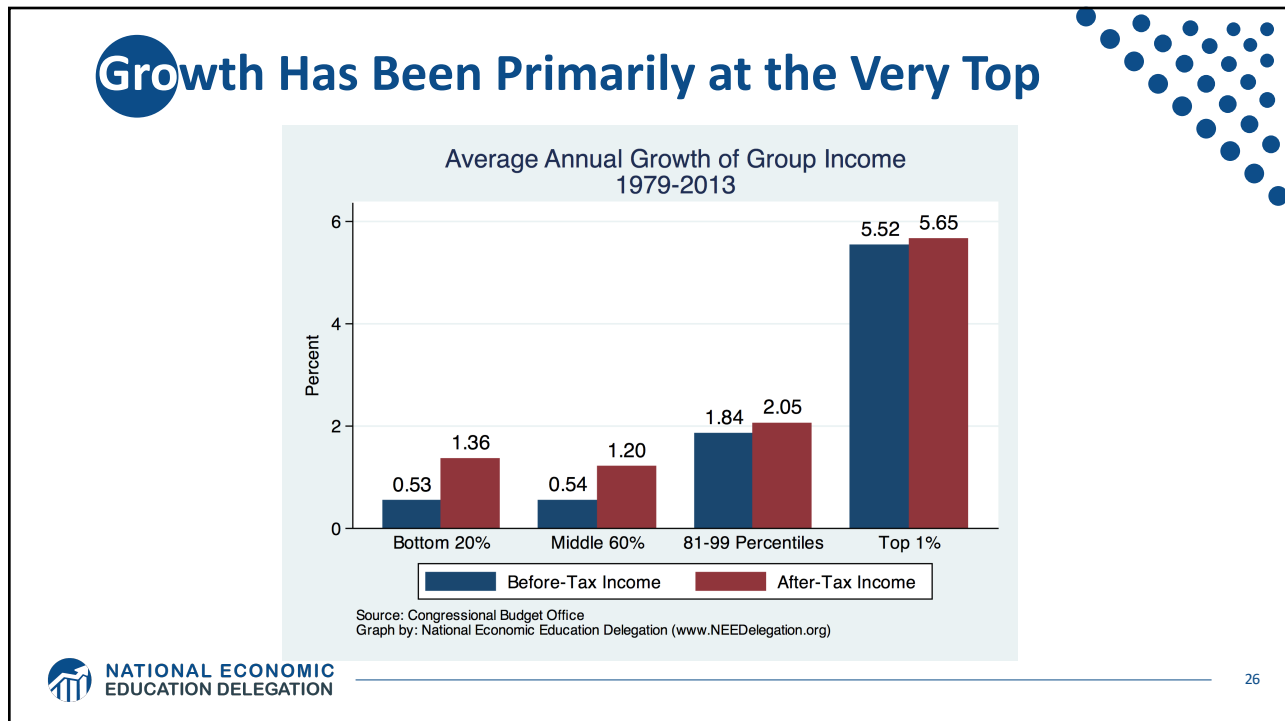
Middle Class

\* Compared to what incomes would have been had all income groups seen the same growth rate in 1979-2005 as they did during previous decades.  
Source: Jacob Hacker, Yale University; Paul Pierson, UC-Berkeley

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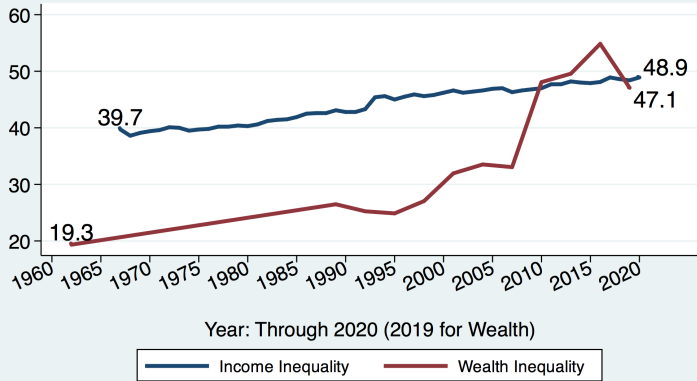


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# Income and Wealth Inequality



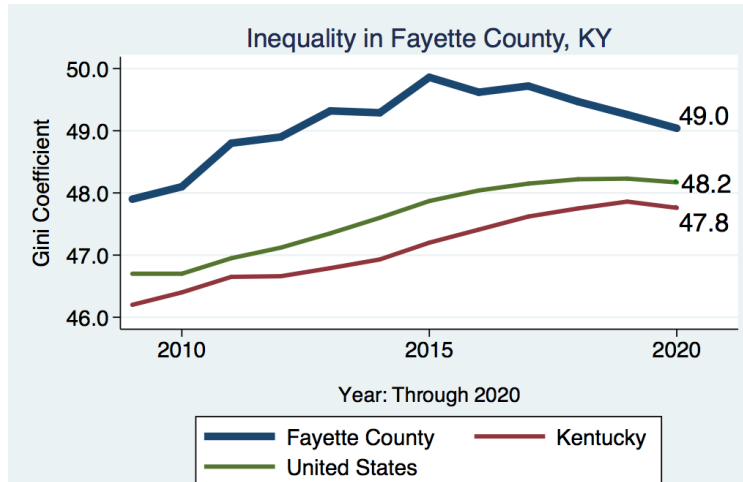
## Income Inequality (Gini)

- US: 48.1%
- KY: 47.8%
- Fayette: 49.0% - and coming down

Source: U.S. Census Bureau and Board of Governors  
 INCOME INEQUALITY is measured by the Gini coefficient.  
 WEALTH INEQUALITY is the ratio of the mean wealth of the top decile to median overall wealth.  
 Wealth data are only available for 1962, and at three year intervals beginning in 1969.  
 Graph by: National Economic Education Delegation (www.NEEDelegation.org)

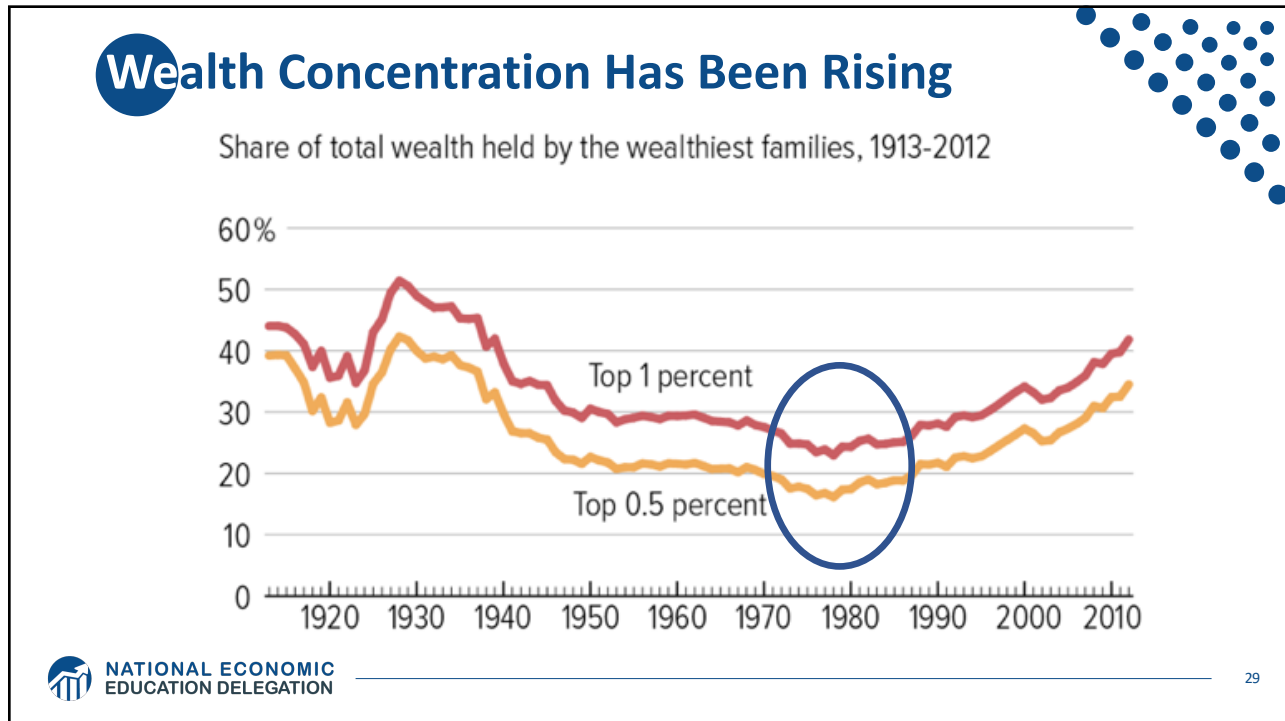


# Your Local Inequality Trend

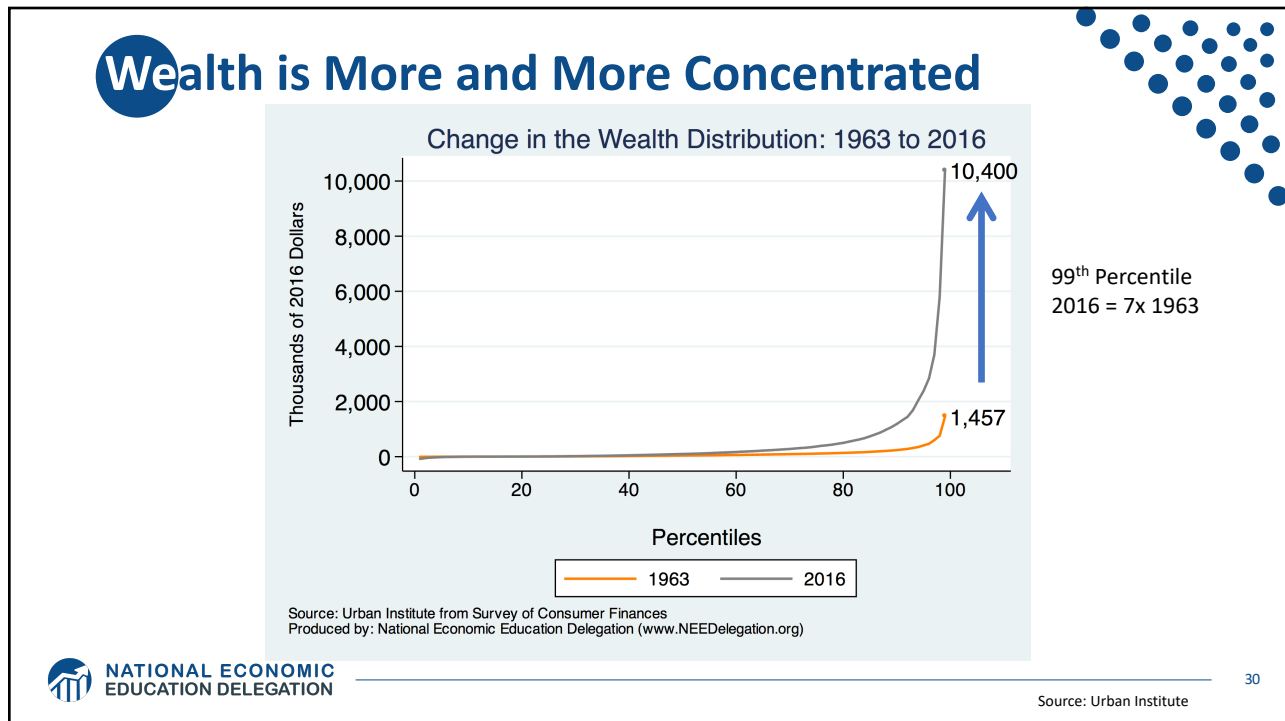


Source: American Community Survey, 5-yr Summary Files  
 Produced by: National Economic Education Delegation (www.NEEDelegation.org)





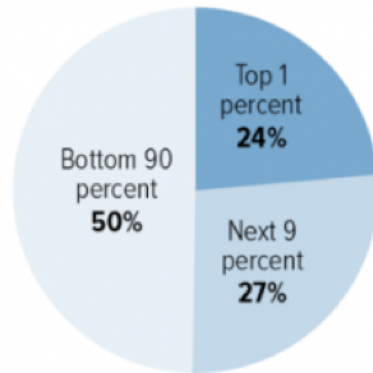
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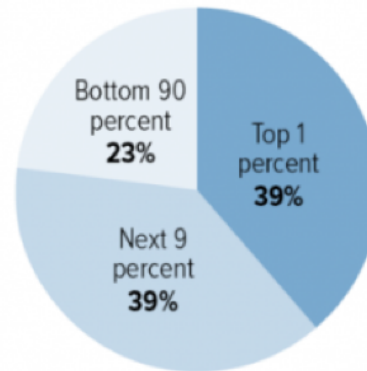
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## Wealth Inequality Exceeds Income Inequality

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

### • 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**

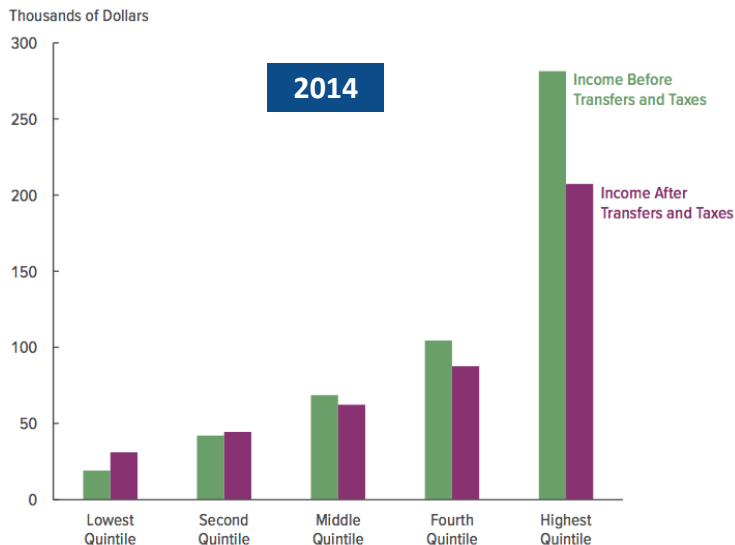
- Characteristics of labor
  - o Access to education
- Effects on labor demand
  - o Market regulation
    - Competition policy
  - o Labor regulations
    - Minimum wage, overtime, health insurance, etc.

- **RE-distribution**

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

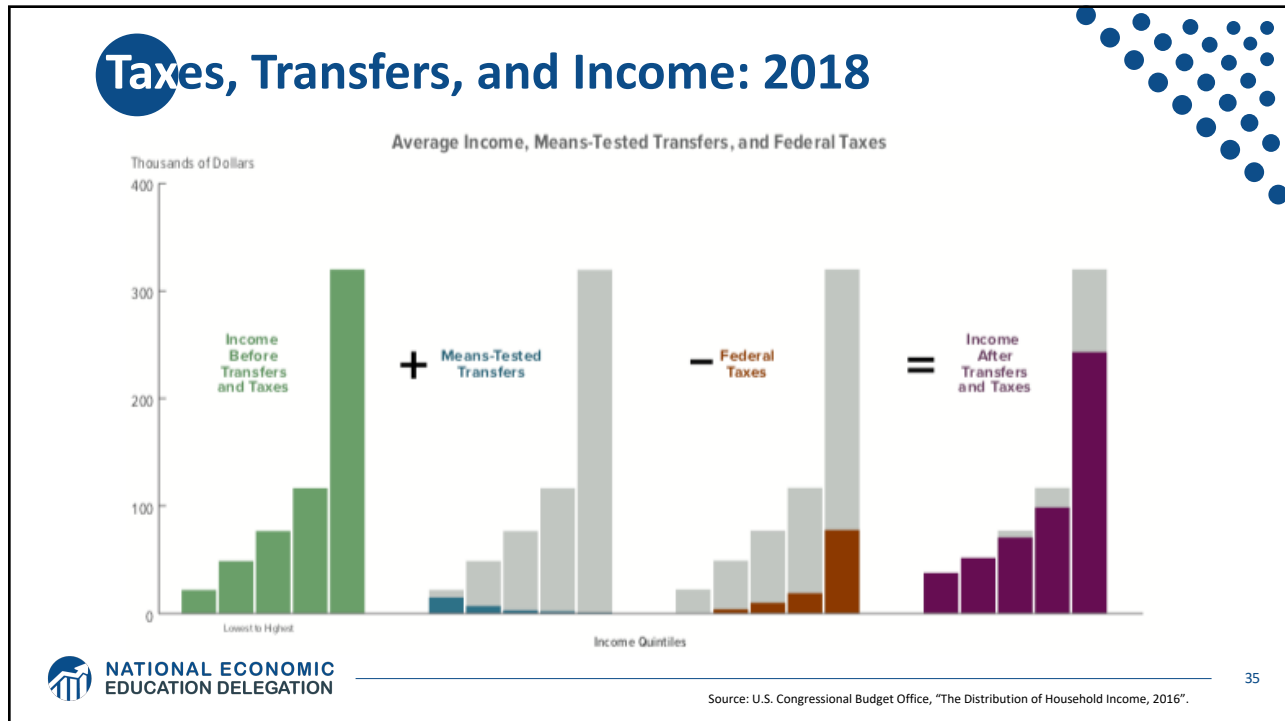
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# Tax and Transfer Programs and Inequality

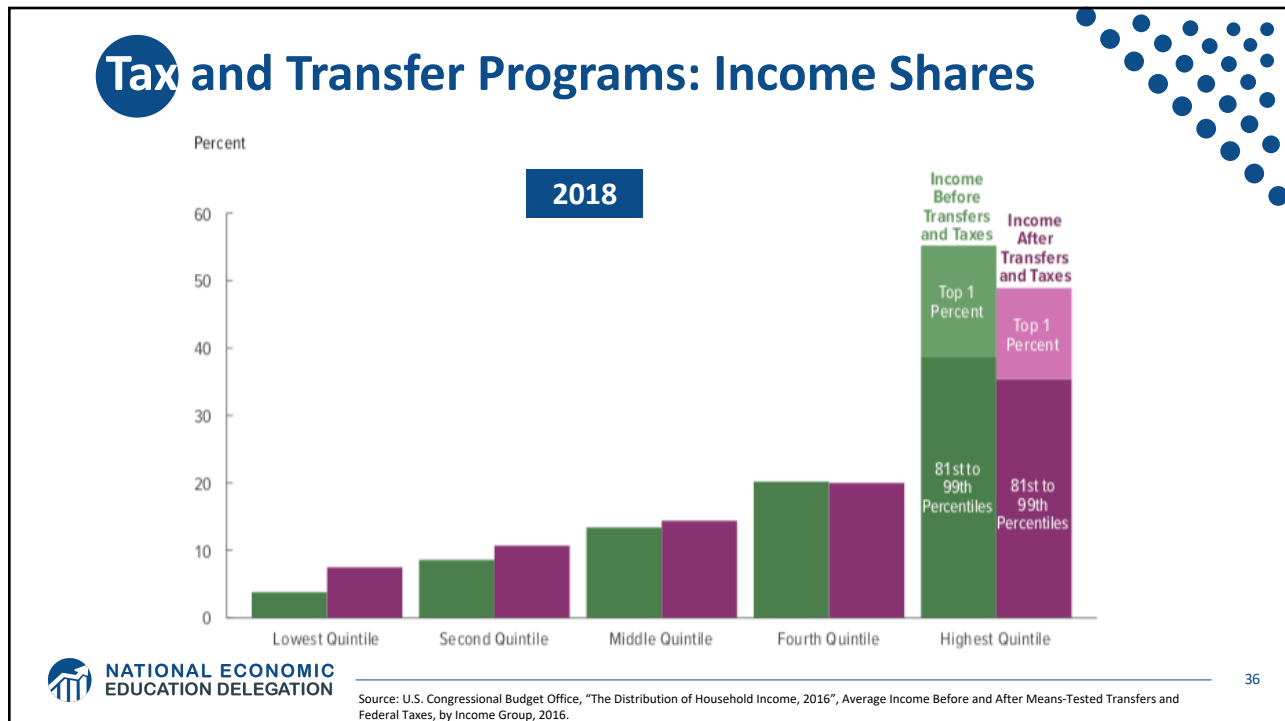


Source: U.S. Congressional Budget Office, "The Distribution of Household Income, 2014", Average Income Before and After Means-Tested Transfers and Federal Taxes, by Income Group, 2014.

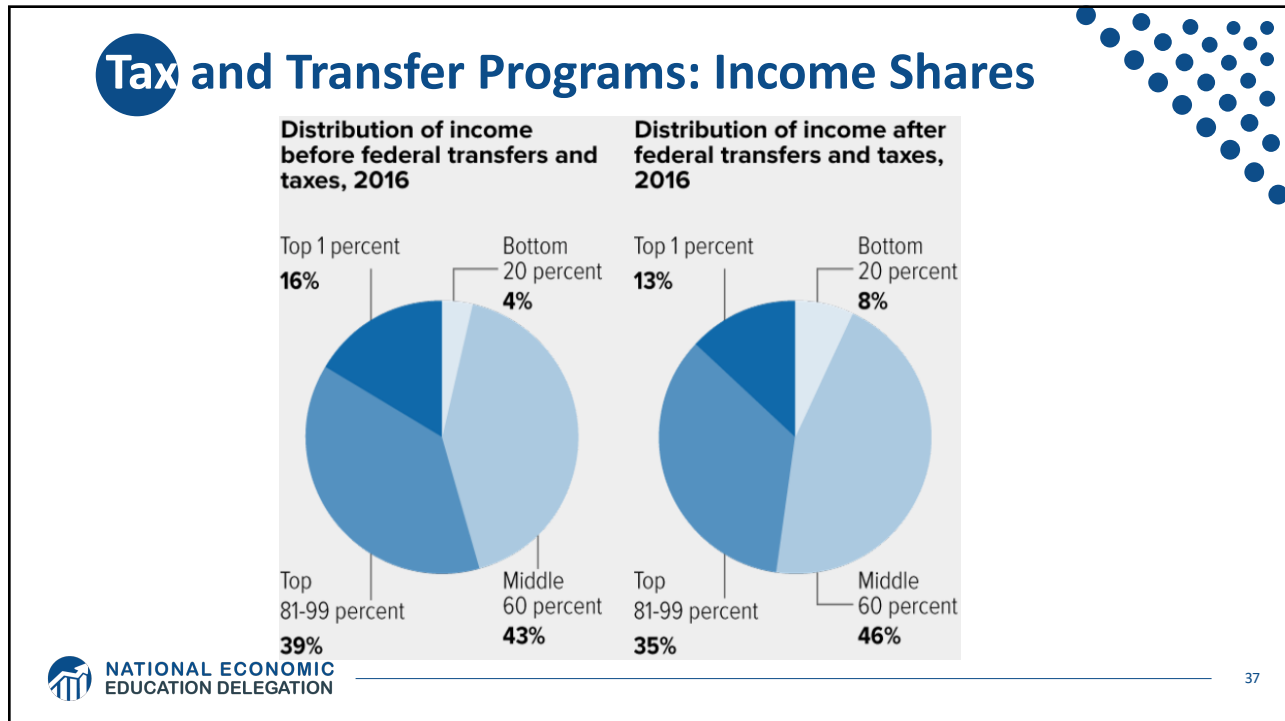
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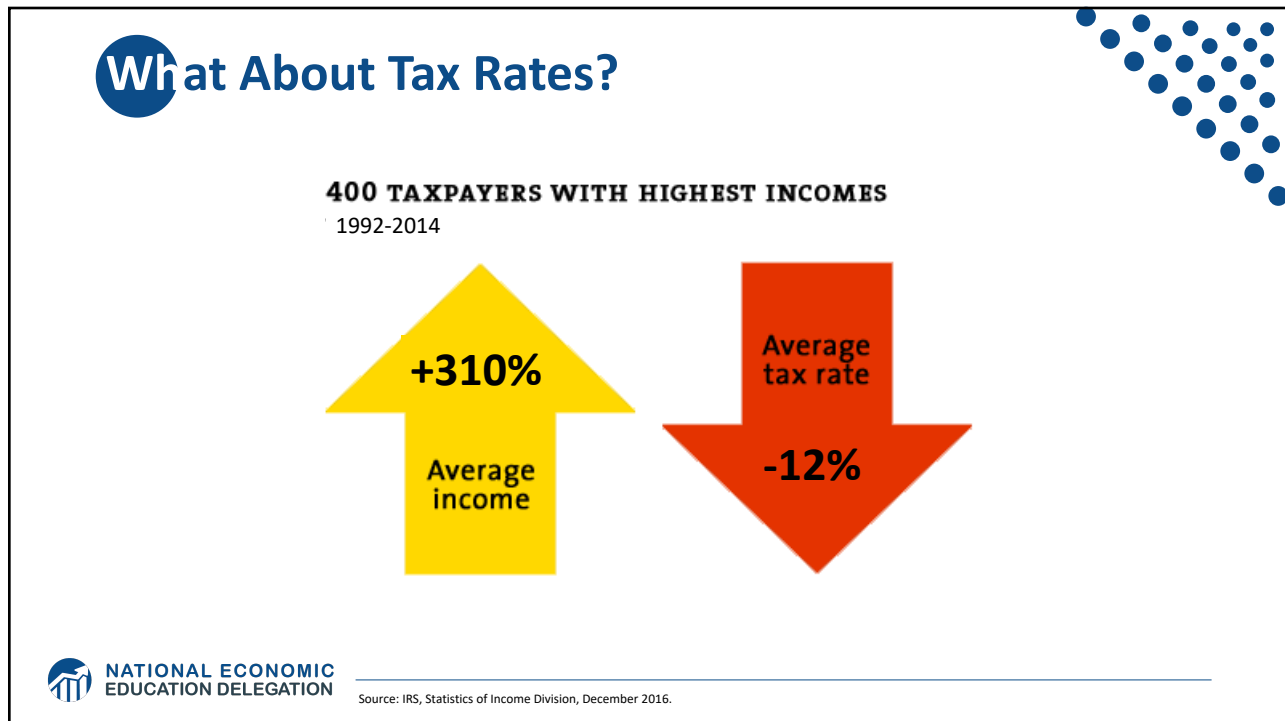
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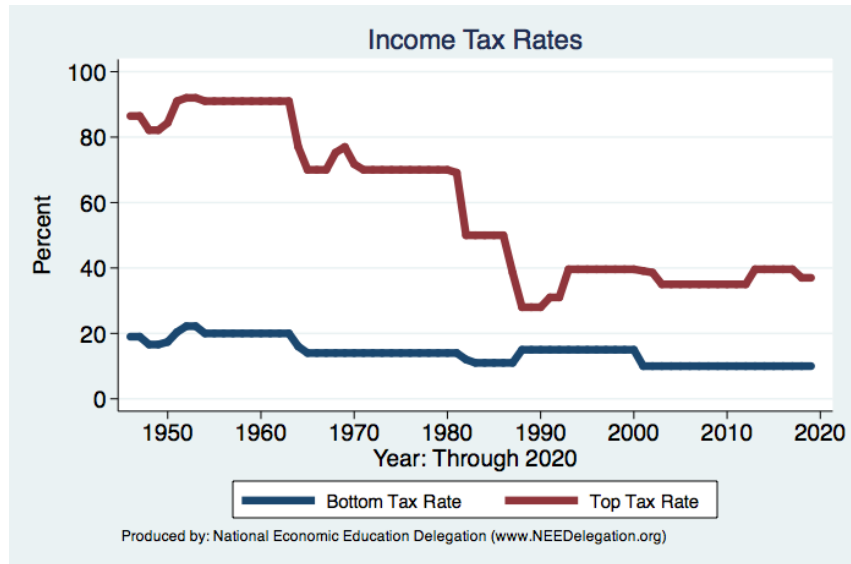


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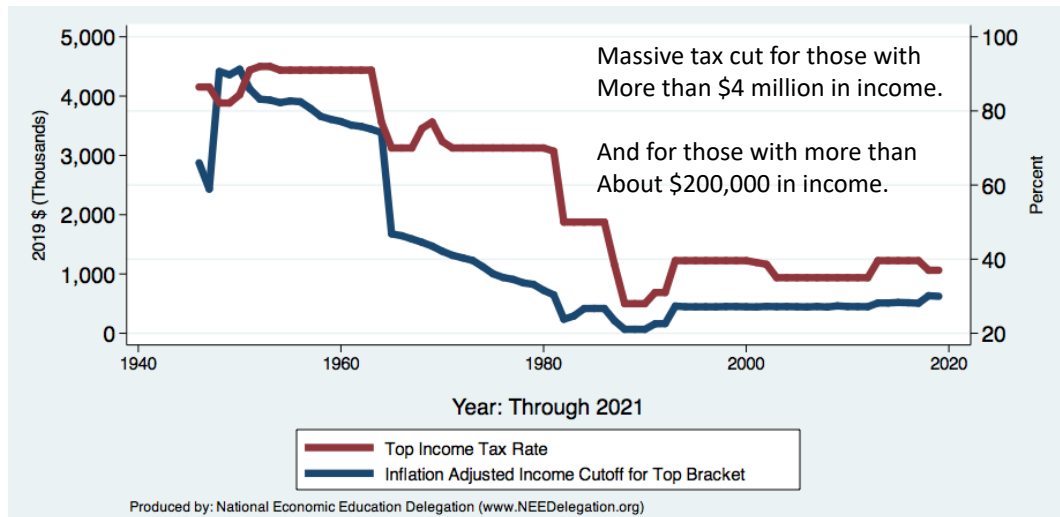
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## Tax Rates Over Time

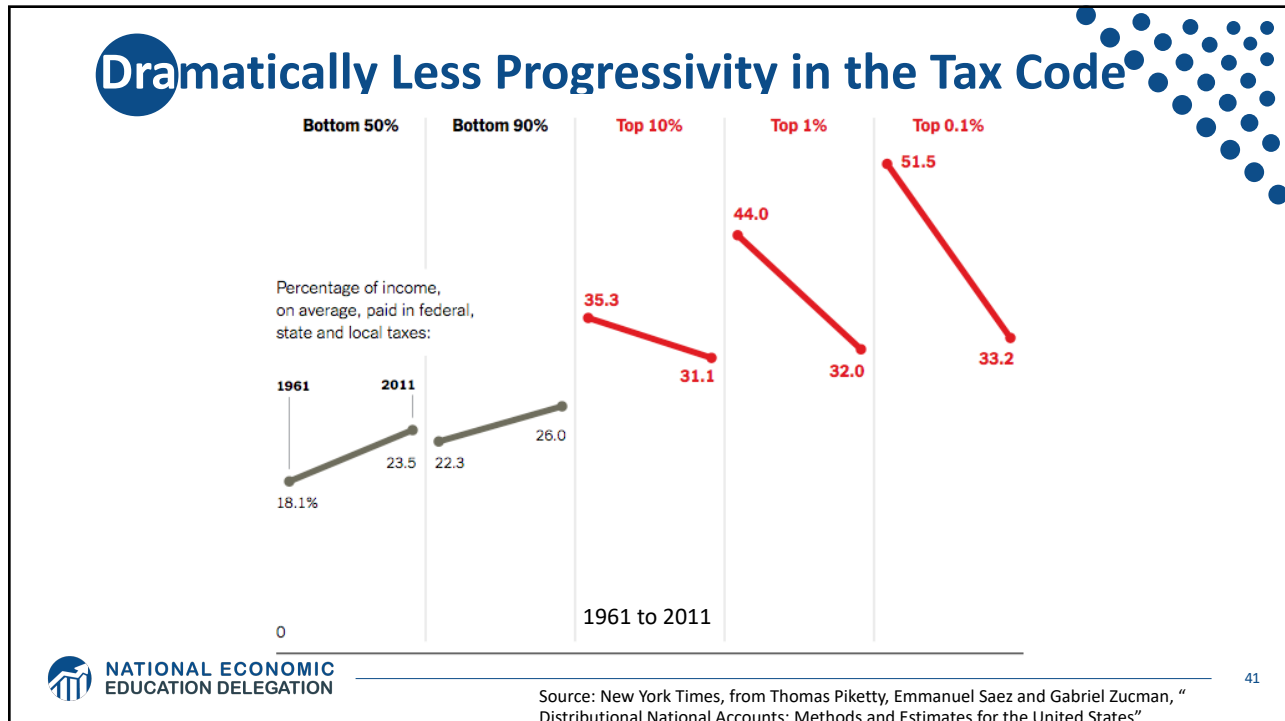


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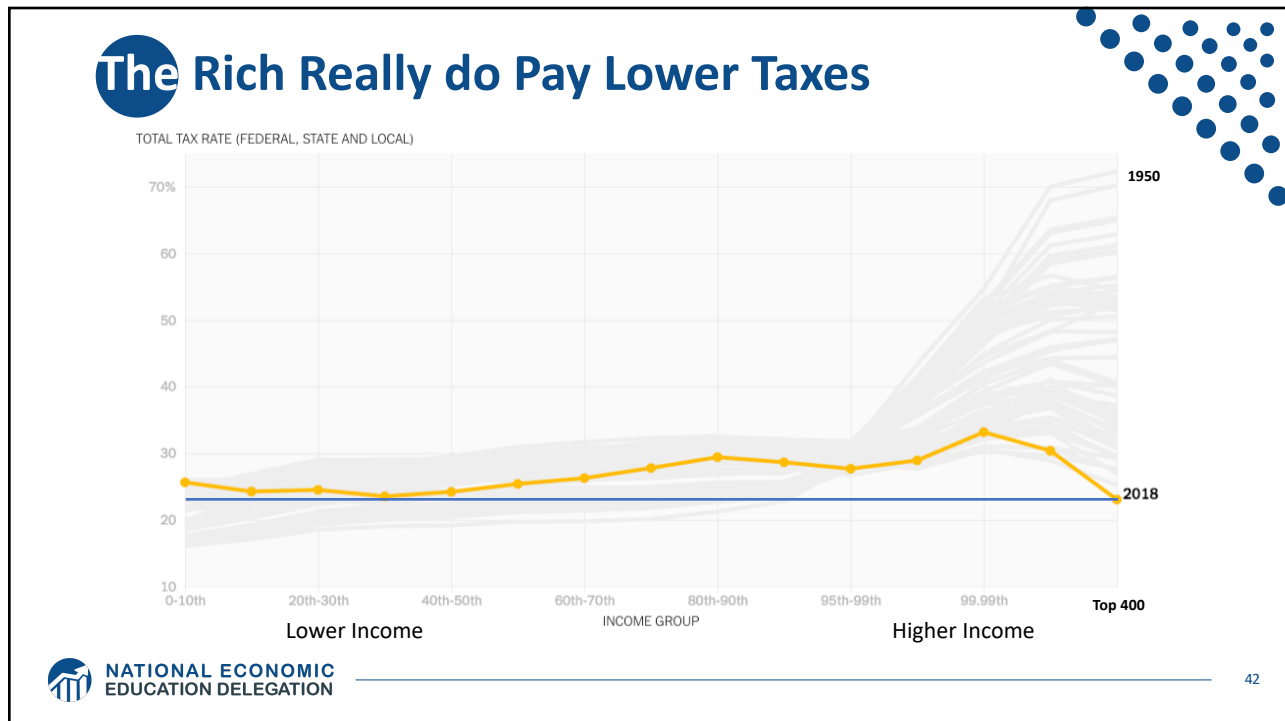
## The Top Tax Rate and Income Cutoff



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## Market Forces and Inequality

- **Changing demand patterns**
  - Technology
  - 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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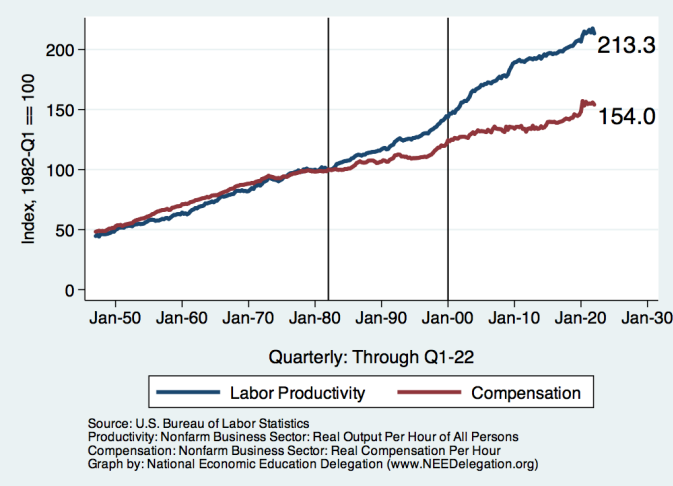
## Where Does Inequality Come From? Summary

- **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



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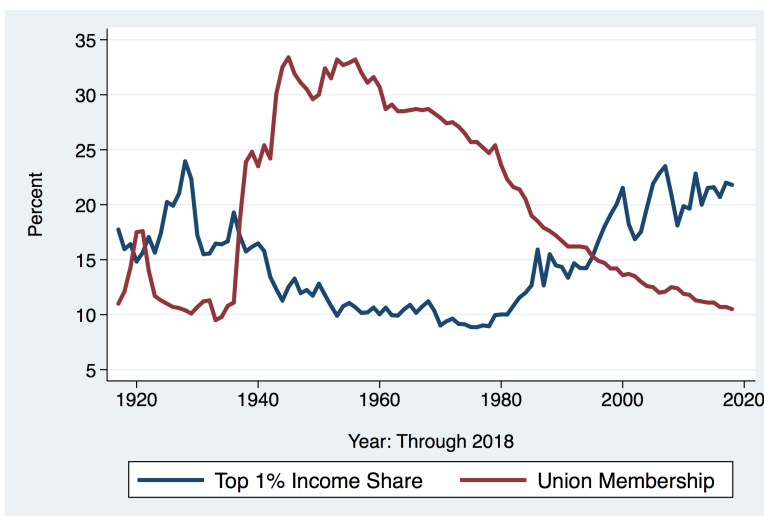
## Labor Income is Unhinged from Productivity



### Why?

- Declining unionization
- Globalization
- Competition policy
- Cheap technology

## Declining Unionization

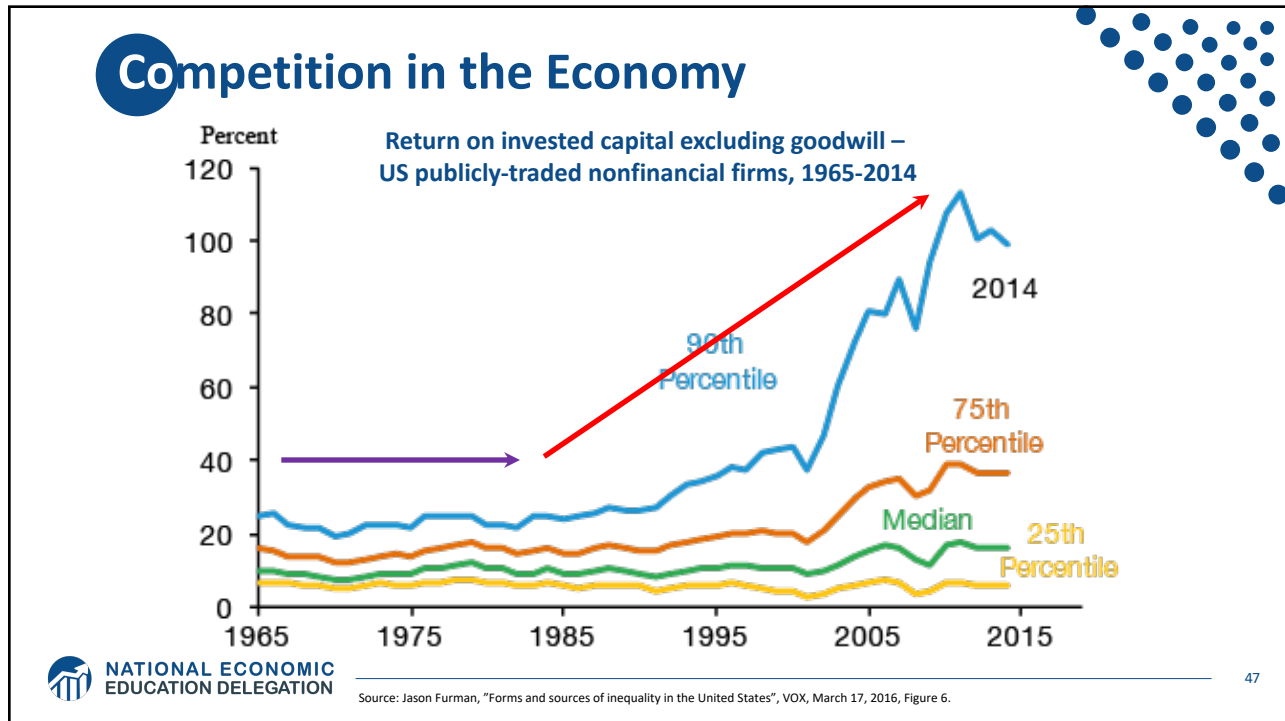


### Unionization Rates

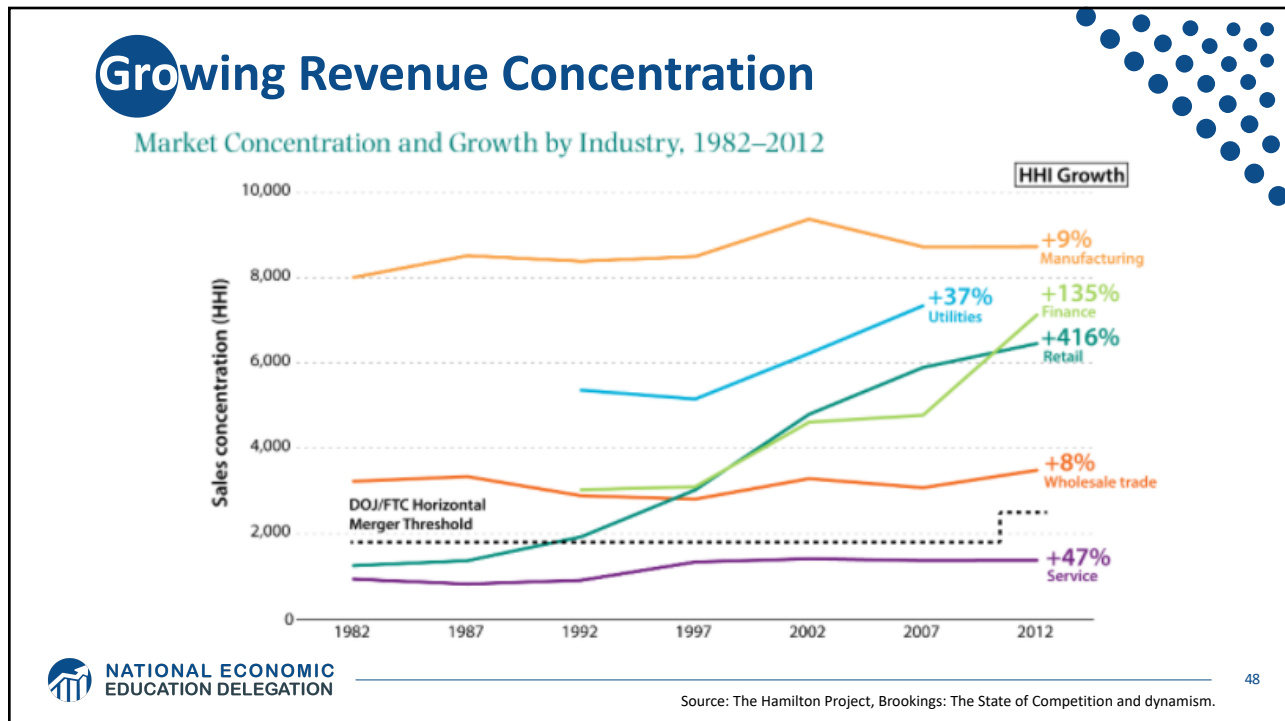
- **1983:** 20.1%
- **2021:** 10.3%

### Unionization Rates

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

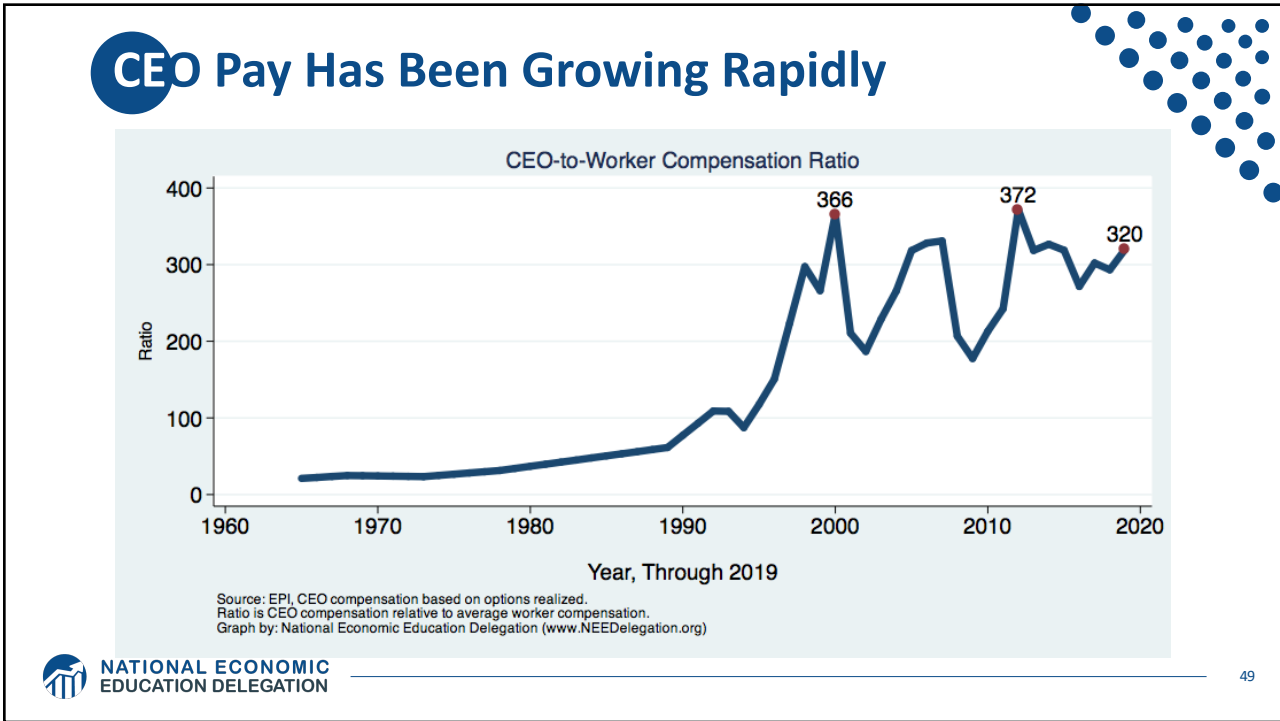


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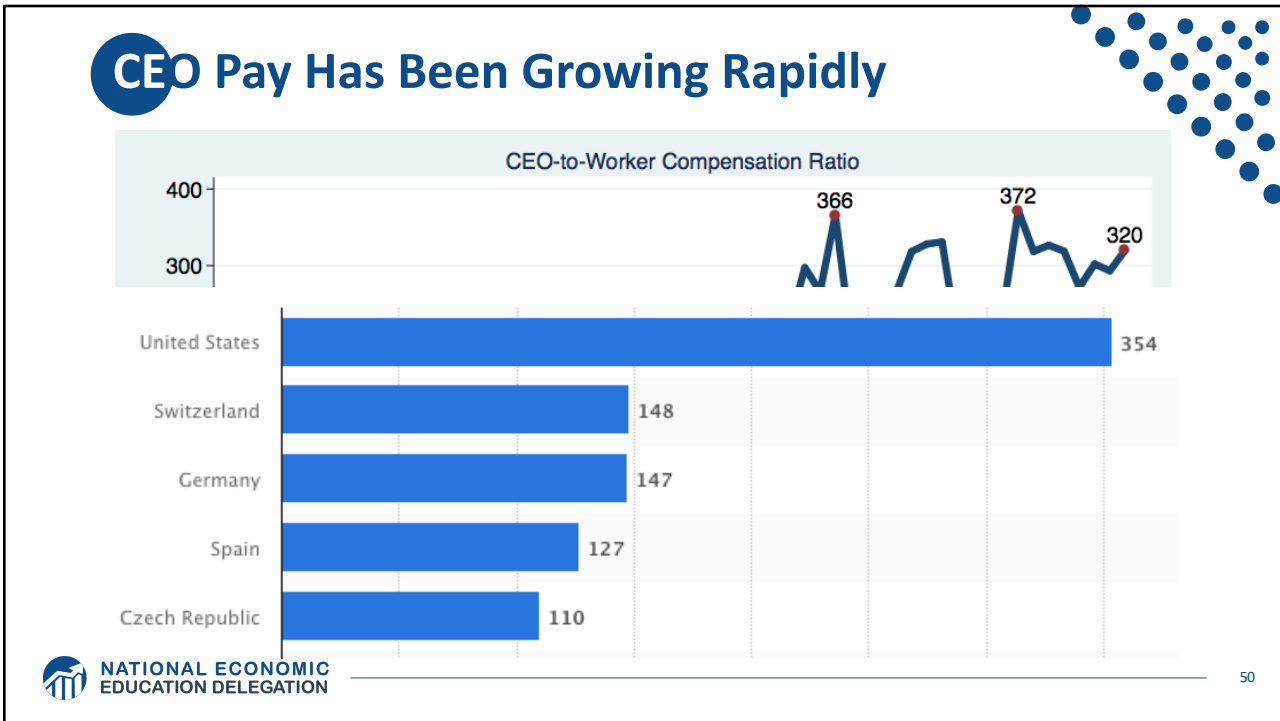


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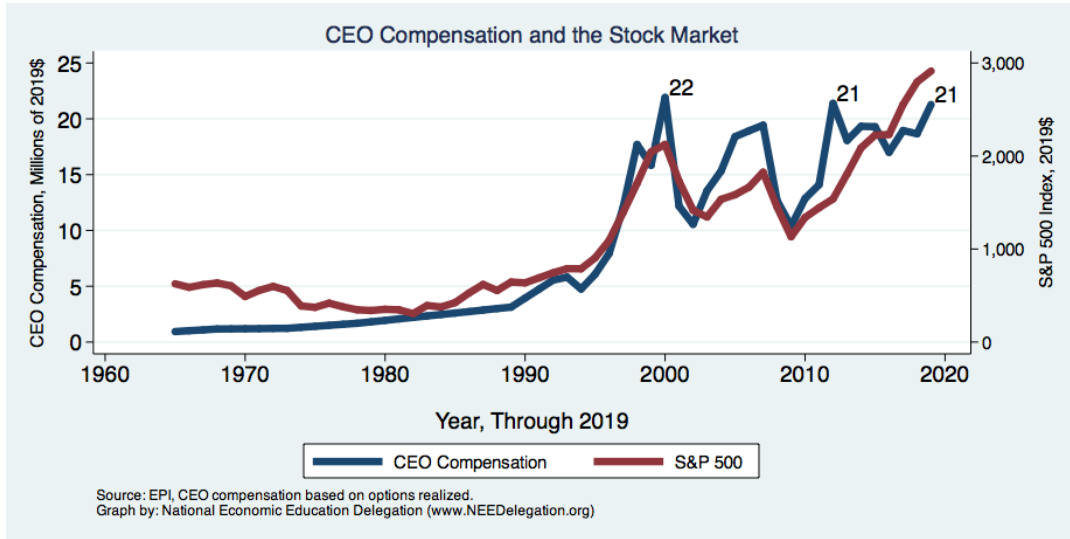


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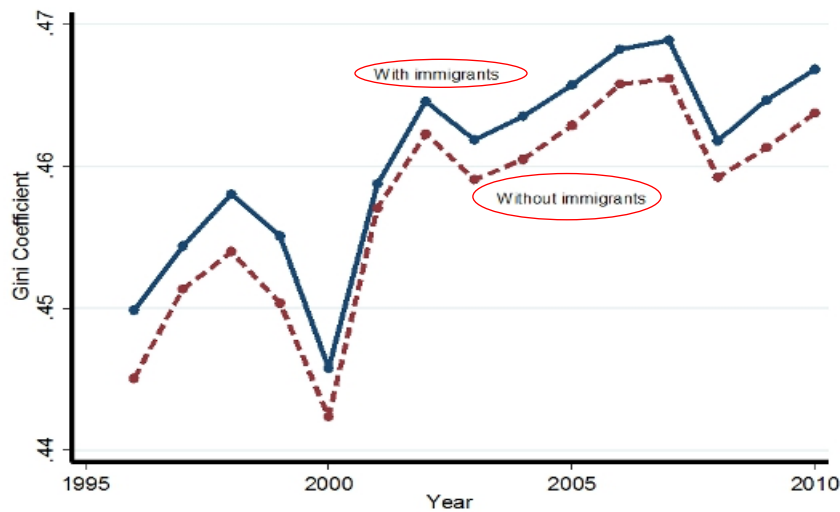
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## CEO Compensation – Tied to Stock Prices



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## Immigration and Inequality



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## Immigration and Inequality- Summary

- **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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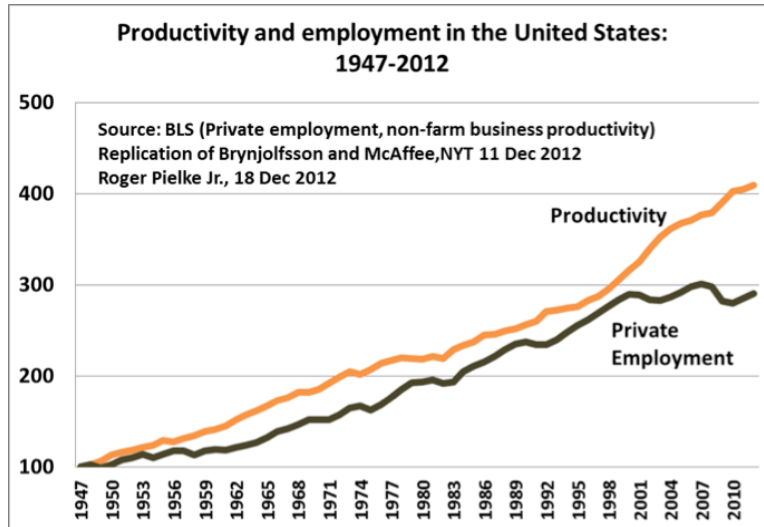
## Technological Change and Inequality

- **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
- **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



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# Technology Benefits Ownership over Labor



# Technology can Hurt Low Income Workers



Early on, technology was good to low income workers



Until it was bad for them....

## 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.



## 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



## 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
  - o Lowers the wages of unskilled relative to skilled
    - making the distribution of income **less equal**

- **Outsourcing**

- Similar channel as with merchandise trade

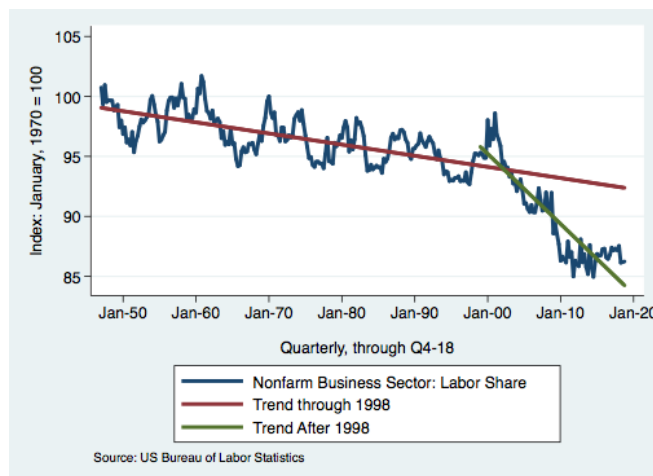
- **Trade in services**

- US imports of middle-skill services: business and some professional services

- **Intuitively: The same as if we were to move the actual workers.**

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## Effects of the Unhinging?



### Labor's Share of Income

1960: 66%

2011: 56%

2016: 58%

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## What is driving increasing inequality?

- **Primary drivers:**

- Technology
- Globalization
- Institutions

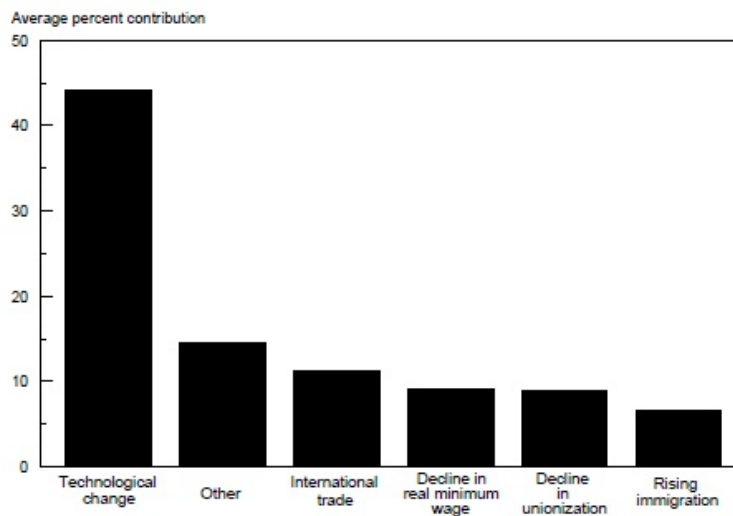
- **These drivers can also influence personal choices in ways that affect measured income inequality.**

- For example, educational choices or labor force participation



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## Sources of Inequality Through Late 1990s



Source: Federal Reserve Bank of New York.



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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

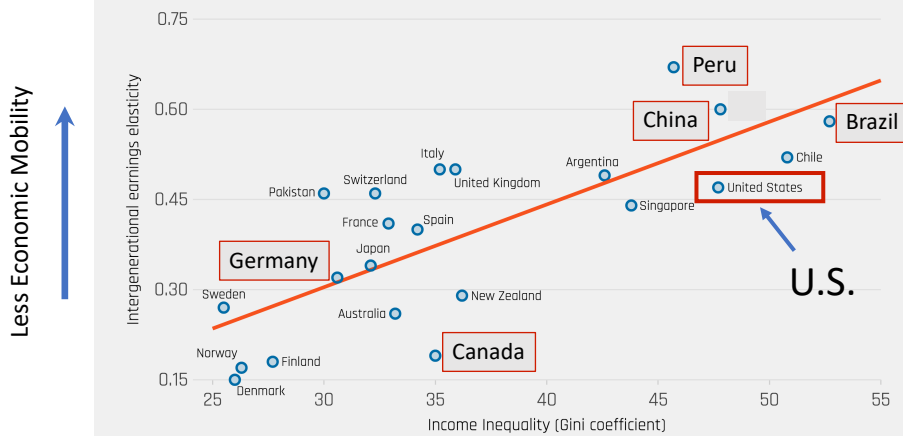
- **Too much inequality may also:**

- Divide society
- Distort political environment
- Reduce political participation
- Reduce investments in public goods
  - 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]





## 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.

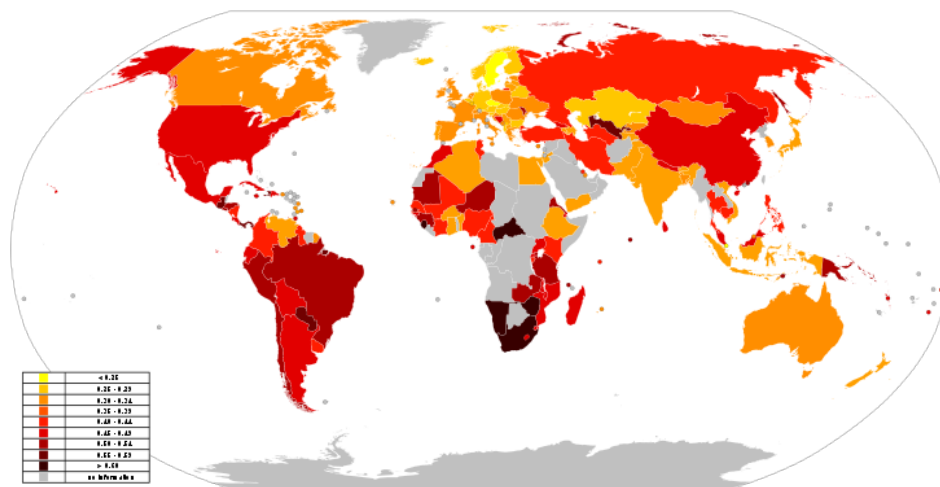


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## An International Perspective



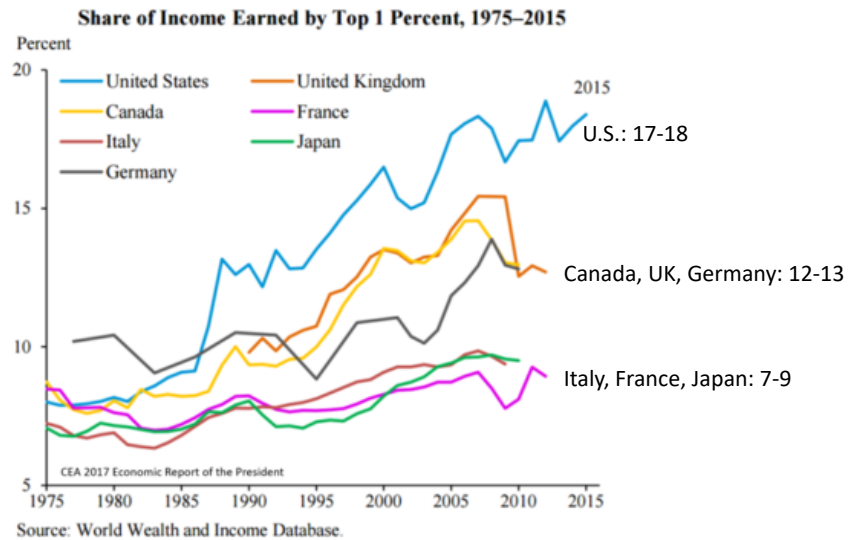
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Source: Data taken from the 2014 CIA World Factbook.

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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*)
  - There is evidence that at some level, increased inequality slows economic growth.
  - Or, inequality concentrates resources among investors.
- Noneconomic issues (*Equity*)
  - 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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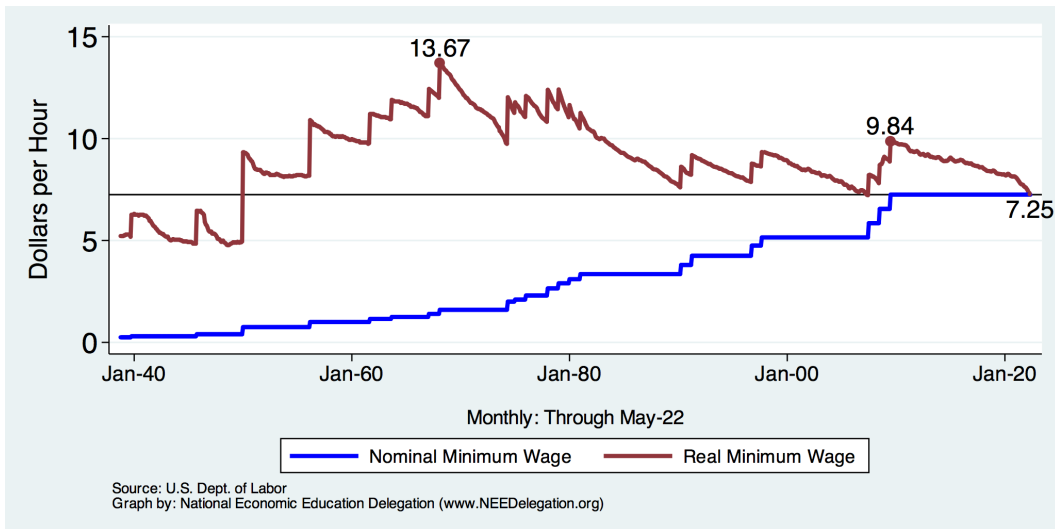
# Addressing Inequality: Immediately Available Policy Solutions (1/2)

- **RE-distribution**
  - Tax and transfer programs
  
- **PRE-distribution**
  - Strengthen labor unions
  - Collective bargaining
  - Other policies that favor labor over business owners
  - Minimum wages



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# Historical Values of Minimum Wages

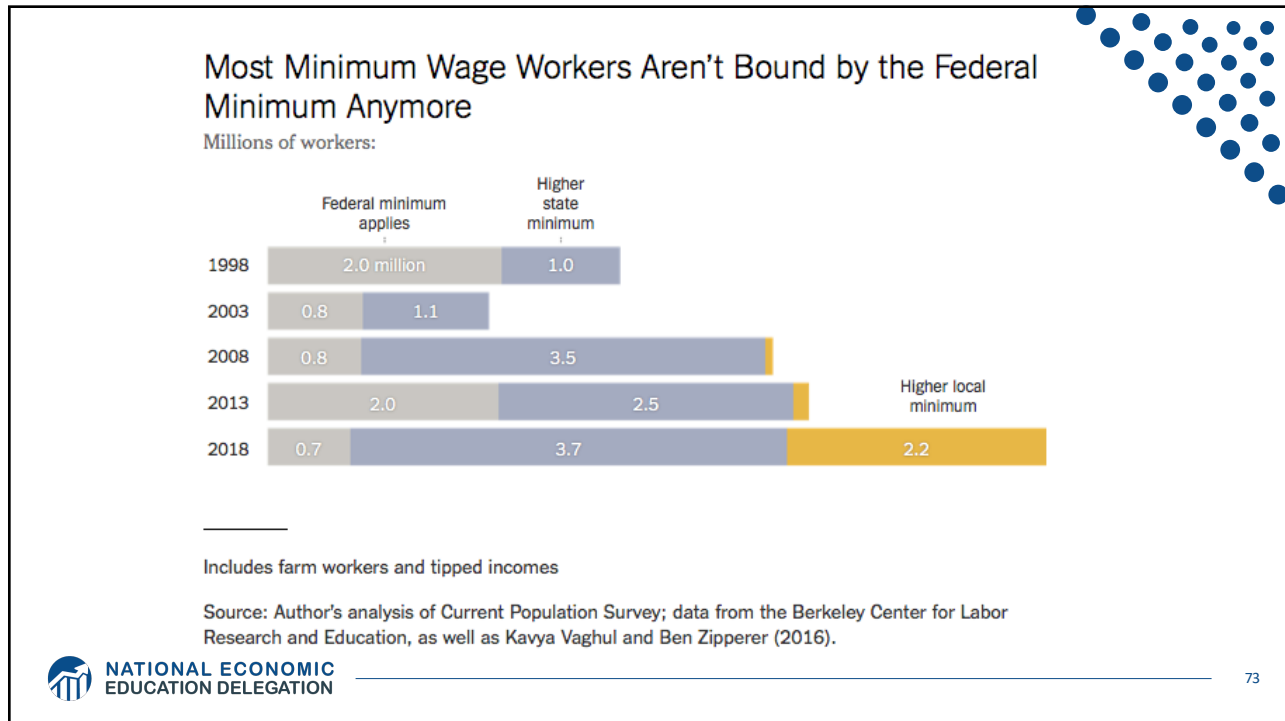


Source: U.S. Dept. of Labor  
 Graph by: National Economic Education Delegation (www.NEEDelegation.org)

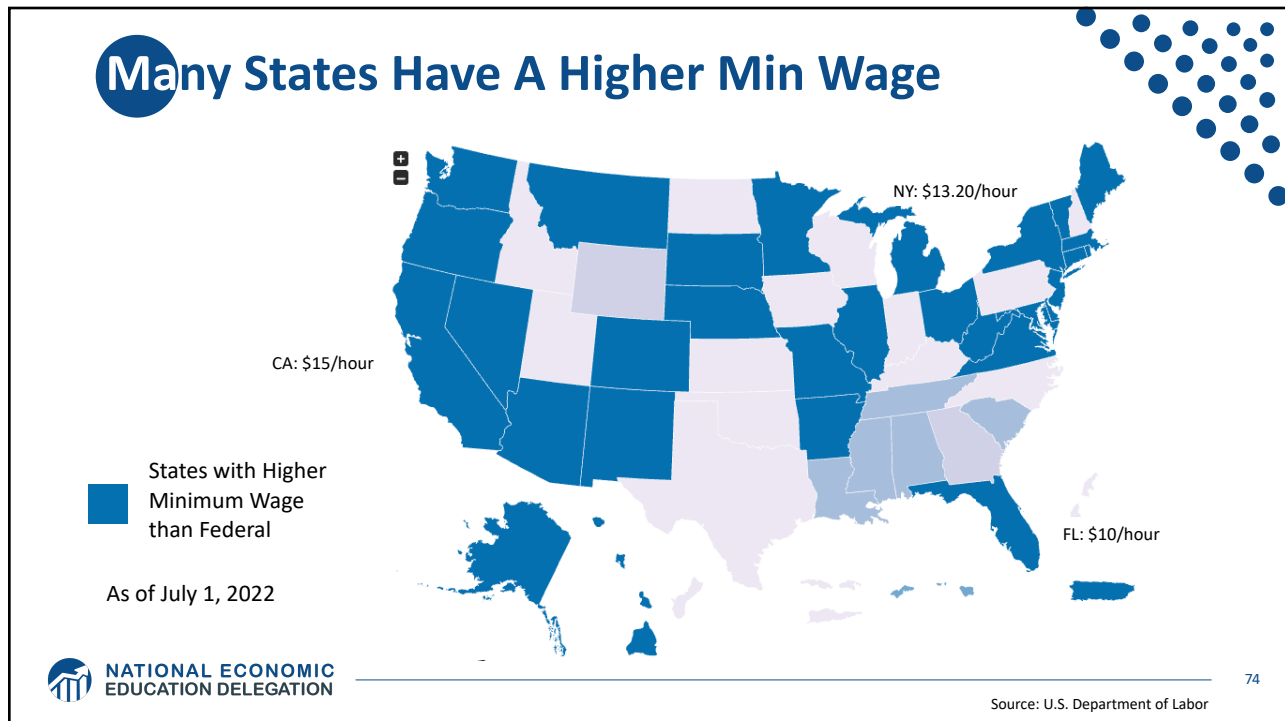


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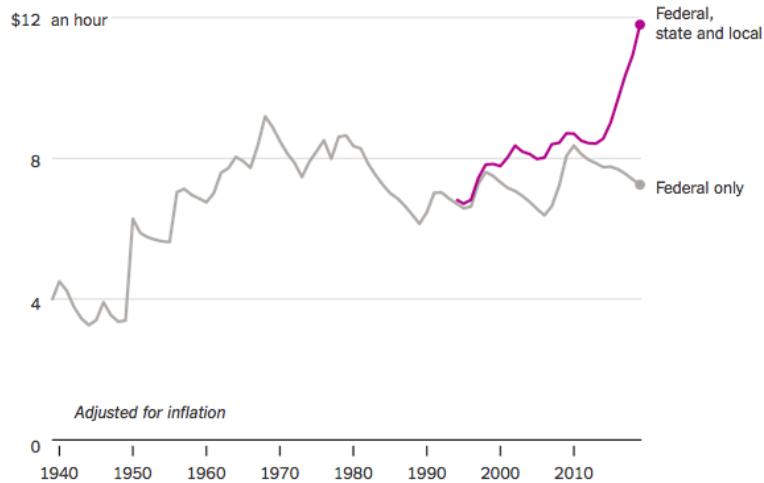
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## States and Local Gov'ts are Raising Min Wages

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



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## 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
  - o Uber, Lyft, etc.



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## 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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## What to do About Inequality?

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



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## 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.
- **Possibly: encouraging competition promotes a more efficient economy**
  - Companies with market power (monopolies) can stagnate economies



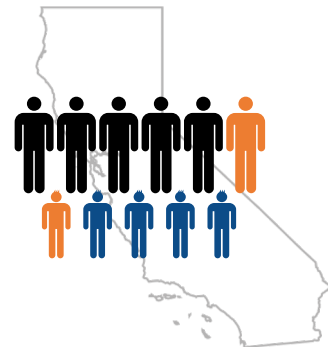
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## Summary

- **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.**

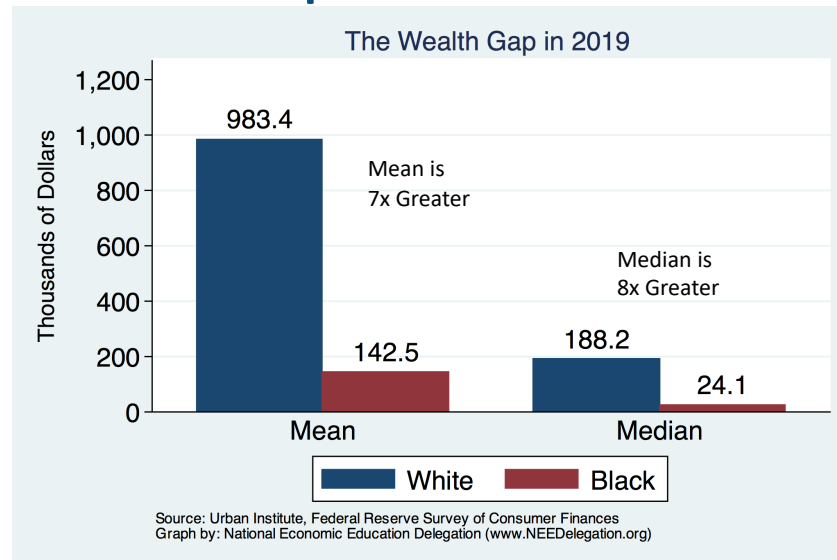


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## The B-W Wealth Gap: Jon Haveman



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## Thank you!

# Any Questions?

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Jon Haveman, Ph.D.

Jon@NEEDelegation.org

Contact NEED: [info@NEEDelegation.org](mailto:info@NEEDelegation.org)

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