



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

University of Minnesota  
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 (Jon Haveman, NEED)
- Week 2 (10/11): Trade and Globalization (Alan Deardorff, Univ. of Michigan)
- Week 3 (10/18): Federal Debt (Joseph Carolan, Oakland University)
- **Week 4 (10/25): Economic Inequality (Jon Haveman, NEED)**
- Week 5 (11/1): Climate Change Economics (Sarah Jacobson, Williams College)
- Week 6 (11/8): Trade Deficits and Exchange Rates (Alan Deardorff, Univ. of MI)



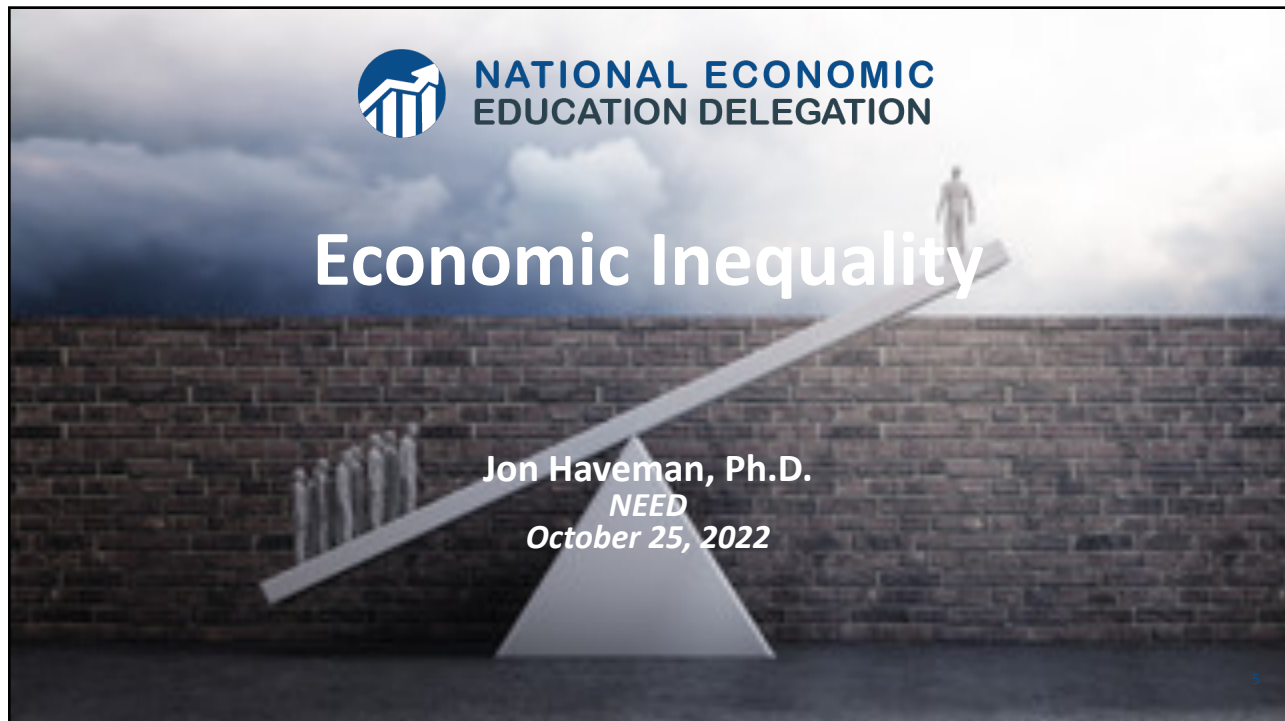
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## Submitting Questions

- **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](https://needelegation.org/delivered_presentations.php))**




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## Credits and Disclaimer

- **This slide deck was authored by:**
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- **This slide deck was reviewed by:**
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  - 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



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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).

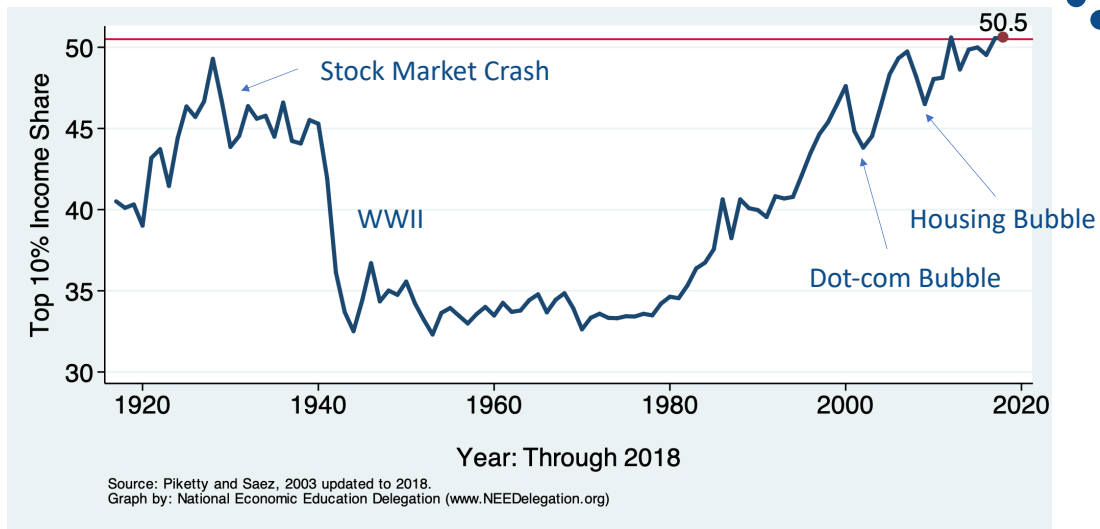


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## National Income Inequality: Share of Top 10%



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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.

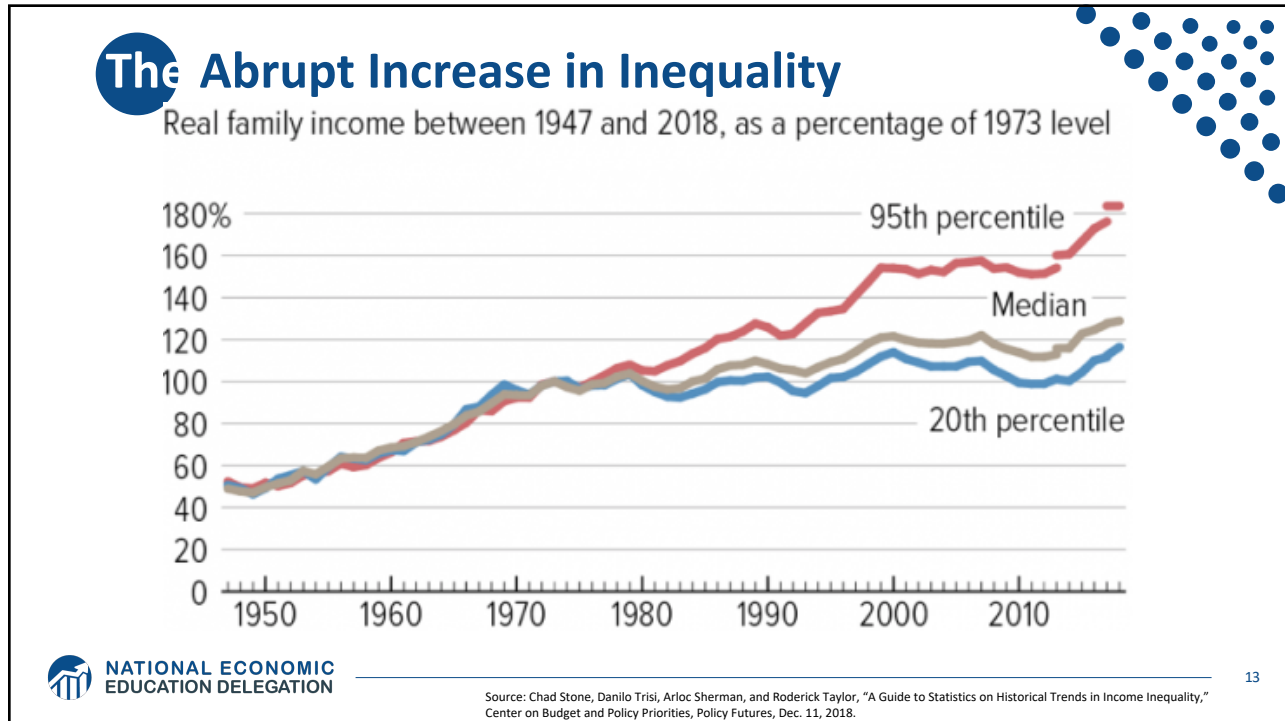


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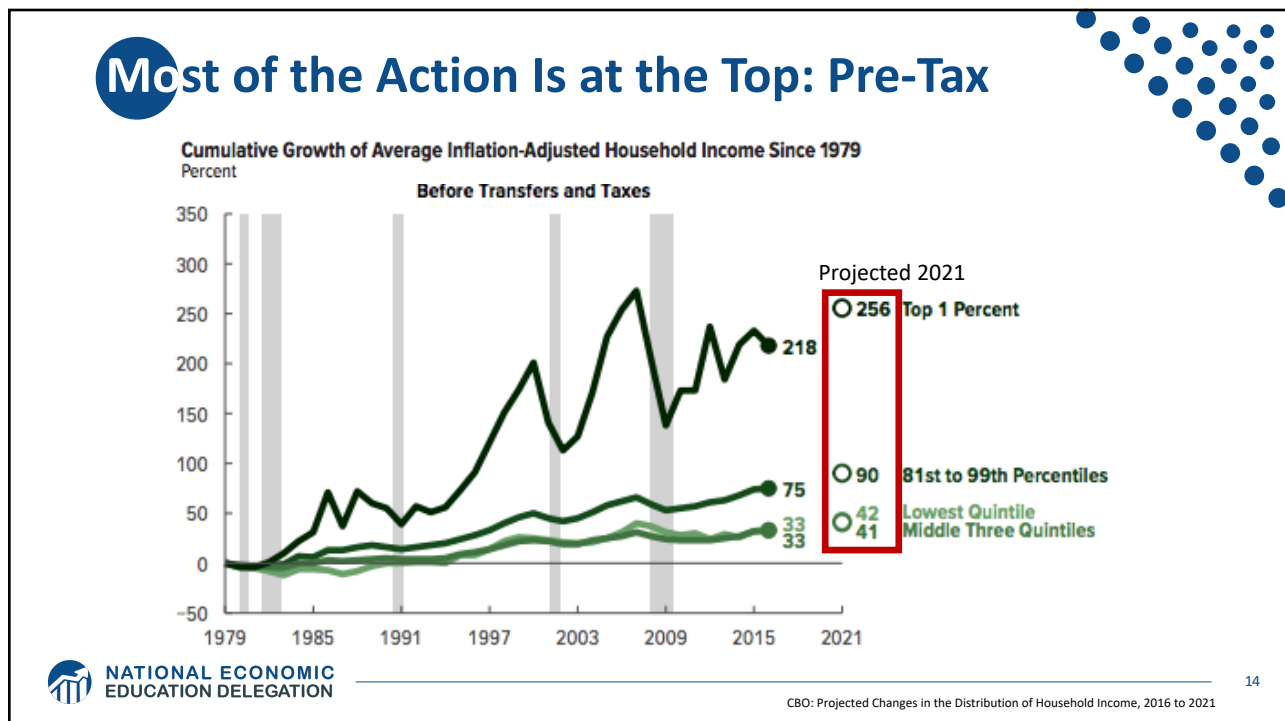
Source: Chad Stone, Danilo Trisi, Arloc Sherman, and Roderick Taylor, "A Guide to Statistics on Historical Trends in Income Inequality," Center on Budget and Policy Priorities, Policy Futures, May 15, 2018.

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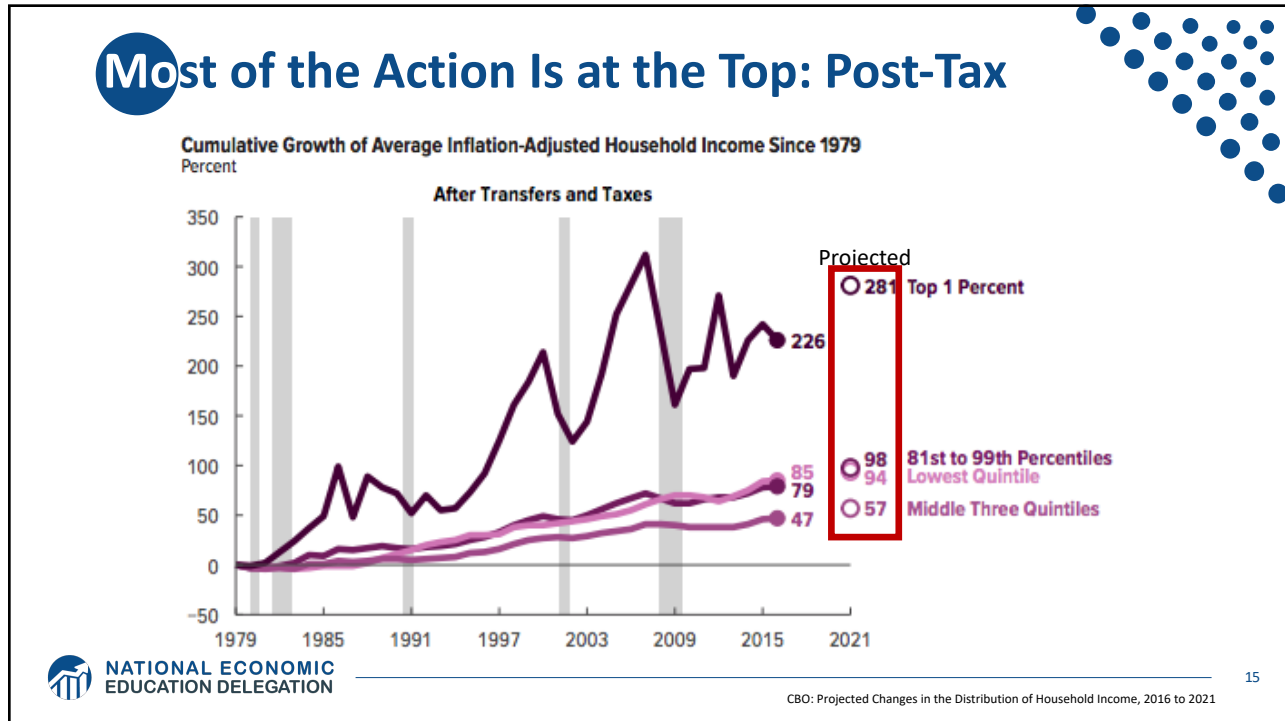
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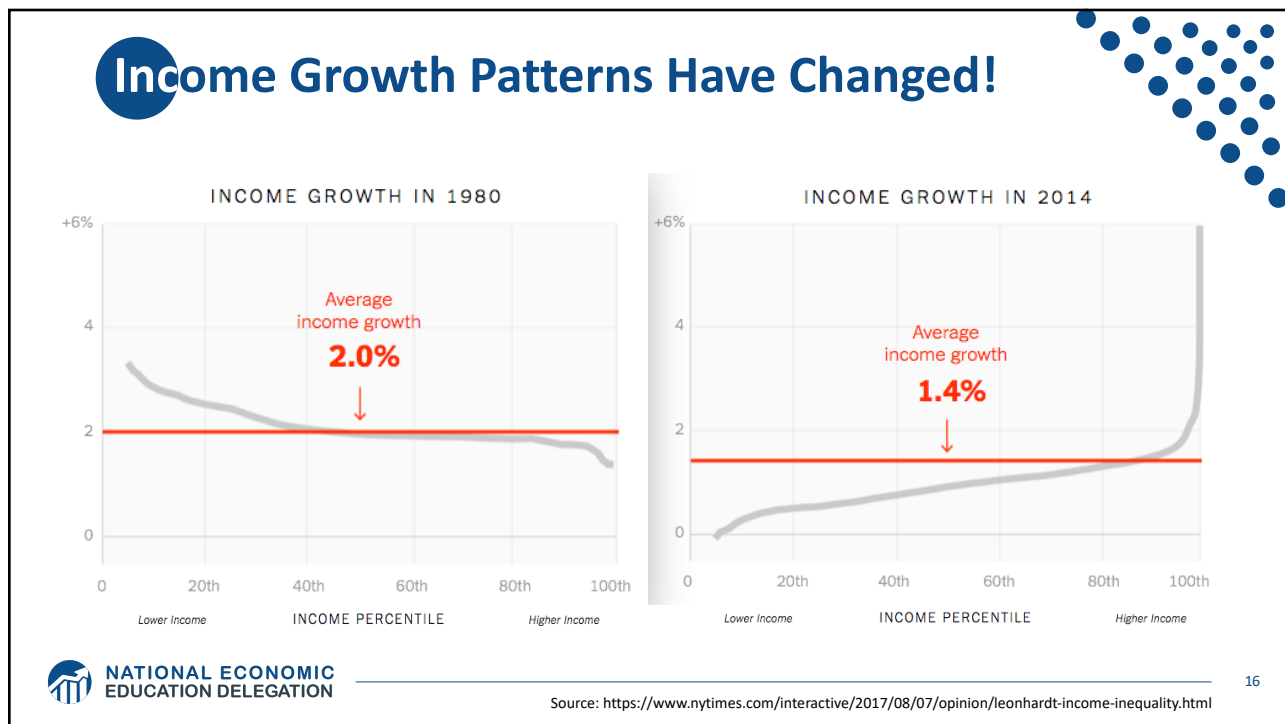
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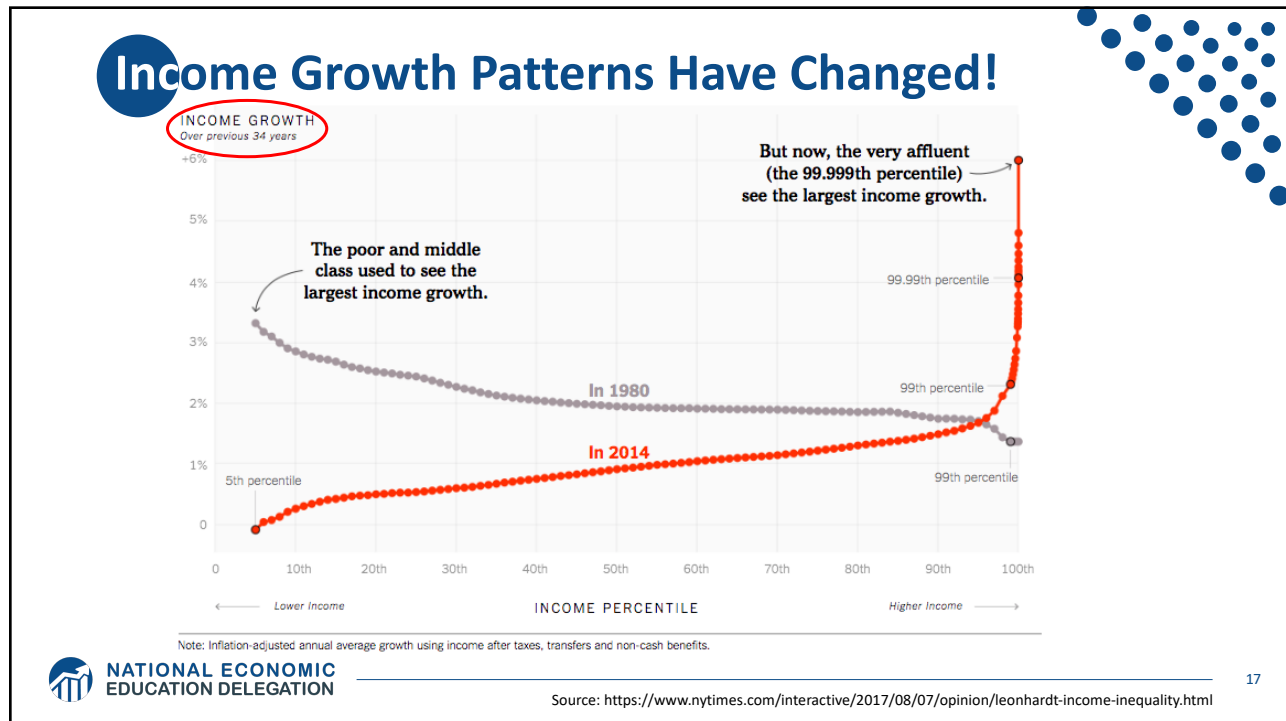


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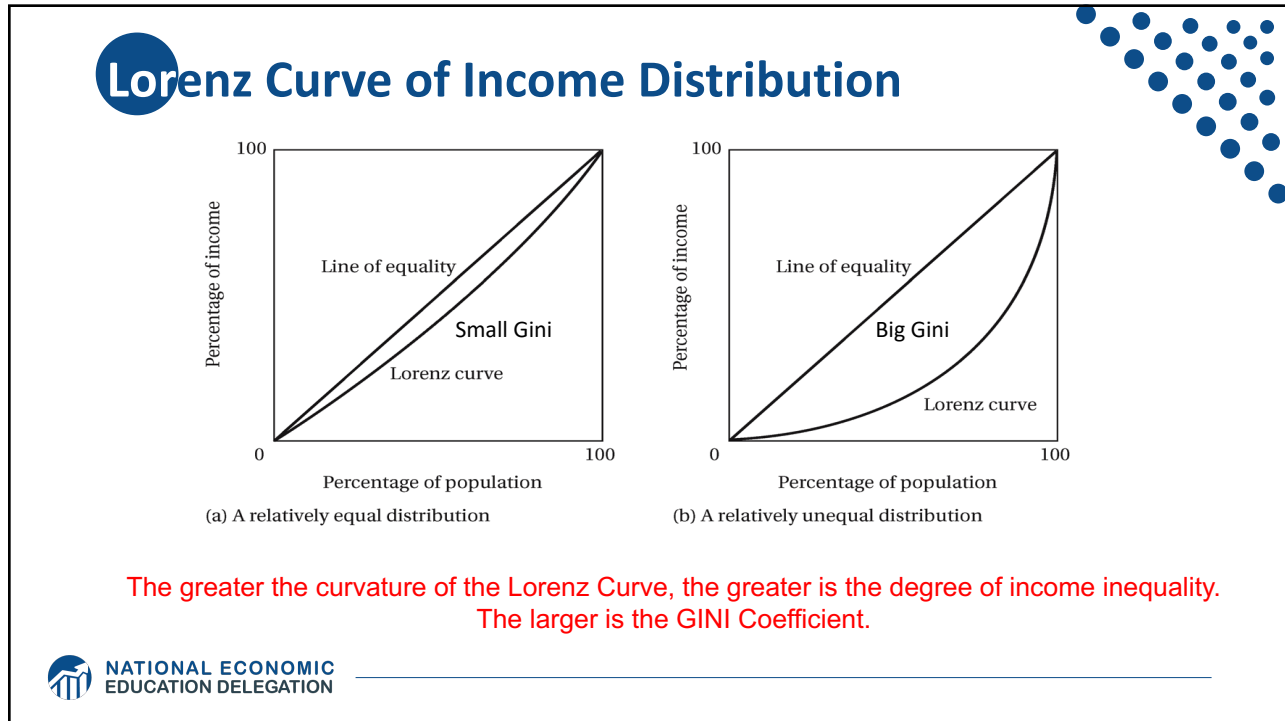
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## Gini Coefficient

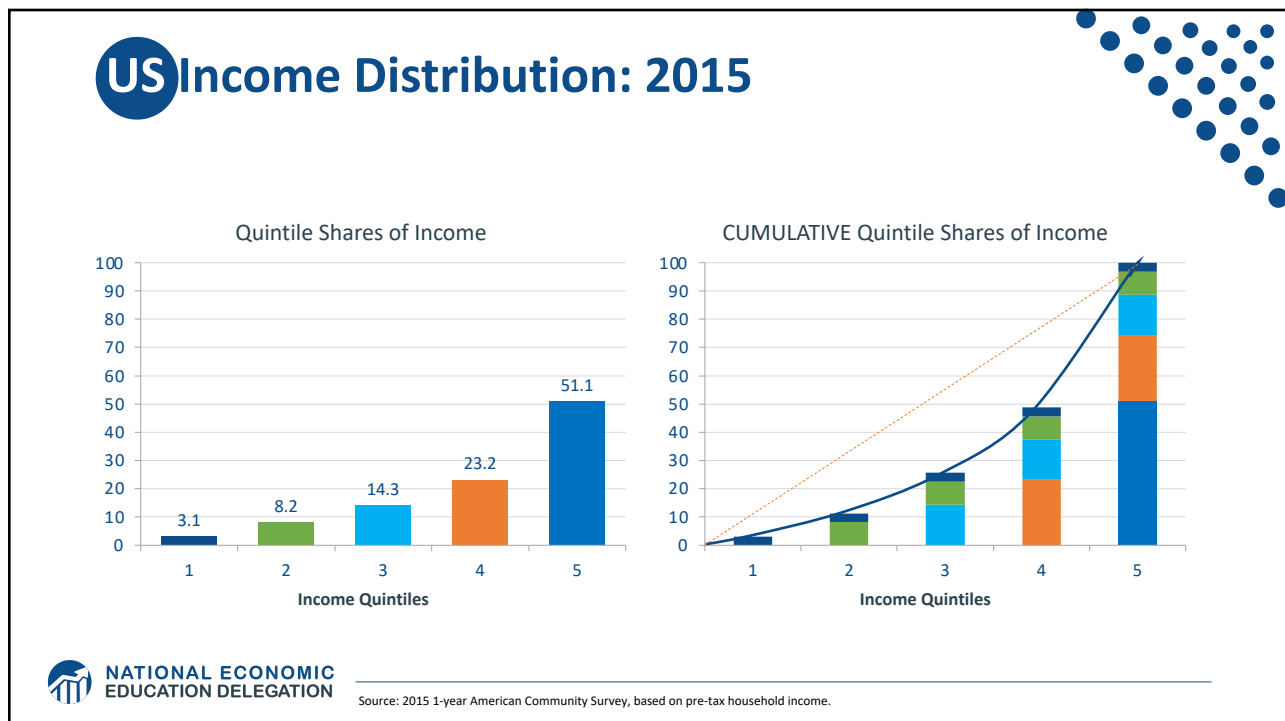
- **Gini coefficient – a numerical measure that summarizes the overall dispersion of income:**
  - Ranges from 0 – 1
    - 0 = perfect equality – everyone has the same income
    - 1 = perfect inequality – one person has all the income
  - In practice:
    - 0.5 – 0.7 – highly unequal
    - 0.2 – 0.35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

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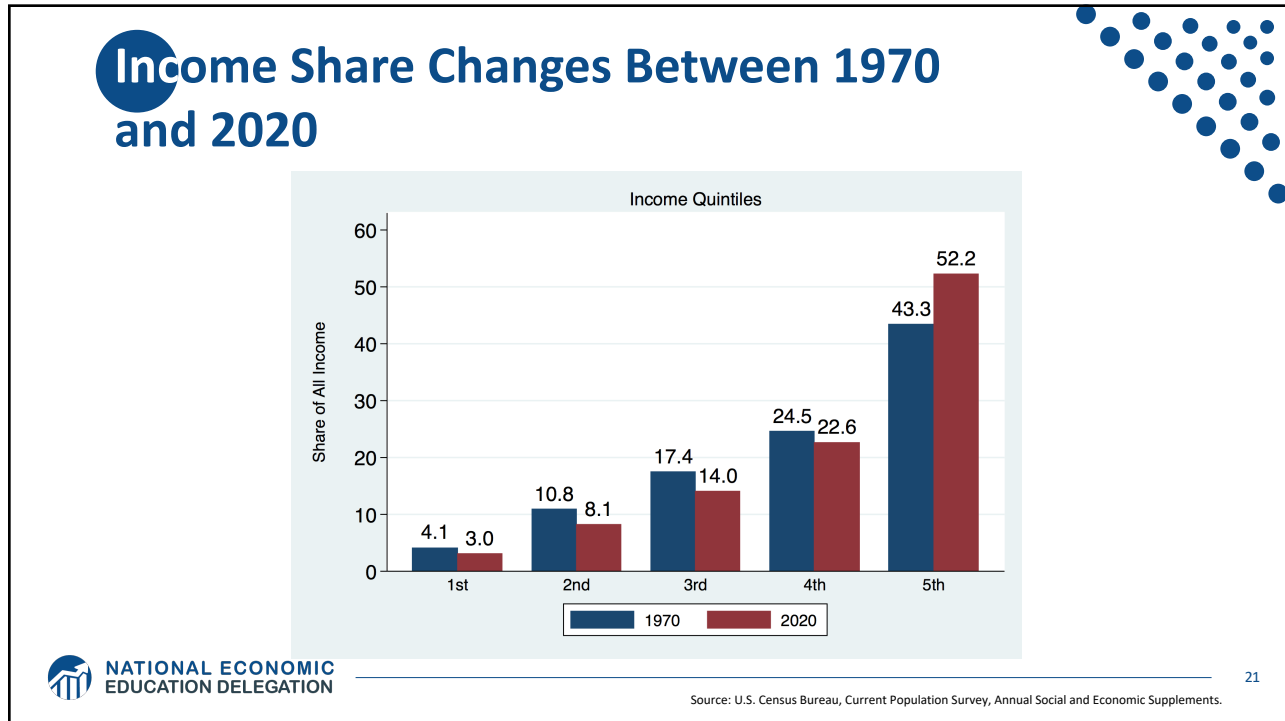
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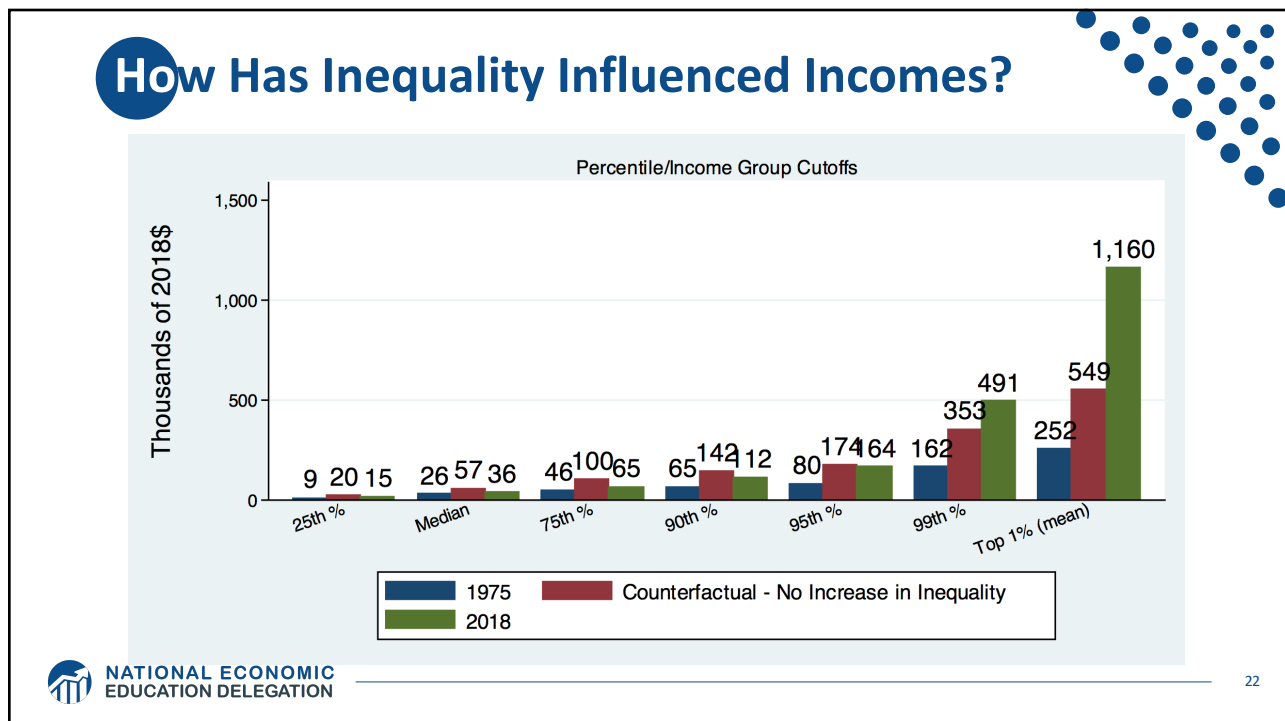
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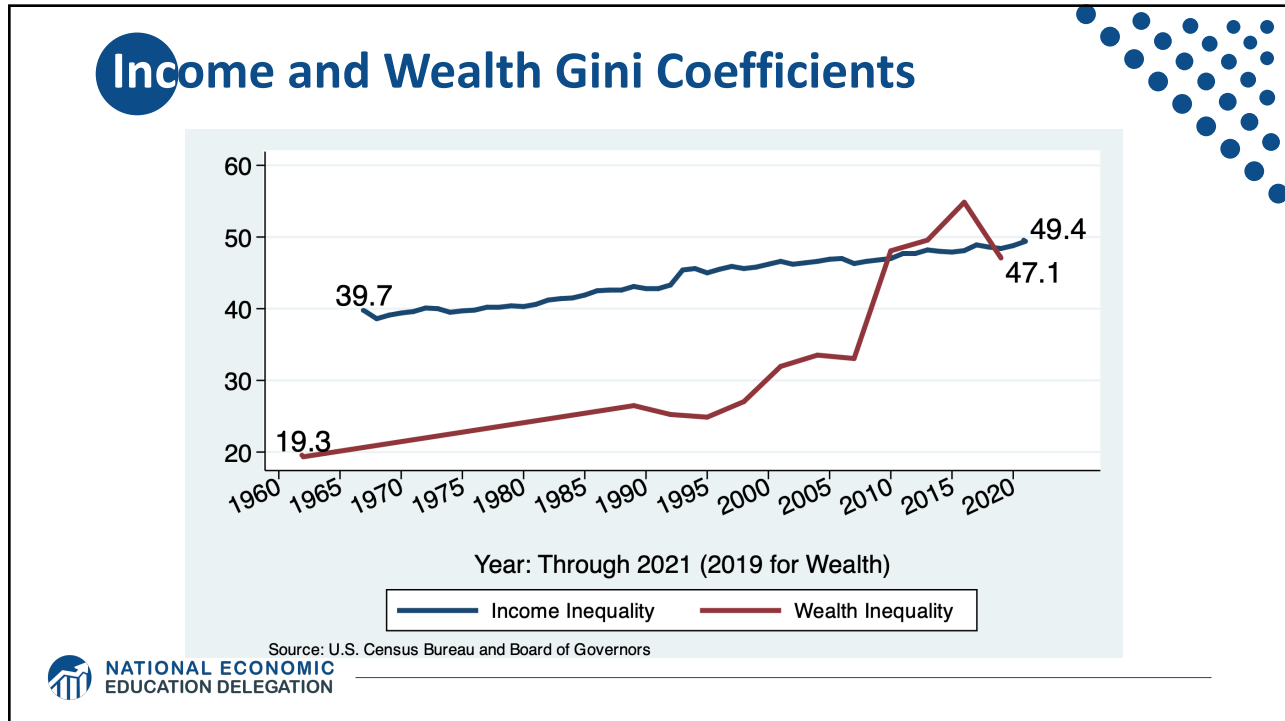
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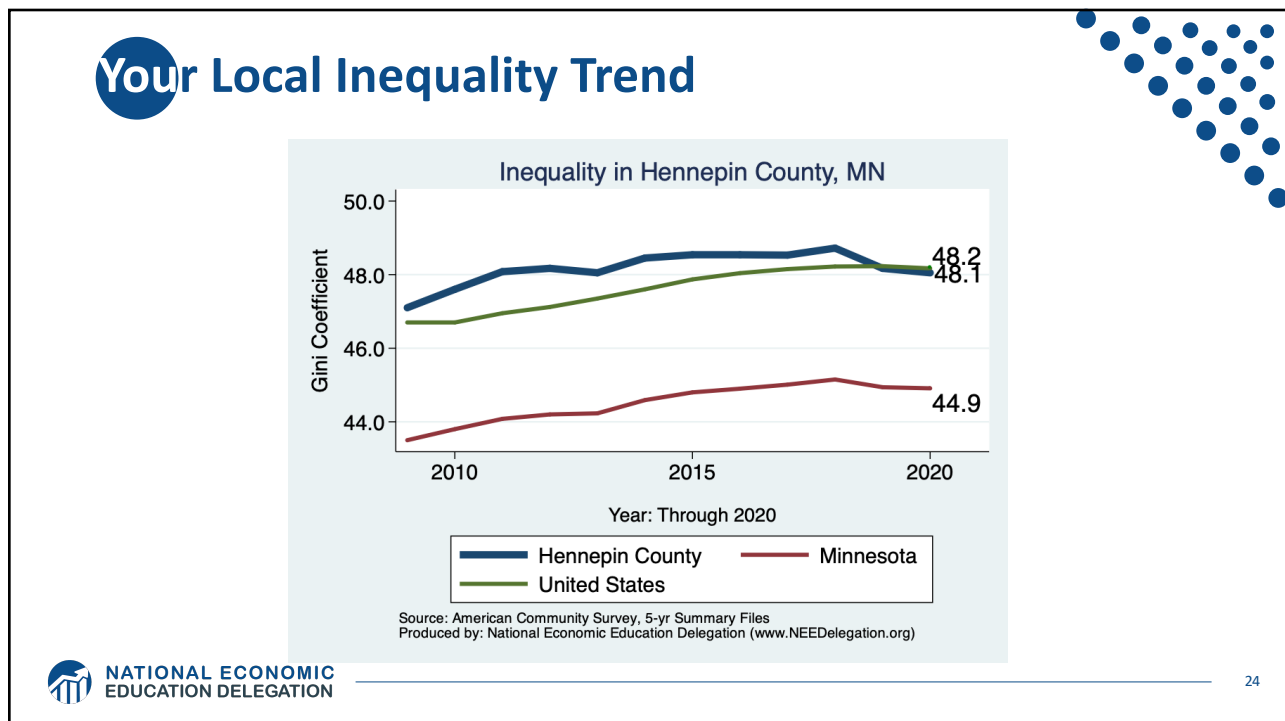
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## [www.NEEDelegation.org/LocalGraphs](http://www.NEEDelegation.org/LocalGraphs)

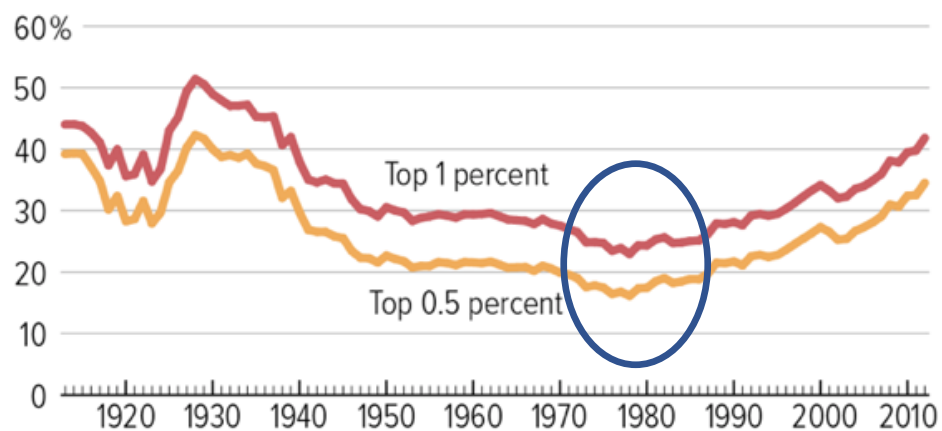
For every state and county in the United States.

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

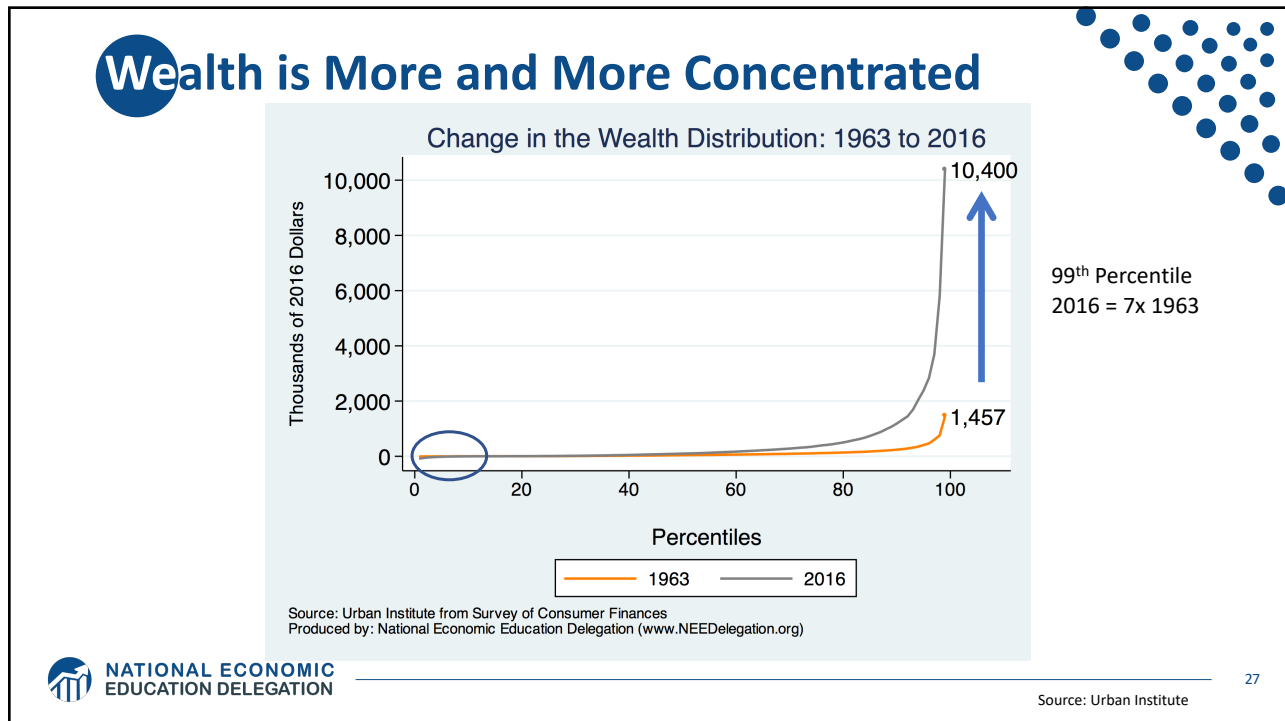
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## Wealth Concentration Has Been Rising

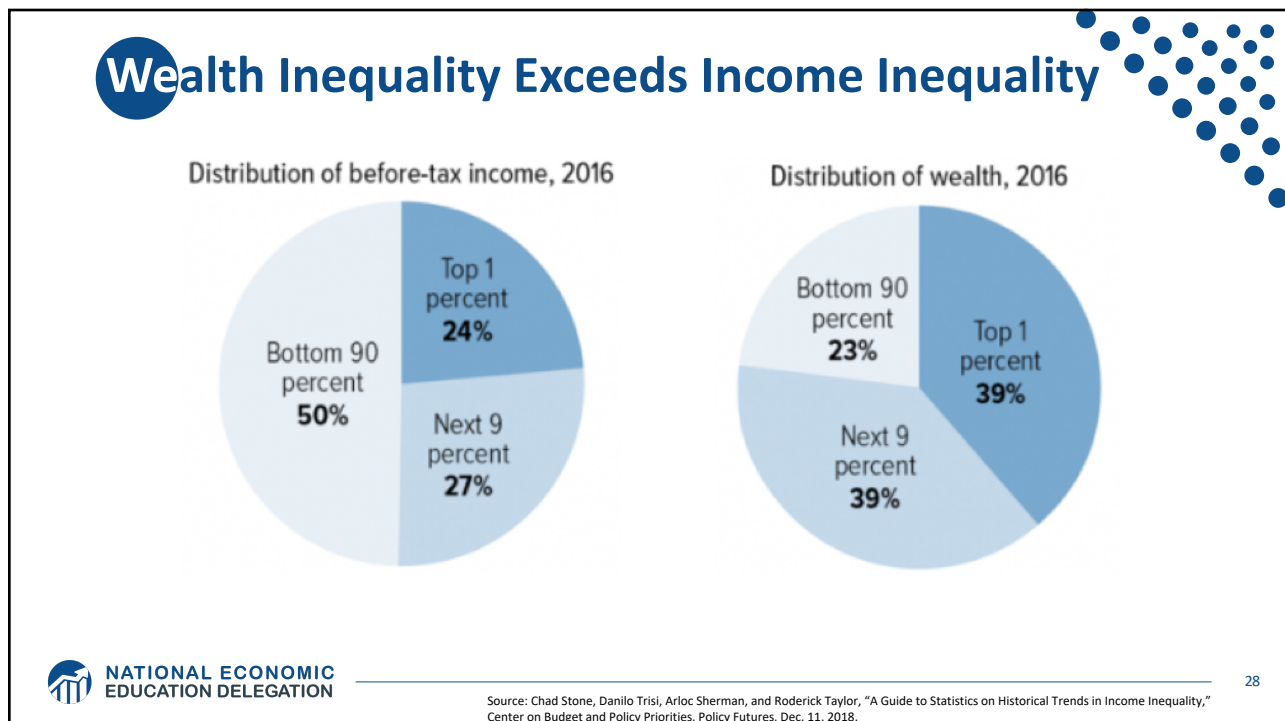
Share of total wealth held by the wealthiest families, 1913-2012



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## Where Does Income Inequality Come From?

### • Labor Characteristics

- Demographics
  - 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



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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, union regulations, etc.

### • RE-distribution

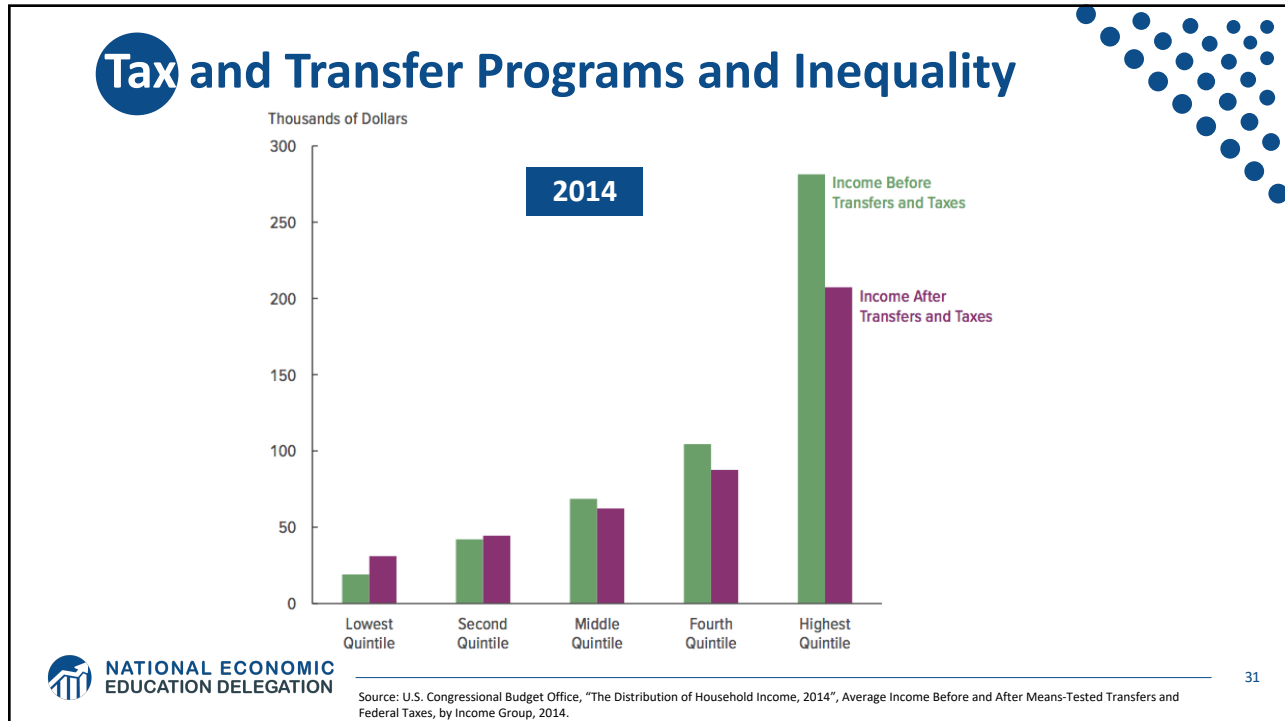
- Tax Rates
- Income support
  - o Direct aid
  - o Food stamps



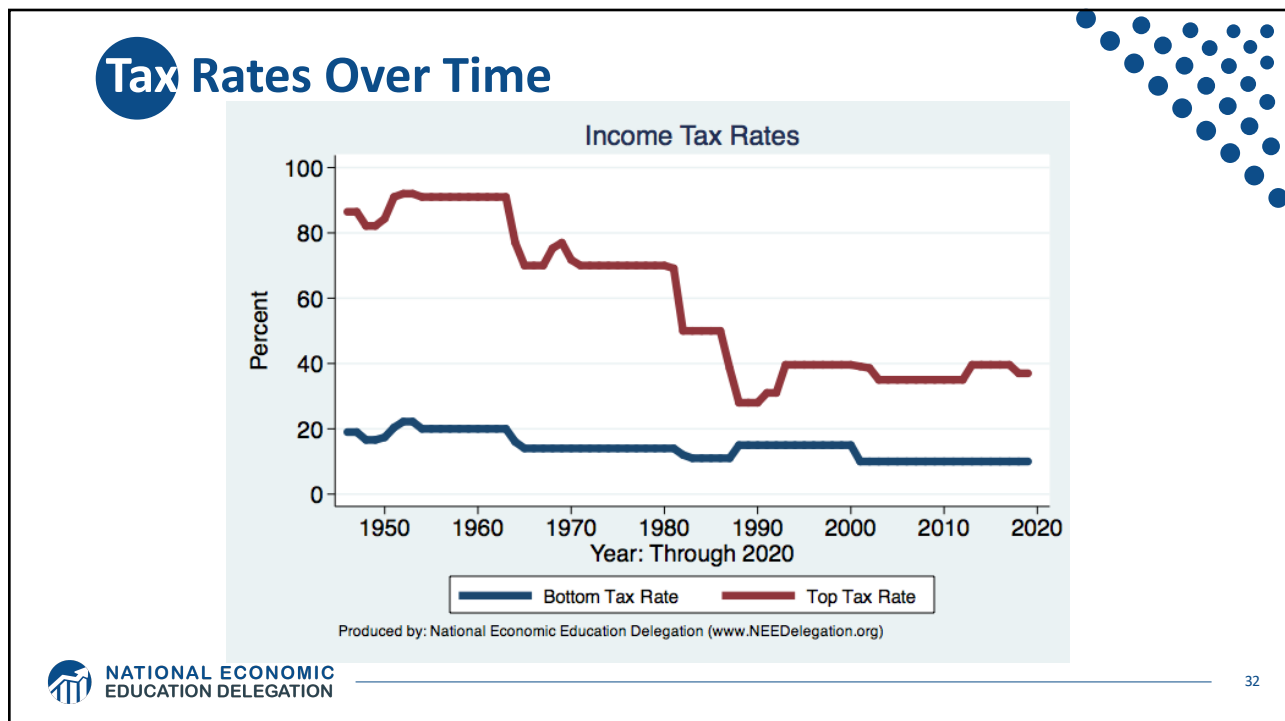
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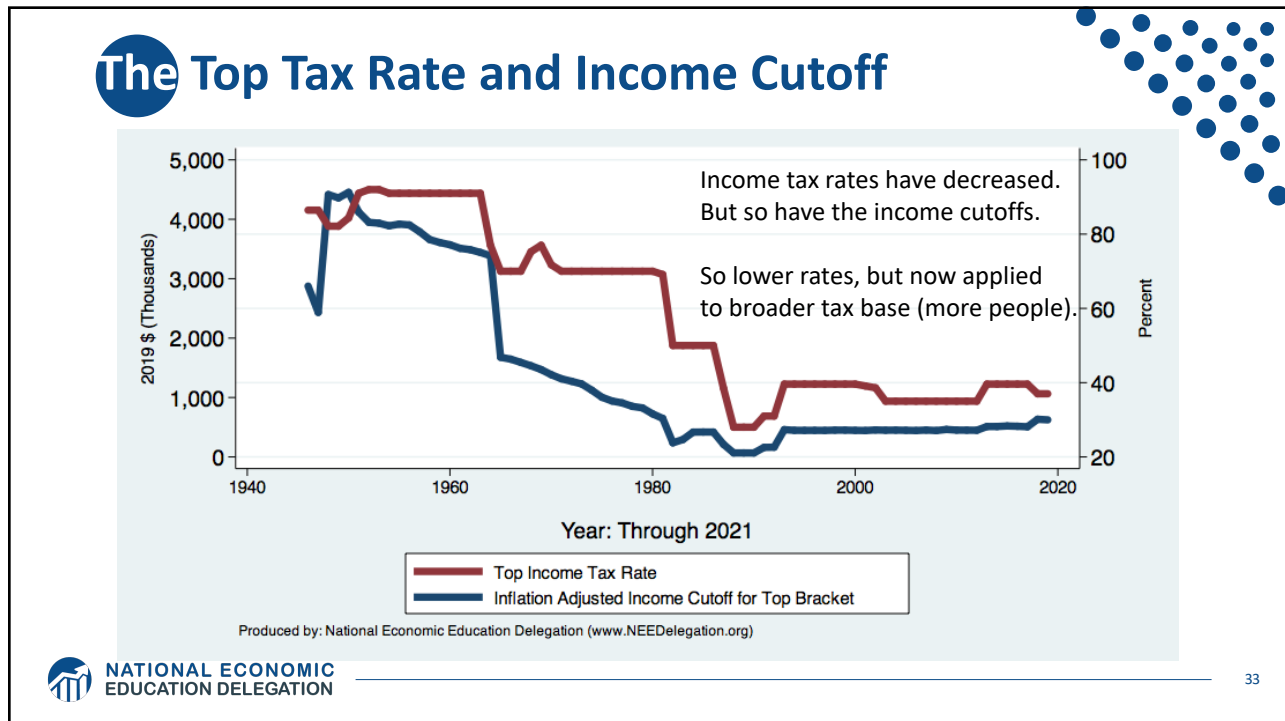


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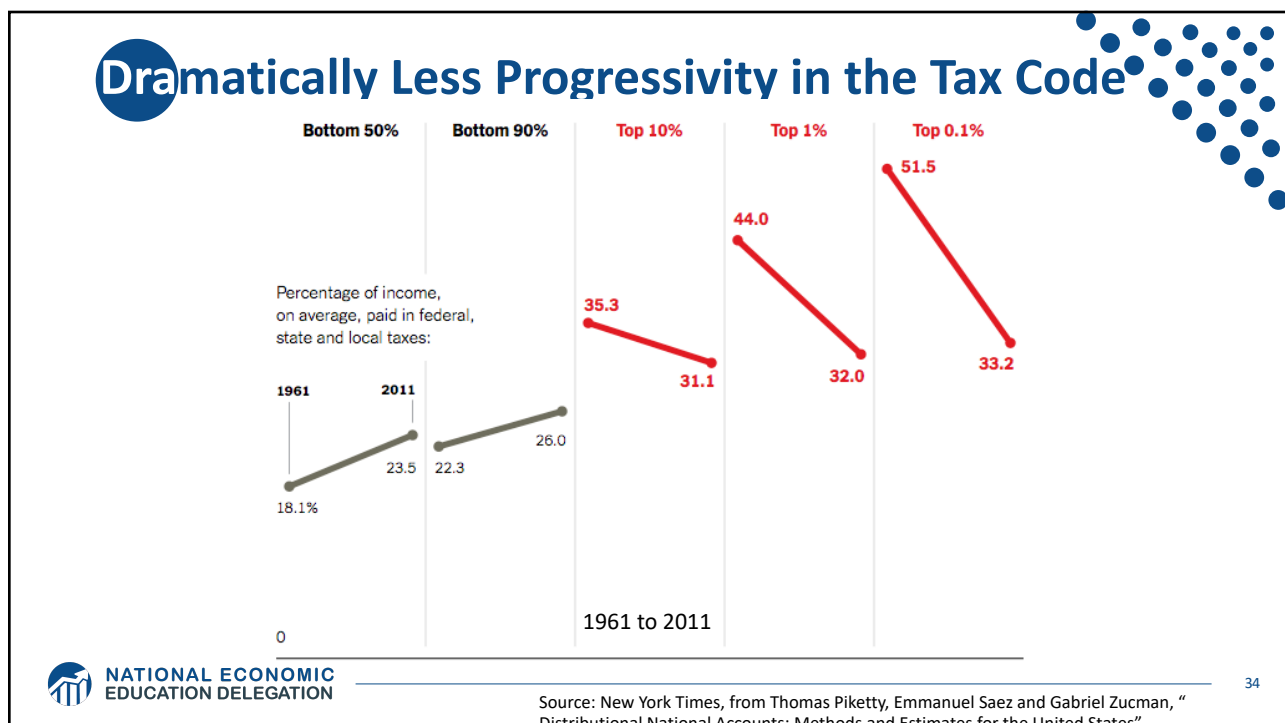


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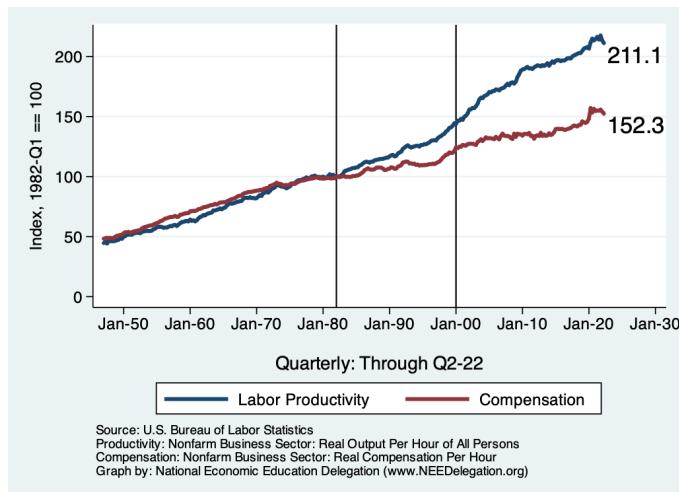
## Market Forces and Inequality

- **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

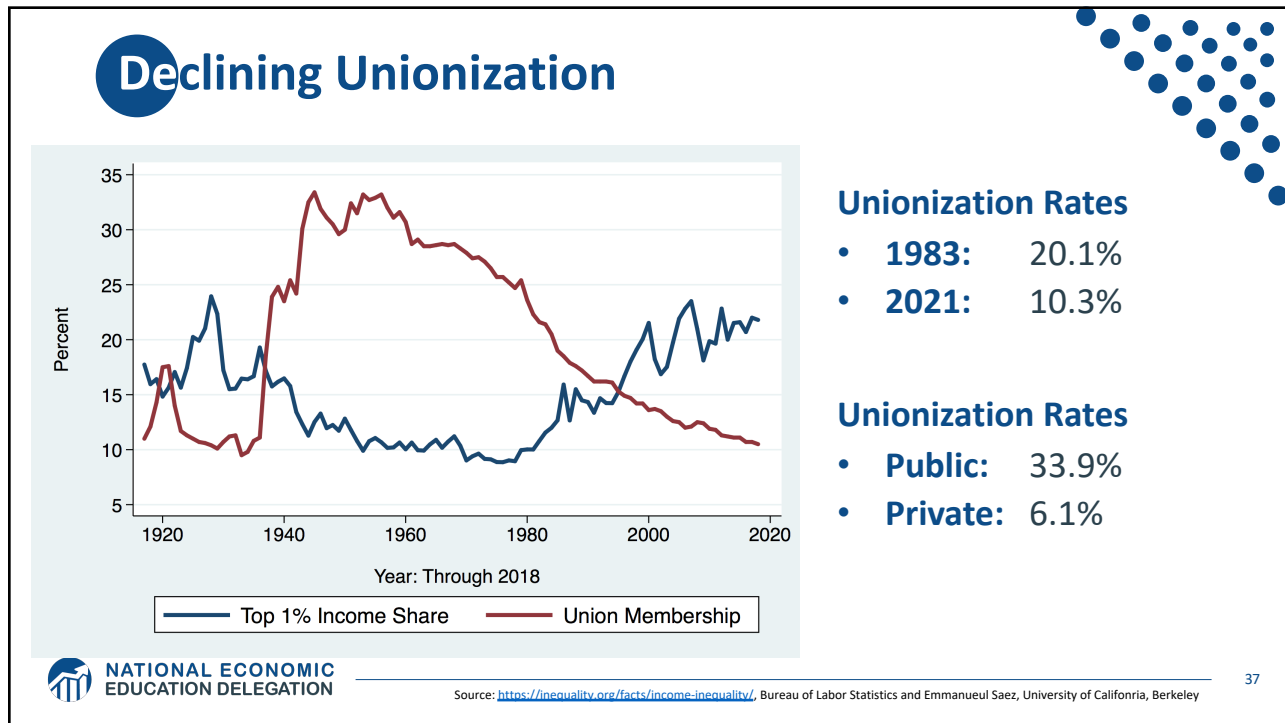


### Why? Some theories:

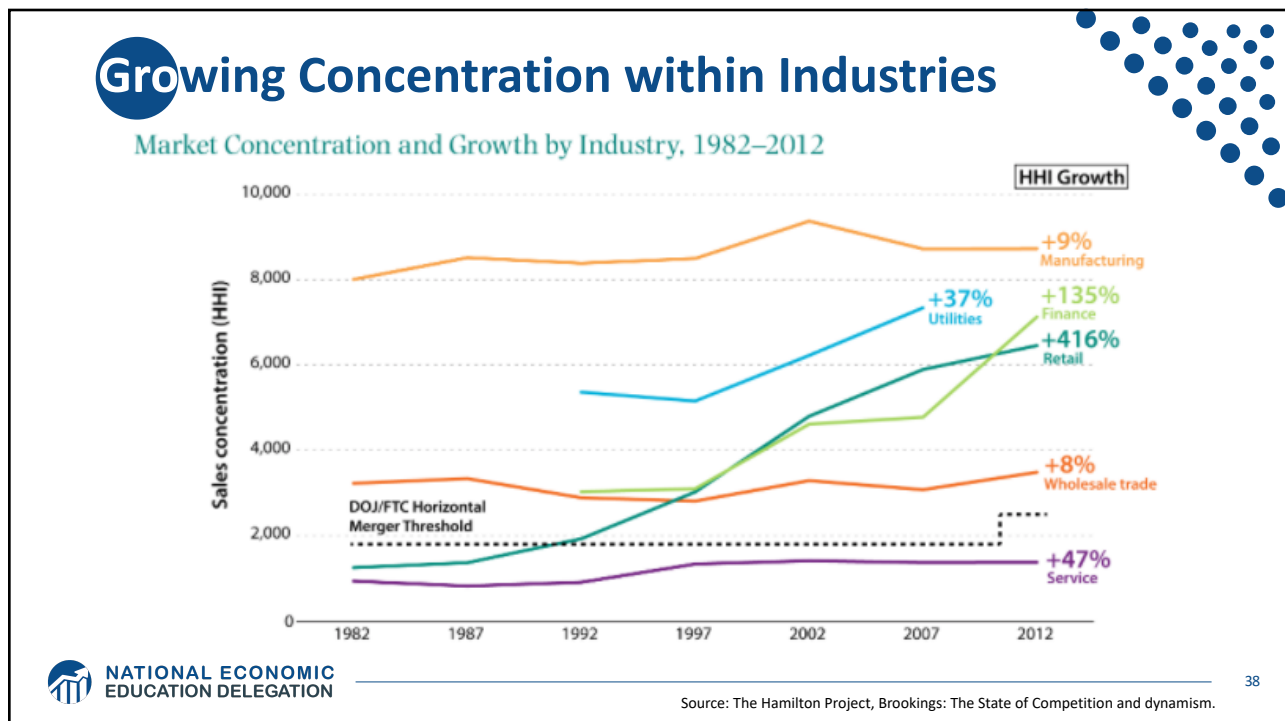
- Declining unionization
- Competition policy
- More “superstar” firms/workers
- Immigration
- Technological change
- Globalization



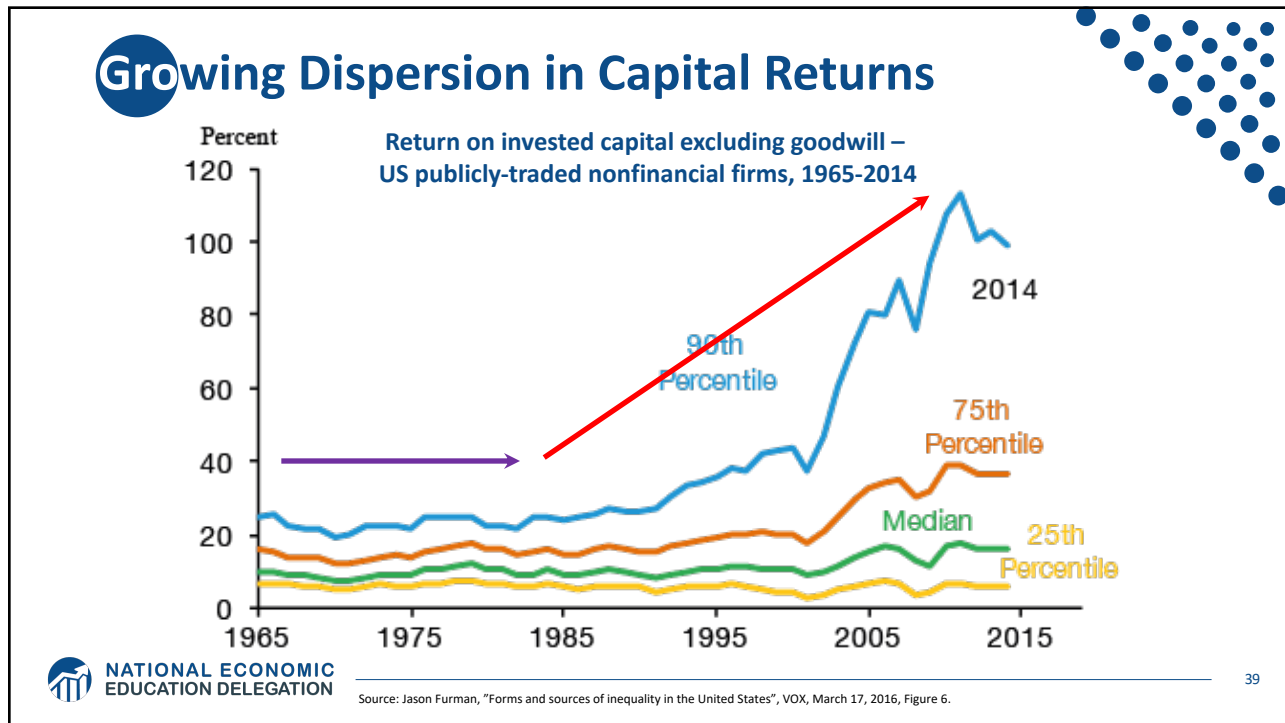
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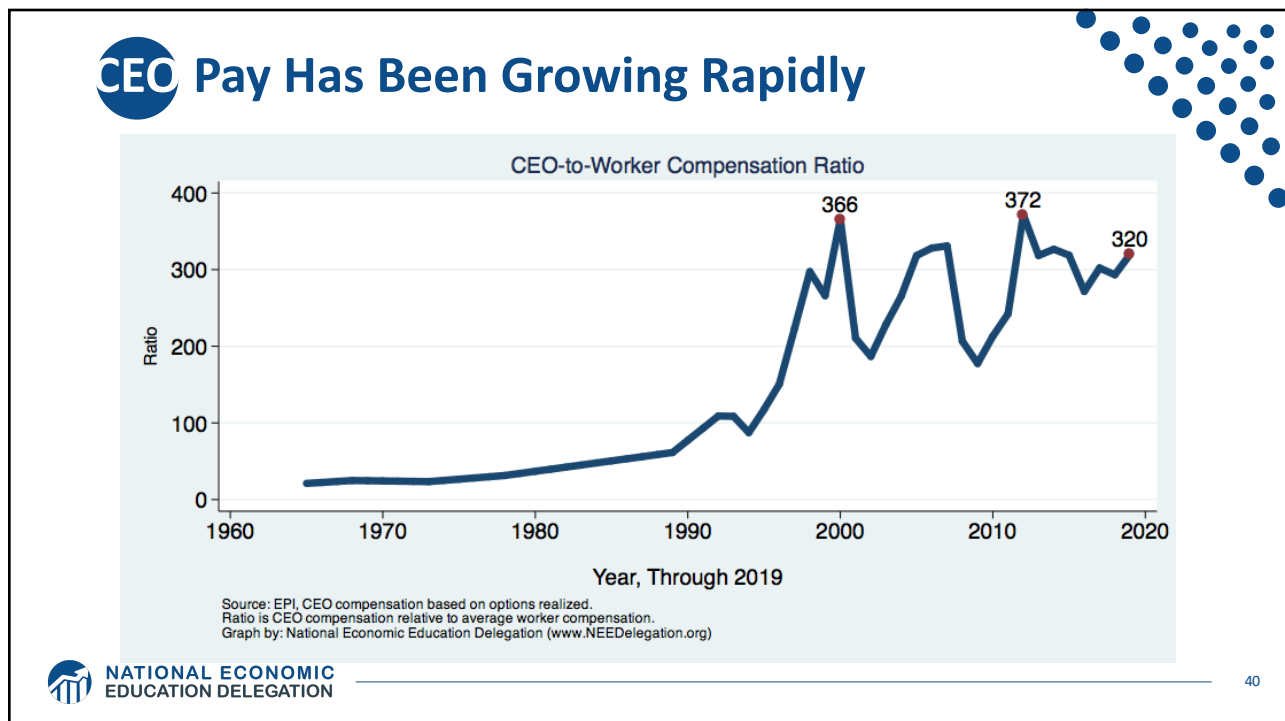
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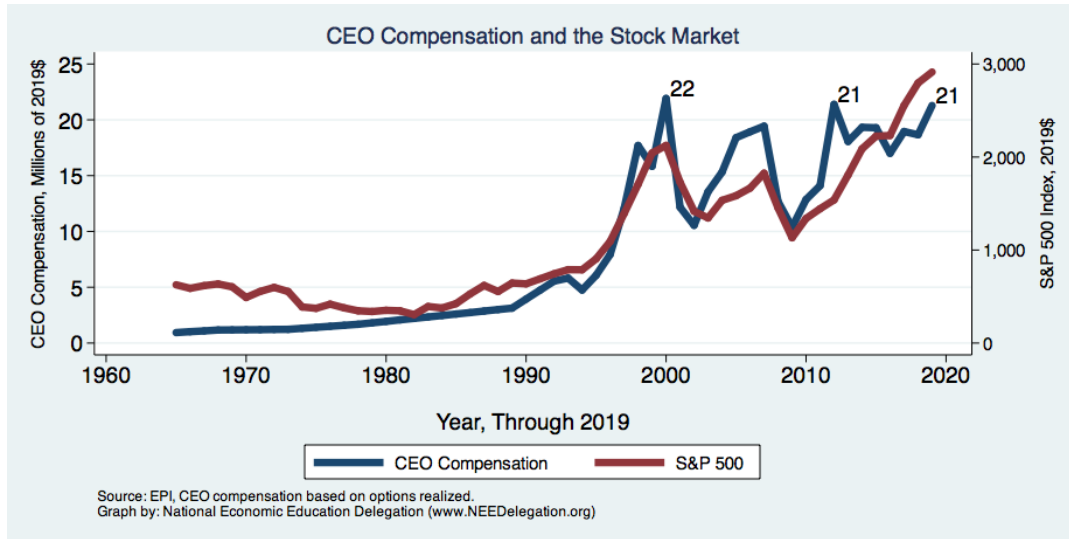


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## CEO Compensation – Tied to Stock Prices



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## Immigration and Inequality

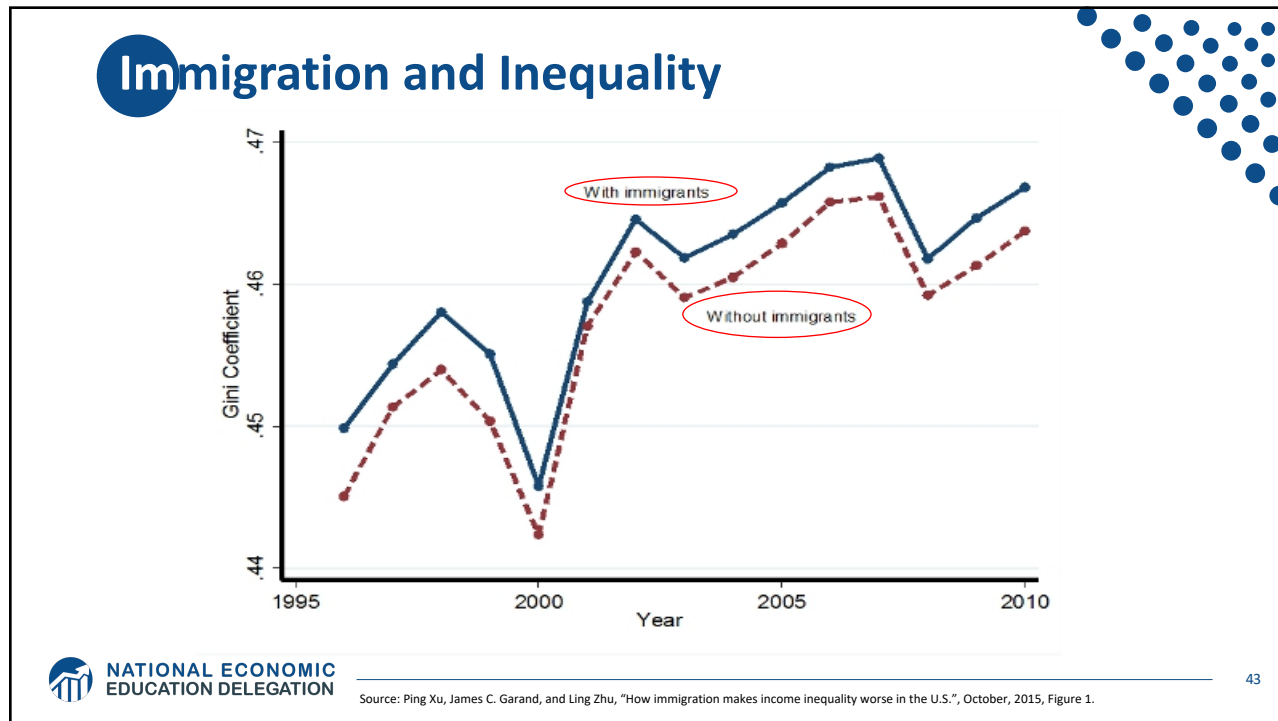
- **Beginning in about 1970, the immigrant share of the U.S. population increased dramatically.**
  - 5% in 1970 and 14% in 2016
- **Immigration tends to happen most often among:**
  - Low-skilled low-wage workers
  - High-skilled high-wage workers
- **Immigration has likely increased income inequality.**
- **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 eliminate 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.



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## 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



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## Why Does Inequality Matter?

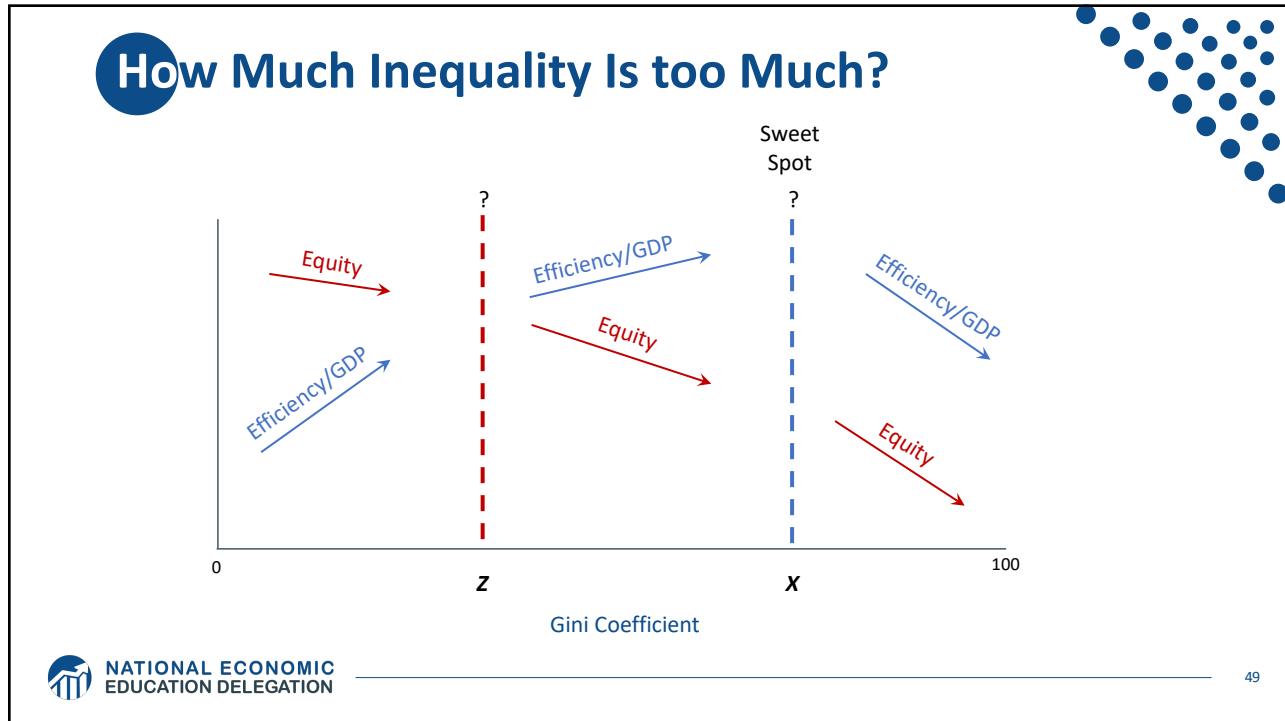
- **Too little inequality can:**
    - Reduce individual motivation
    - Slow economic growth
  - **Too much inequality can:**
    - Reduce individual motivation
    - Slow economic growth
- 
- **Too much inequality may also:**
    - Divide society
    - Distort political environment
    - Reduce political participation
    - Affect public goods spending and distribution
      - Education
      - Environmental protections



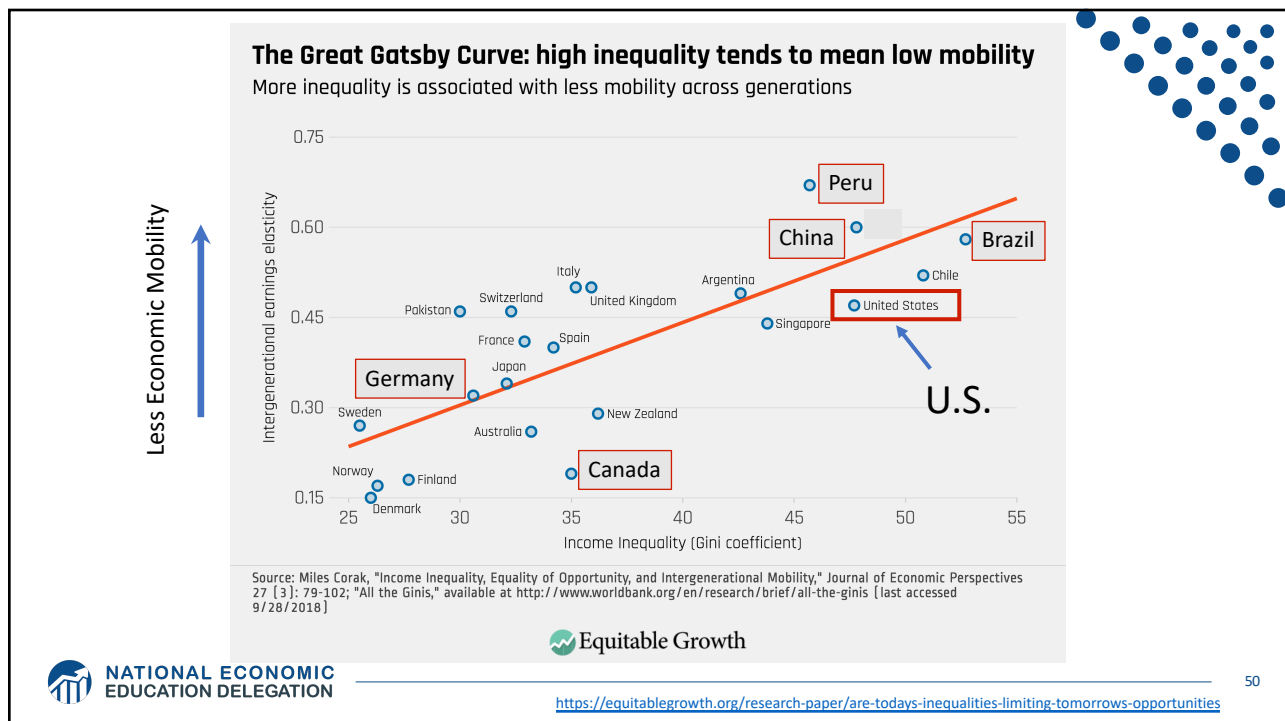
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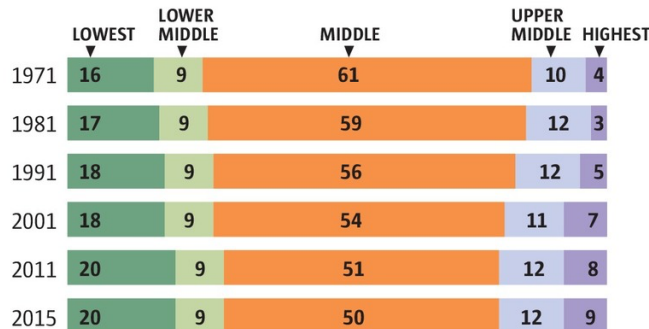
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# Inequality Can Also Directly Affect GDP

## 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.

## Too Much Inequality Can:

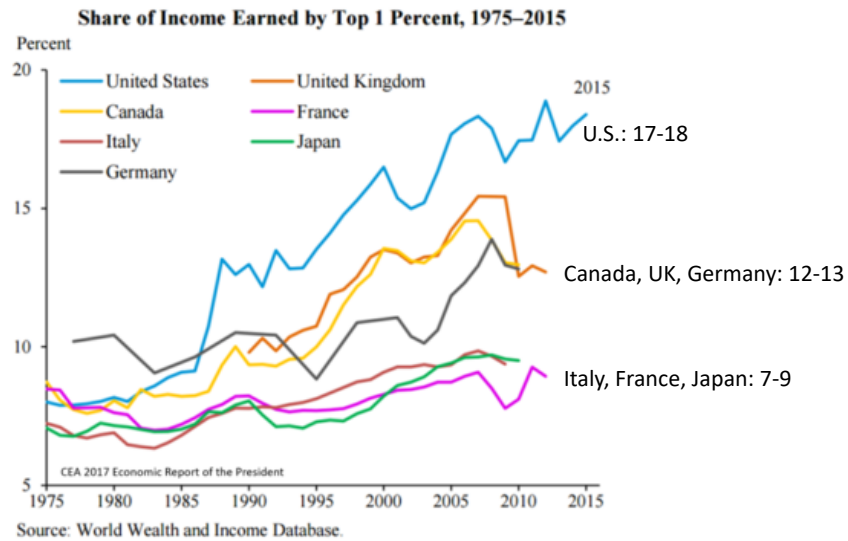
- **Reduce work effort, which reduces GDP.**
- **Reduce purchasing power of the middle class, which reduces GDP.**
- **Reduce the ability of people to get ahead, which reduces mobility.**
  - Puts the American Dream at risk.
- **Increase the share of the population living on low incomes.**
  - Desire 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*)
  - Inequality can misallocate resources and slow economic growth
  - Or: inequality can concentrate resources with the most capable investors
- Noneconomic issues (*Equity*)
  - Values, ethics and morals will drive individual evaluations of inequality
  - 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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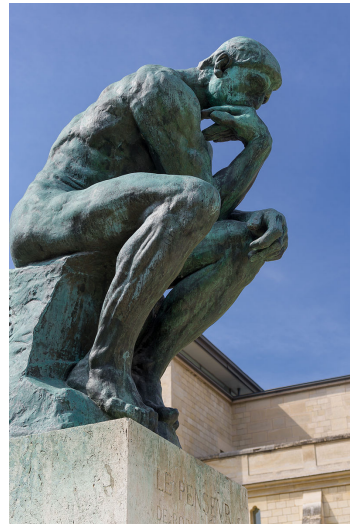
## Tension in Policy Solutions

- **Is it possible to both increase growth and reduce income inequality?**
- **Possibly: equality of access promotes 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.



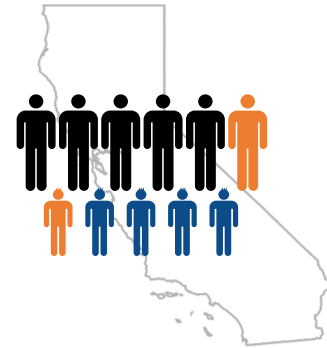
## What to do About Inequality?

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



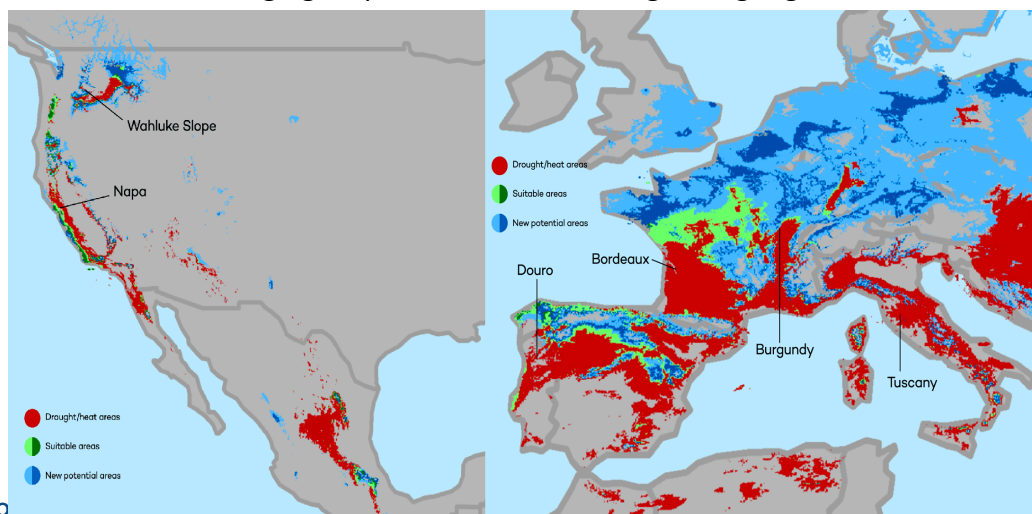
## Summary

- **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.**



## Climate Change: Sarah Jacobson

The changing map of the world's wine-growing regions.



**Thank you!**

## Any Questions?

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## Extra Slides

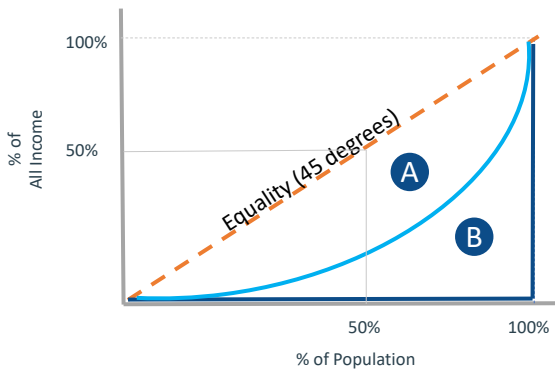


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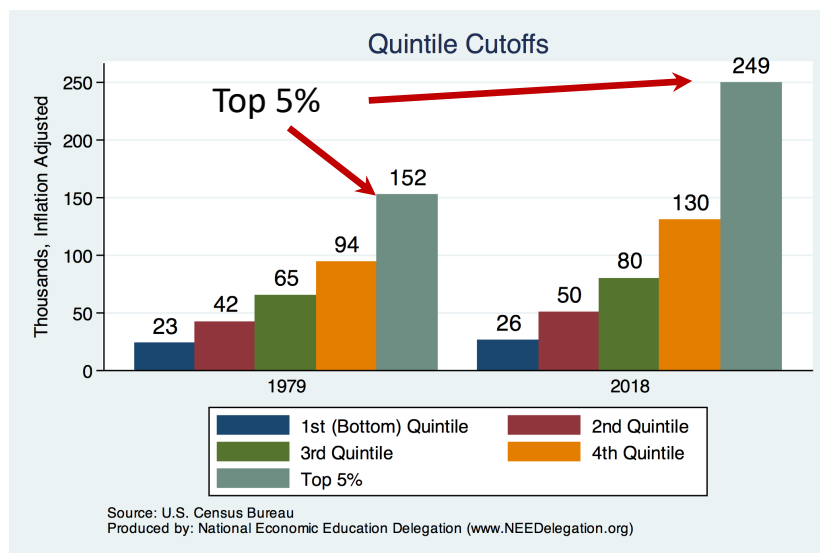
# Calculating the Gini Coefficient



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

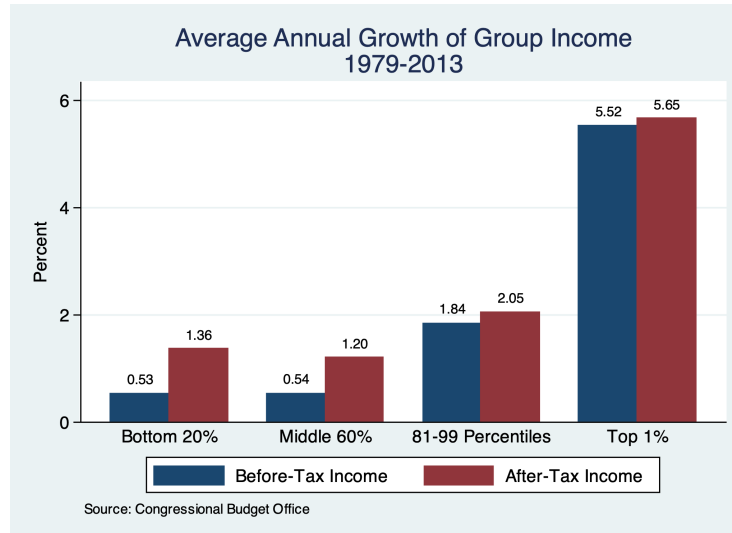
Bigger A: More inequality  
Smaller A: Less inequality

# Quintile Income Cutoffs





## Growth Has Been Primarily at the Very Top

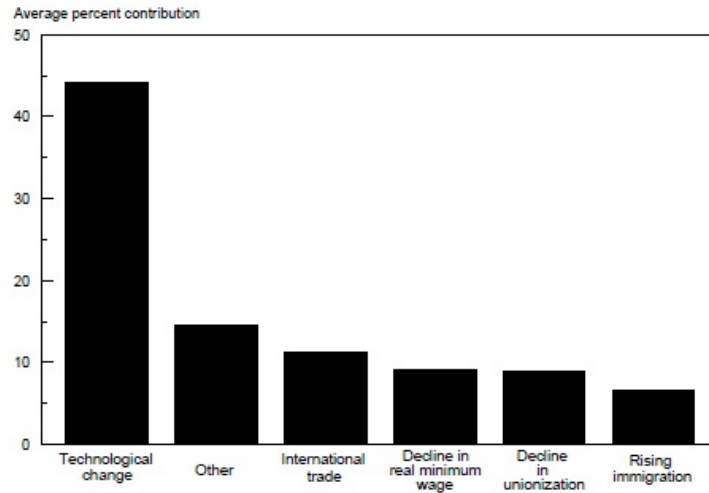


## A Modern Example: Uber & Lyft

- **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



## Sources of Inequality Through Late 1990s



Source: Federal Reserve Bank of New York.

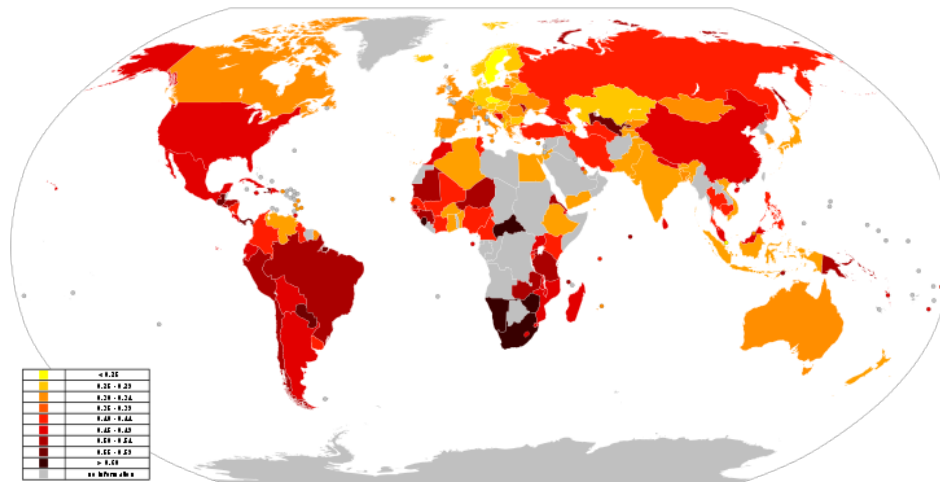


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## An International Perspective

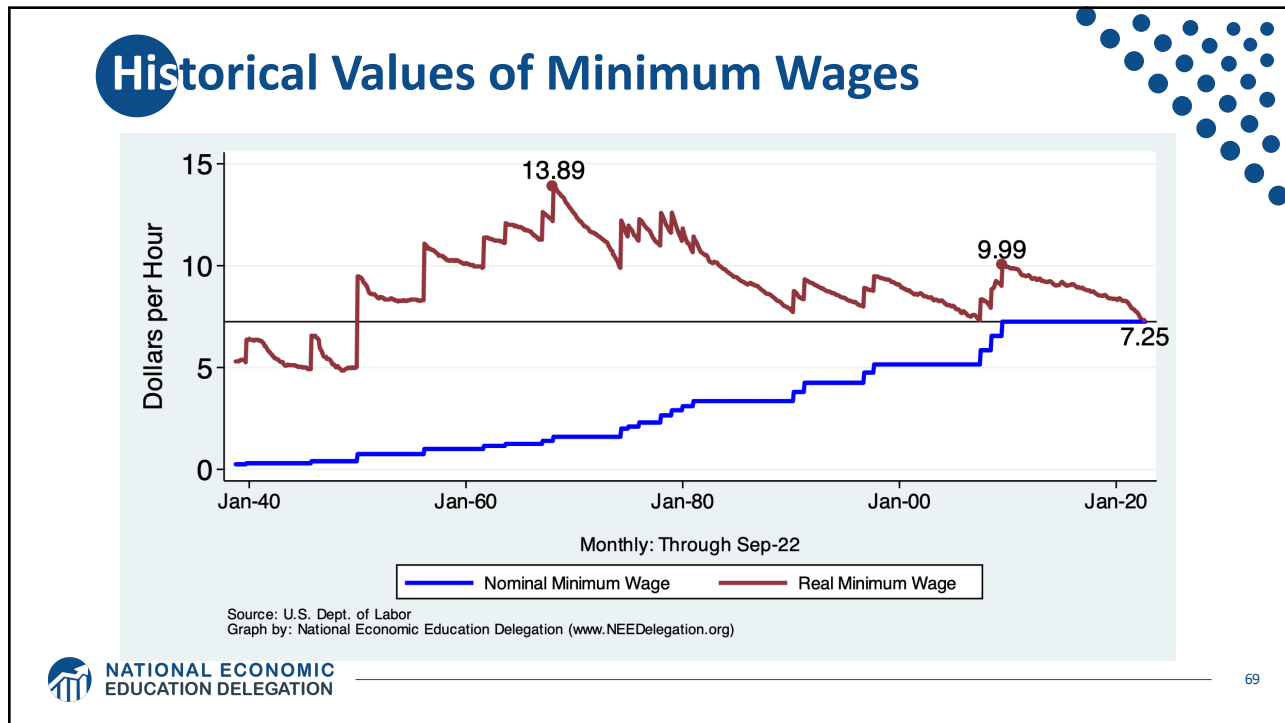


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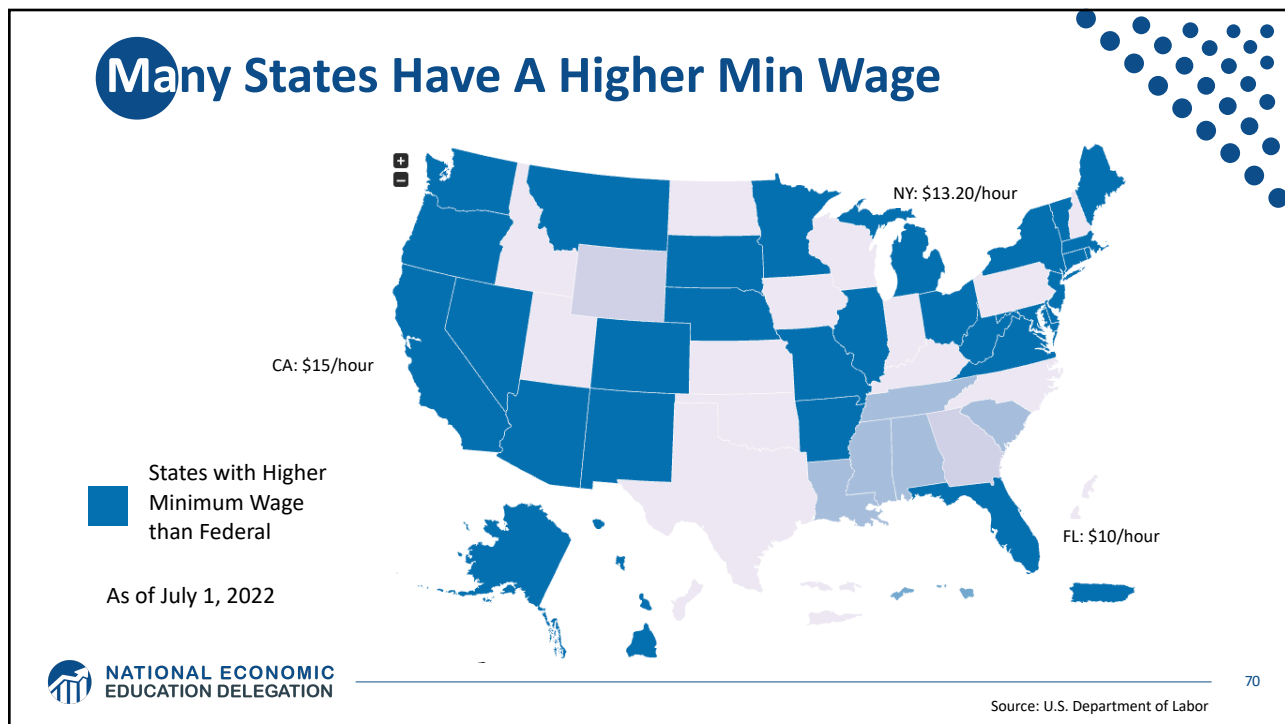
Source: Data taken from the 2014 CIA World Factbook.

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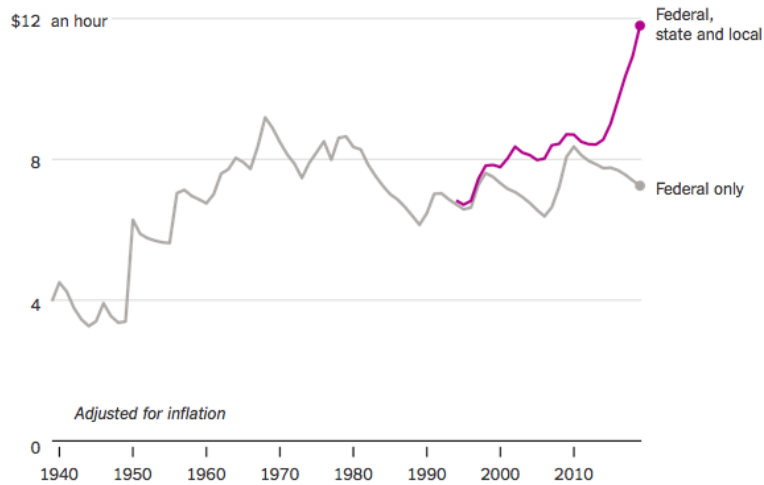
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# States and Local Gov'ts are Raising Min Wages

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



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