



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

University of New Mexico
November, 2022

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 (11/1): US Economic Update (Jon Haveman, NEED)
- **Week 2 (11/8): Economic Inequality (Adina Ardelean, Santa Clara University)**
- Week 3 (11/15): The Black-White Wealth Gap (Jon Haveman, NEED)
- Week 4 (11/22): Economic Mobility (Kathryn Wilson, Kent State University)

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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.**
 - We can also do 5 minutes of verbal Q&A following the break.
- **Slides will be available from the NEED website soon.**
(https://needelegation.org/delivered_presentations.php)

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Economic Inequality


Adina Ardelean, Ph.D.
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OLLI, University of New Mexico
November 7, 2022

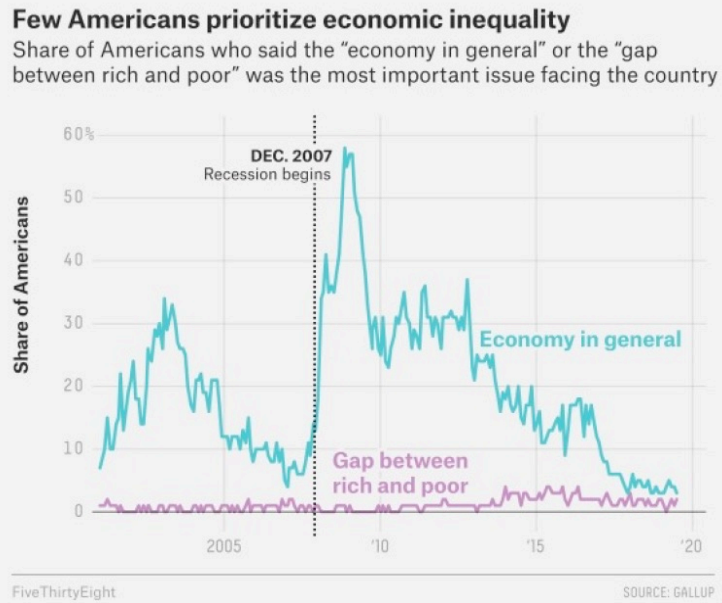
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Credits and Disclaimer

- **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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 - 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)

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Outline

- Definition
- What happened?
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Income Inequality

- **Definition:**

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

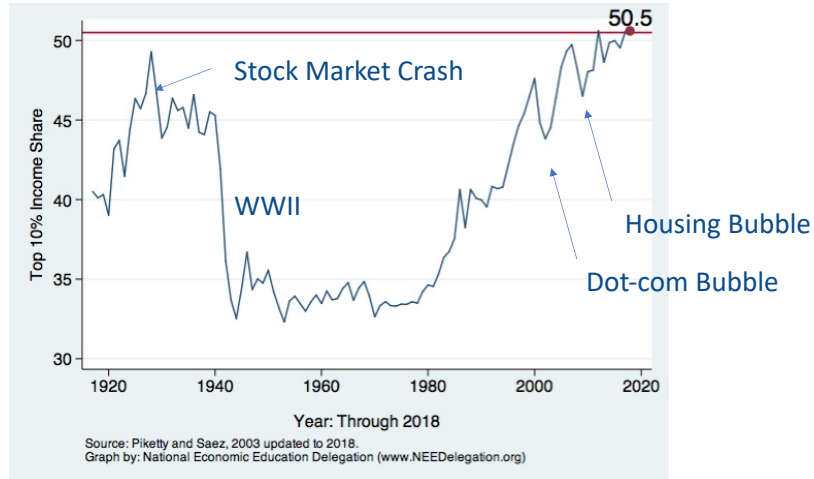


Different Ways of Thinking About Inequality

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



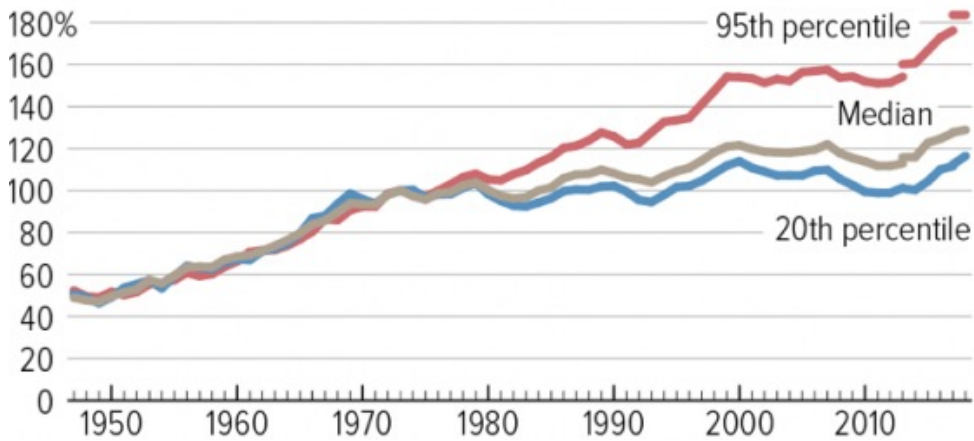
National Income Inequality: Share of Top 10%



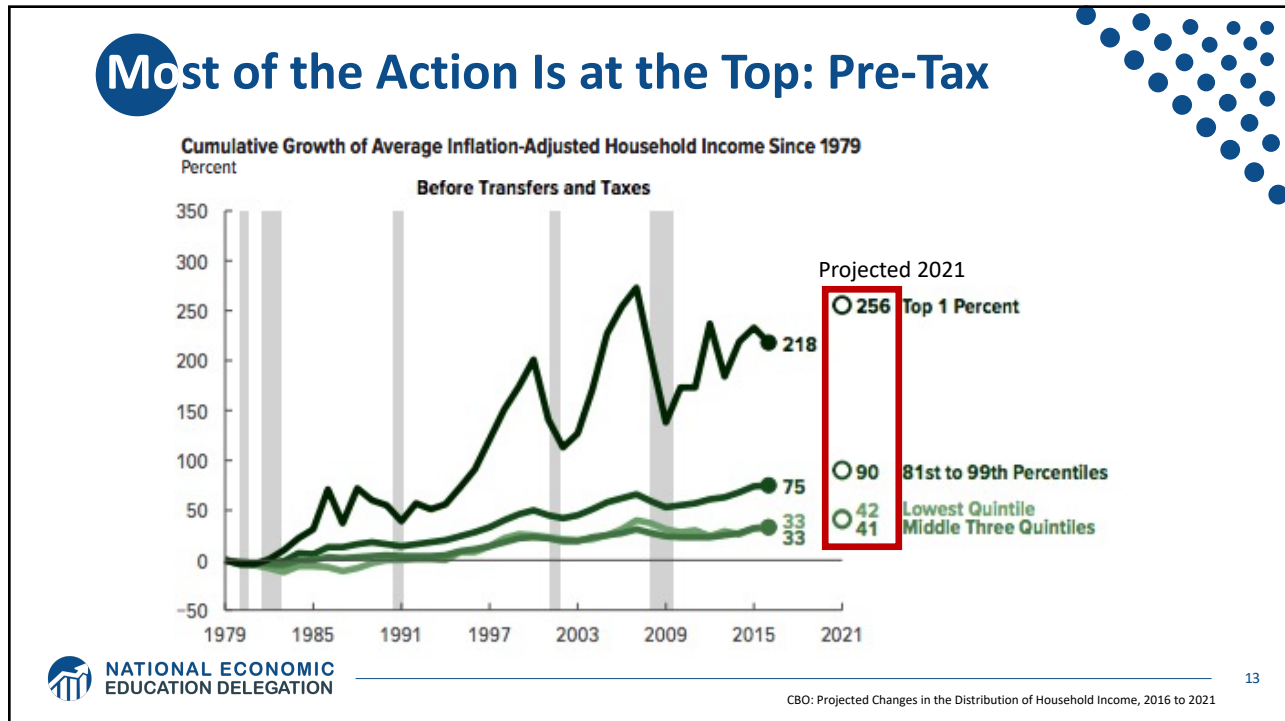
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The Abrupt Increase in Inequality

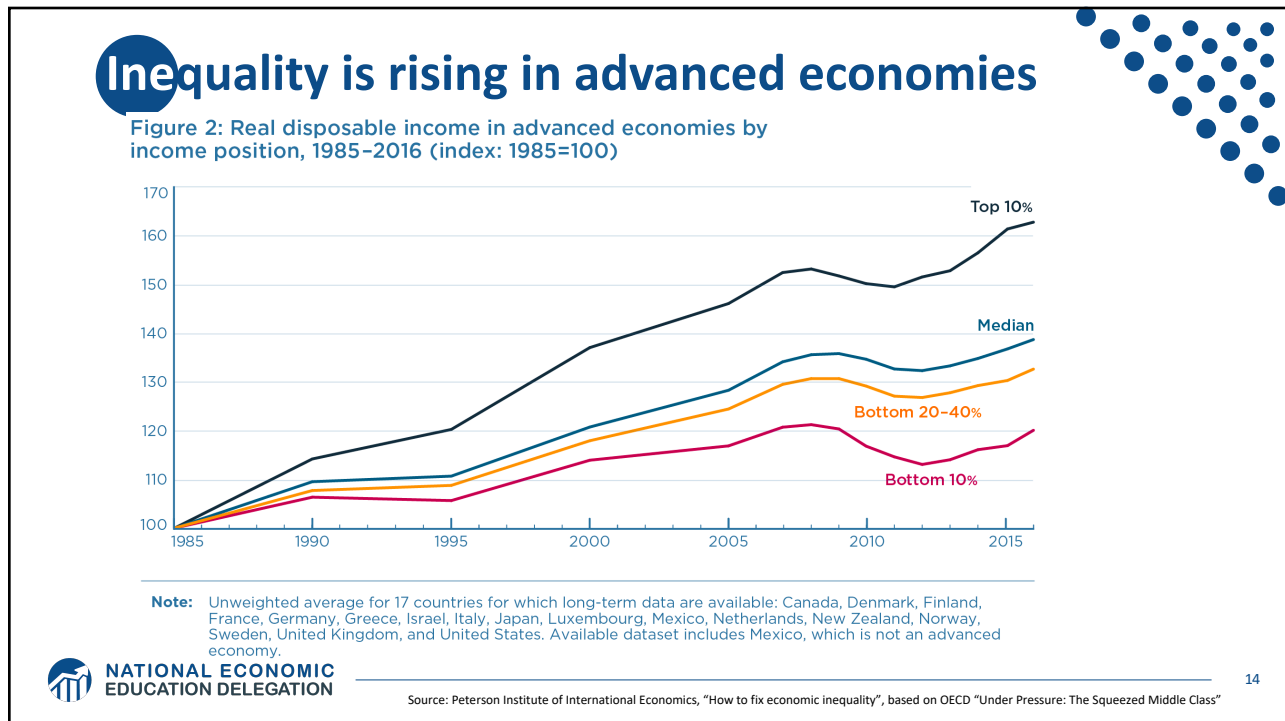
Real family income between 1947 and 2018, as a percentage of 1973 level



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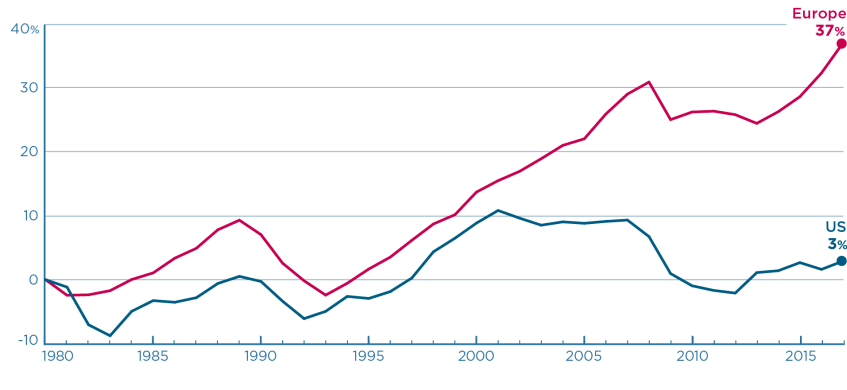
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The bottom half of workers: the U.S. vs. Europe

Figure 3: Average pretax income growth of bottom 50 percent of population relative to 1980



Note: Data for Europe refer to 38 European nations.

Sources: Chancel (2019) based on Blanchet, Chancel, and Gethin (2019); Piketty, Saez, and Zucman (2018).



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Source: Peterson Institute of International Economics, "How to fix economic 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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The Gini Coefficient

$$\text{Gini} = \frac{A}{A + B} \times 100$$

Bigger A: More inequality
Smaller A: Less inequality

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Forming the GINI Curve: 2015

Quintile Shares of Income

| Income Quintile | Share of Income (%) |
|-----------------|---------------------|
| 1 | 3.1 |
| 2 | 8.2 |
| 3 | 14.3 |
| 4 | 23.2 |
| 5 | 51.1 |

CUMULATIVE Quintile Shares of Income

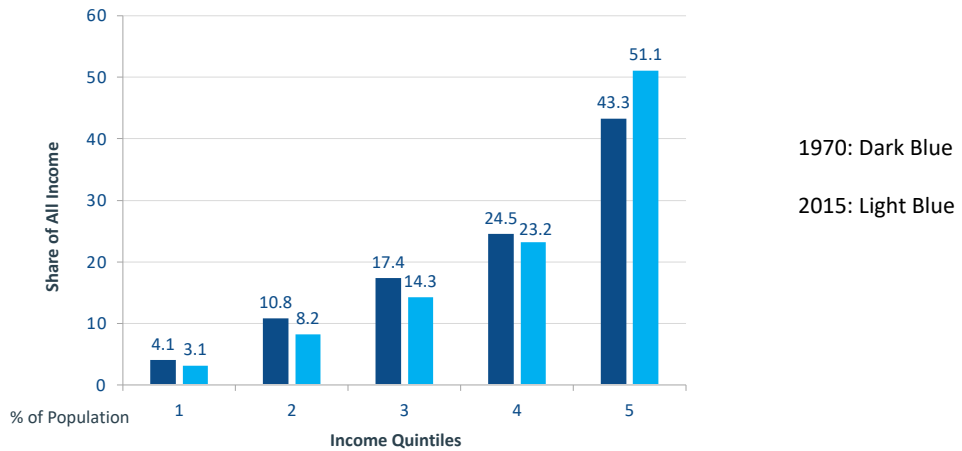
| Income Quintile | Cumulative Share of Income (%) |
|-----------------|--------------------------------|
| 1 | 3.1 |
| 2 | 11.3 |
| 3 | 25.6 |
| 4 | 48.8 |
| 5 | 100.0 |

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

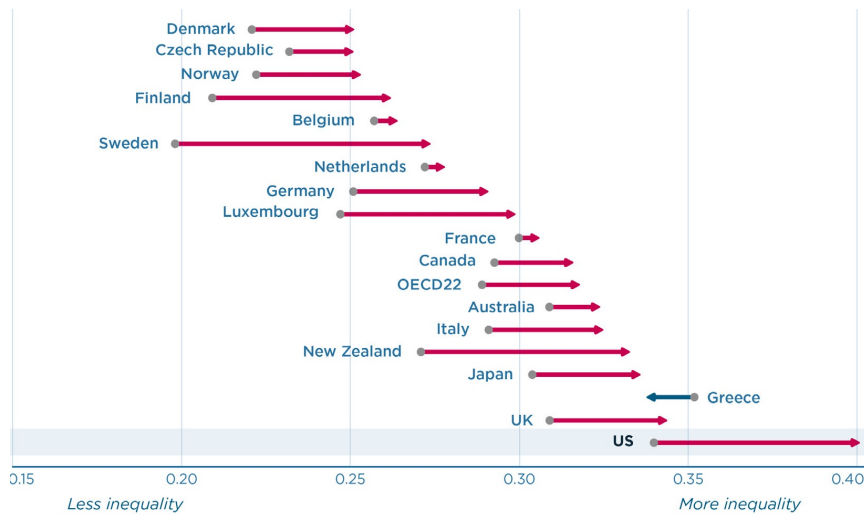
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Income Share Changes Between 1970 and 2015

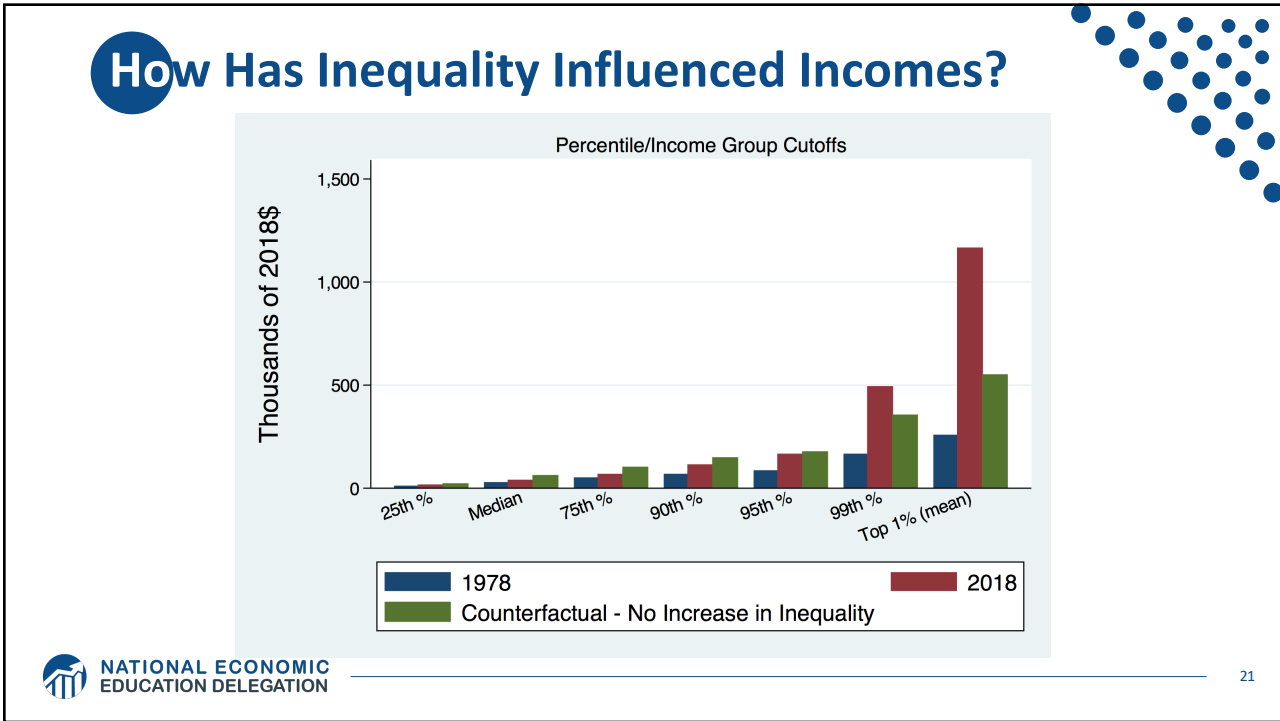


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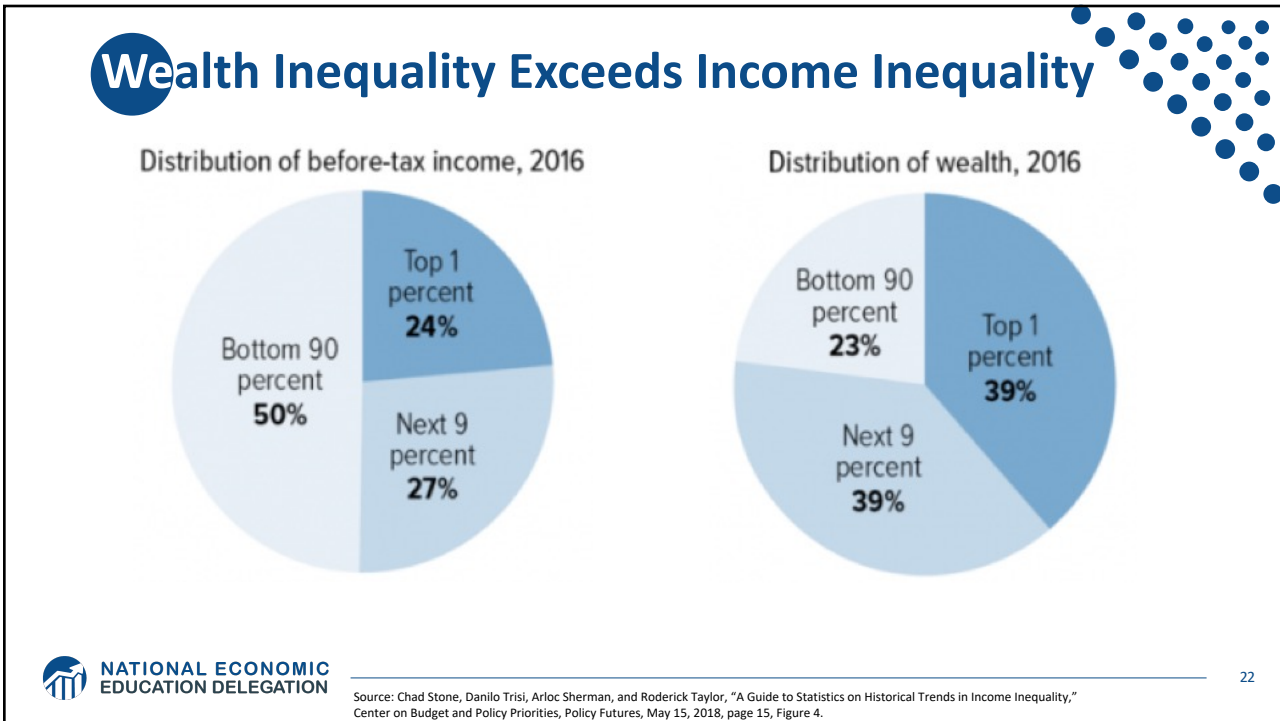
The Gini Coefficient, 1985-2013



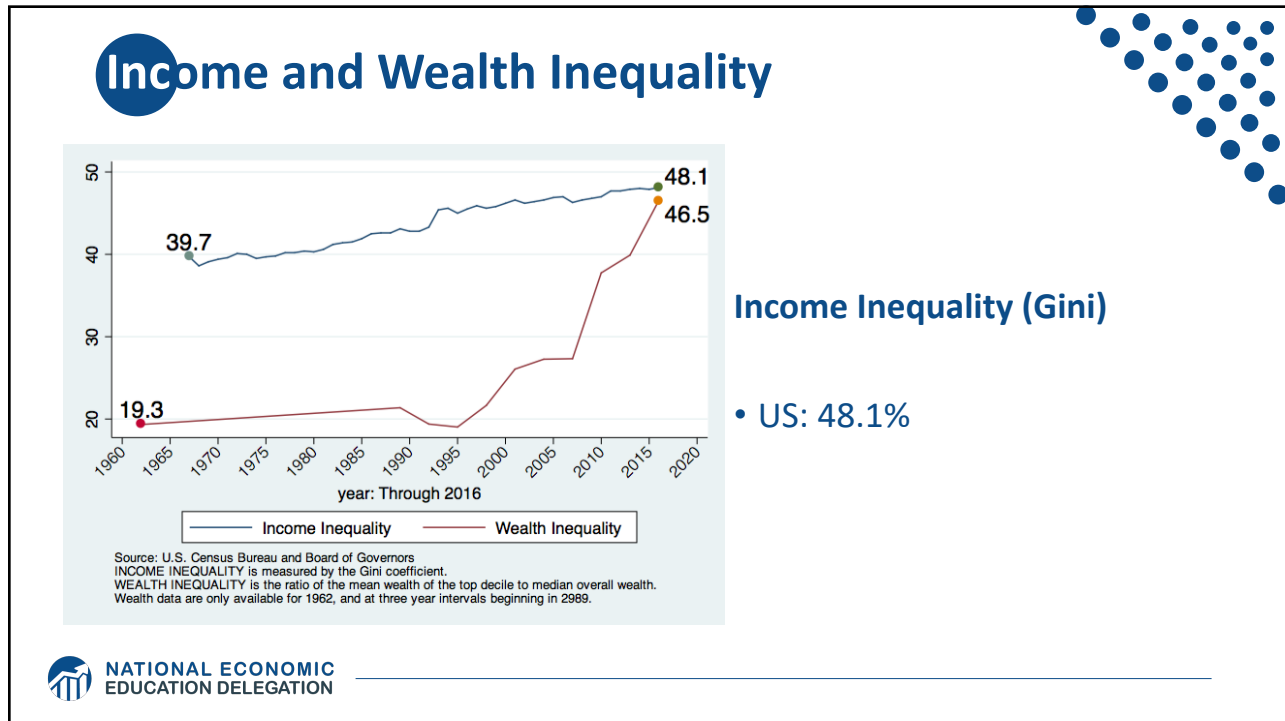
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Where Does Inequality Come From?

- **Labor Characteristics**

- Demographics
 - o Age distribution
- Personal Choices
 - o Educational attainment
 - o Household composition
- Immigration

- **Market Forces**

- Technology
- Globalization
- Competition for labor

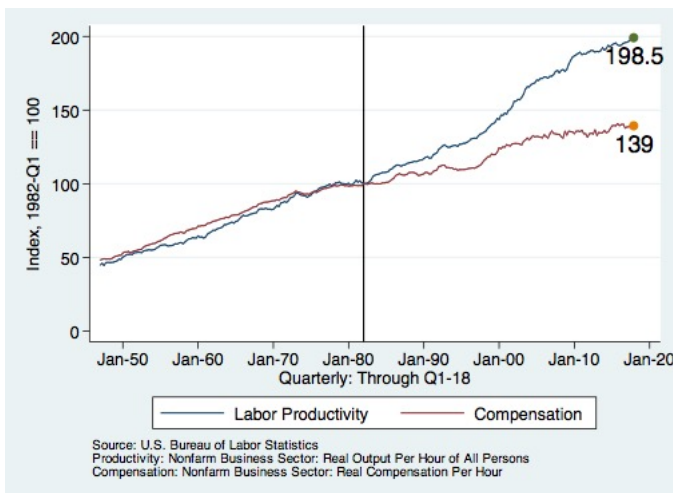
- **Government Policy**

- Market influence
- Redistribution



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Labor Income is Unhinged from Productivity

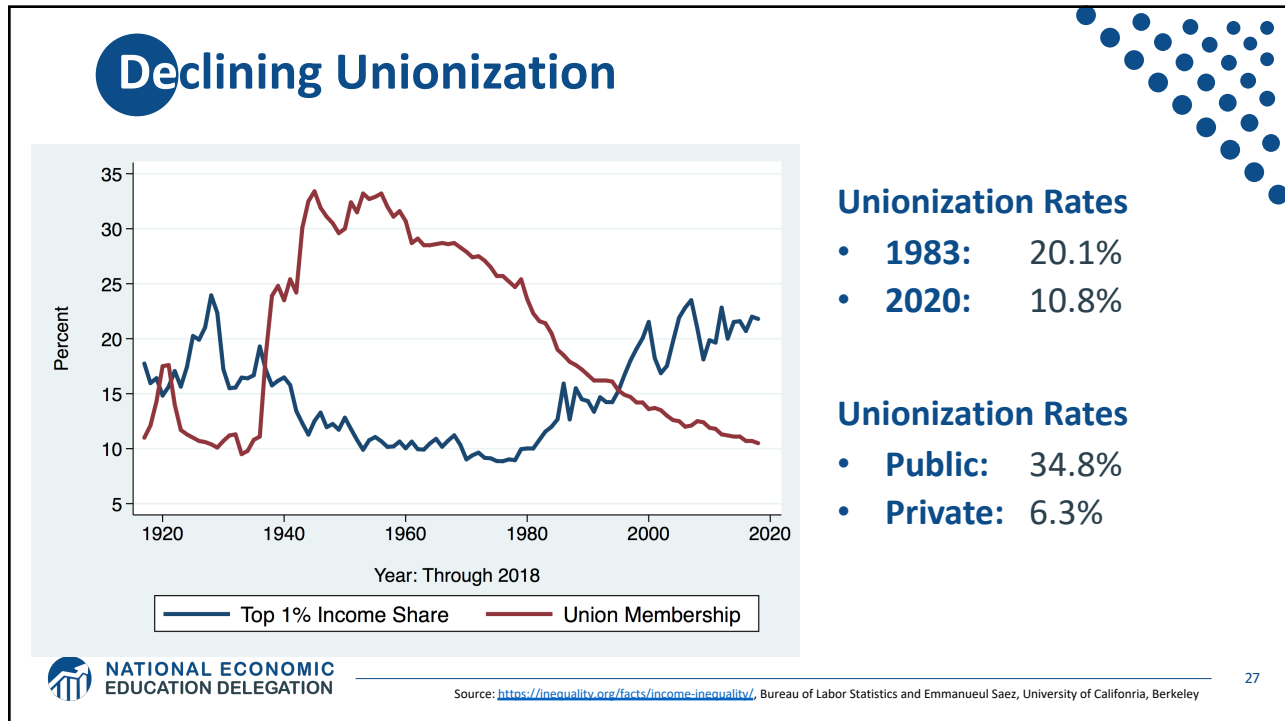


Why?

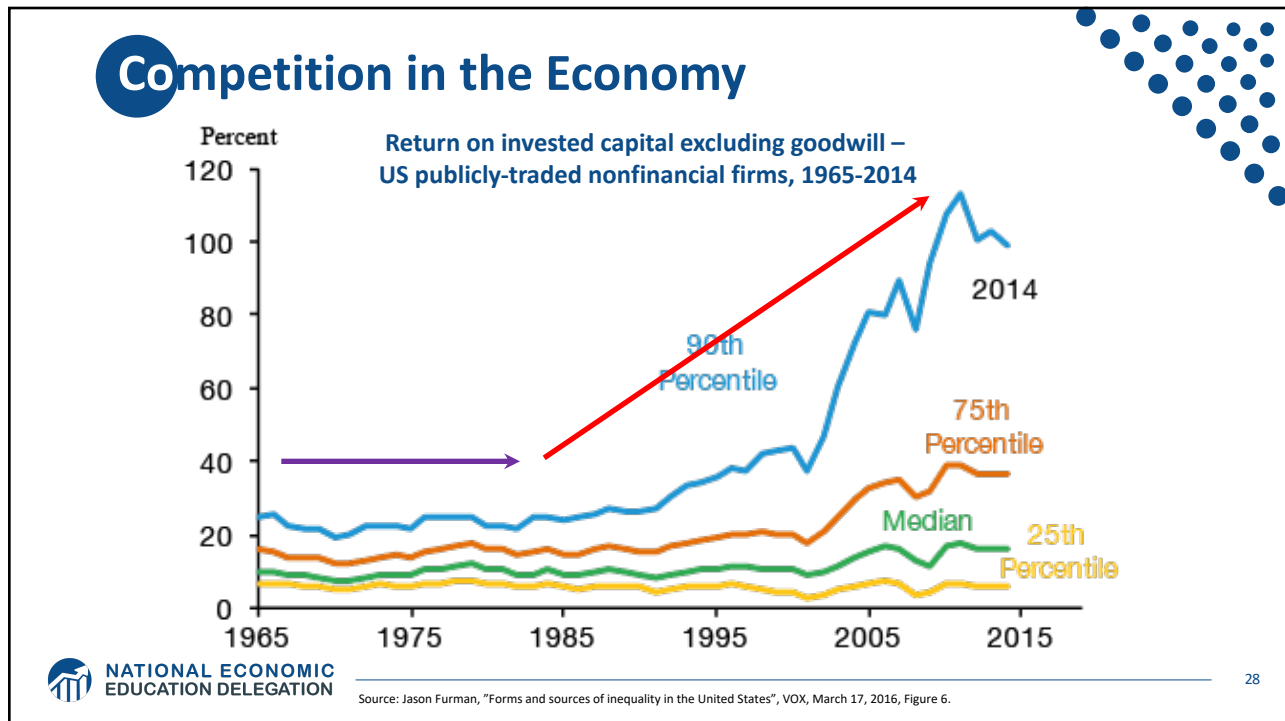
- Declining unionization
- Competition policy
- Immigration
- Globalization
- Cheap technology



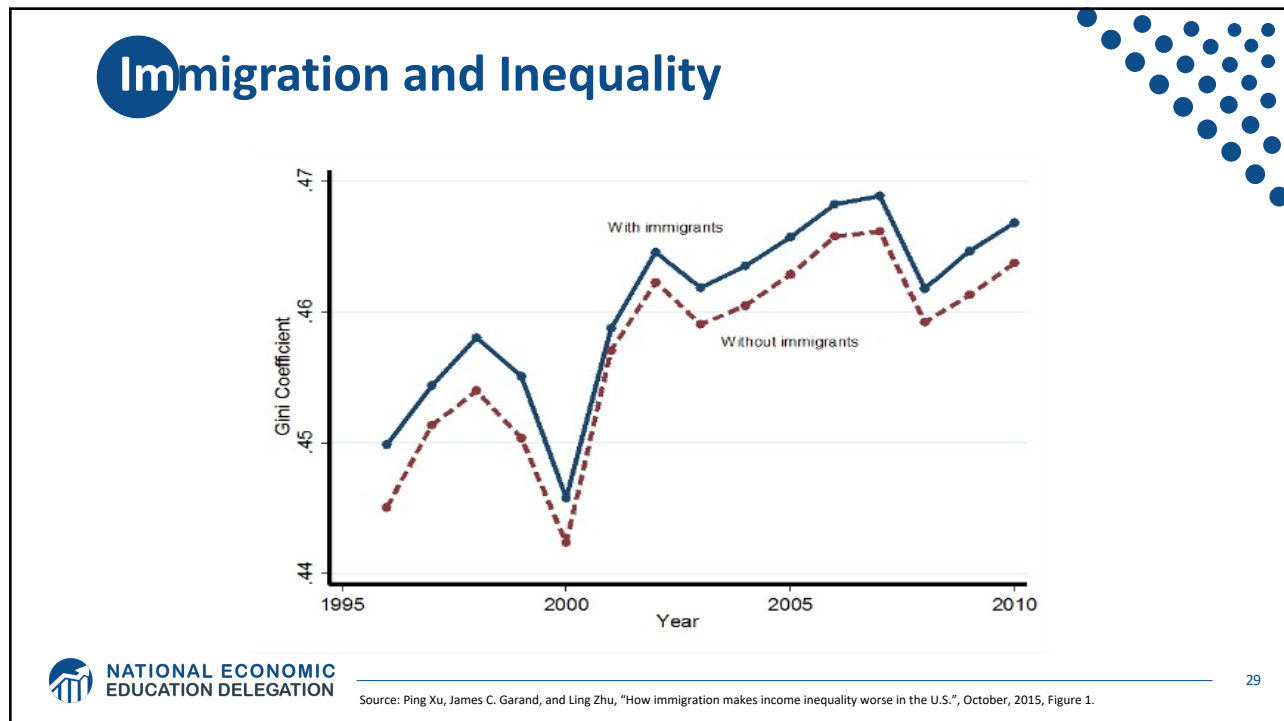
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Globalization

- **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

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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 potentially 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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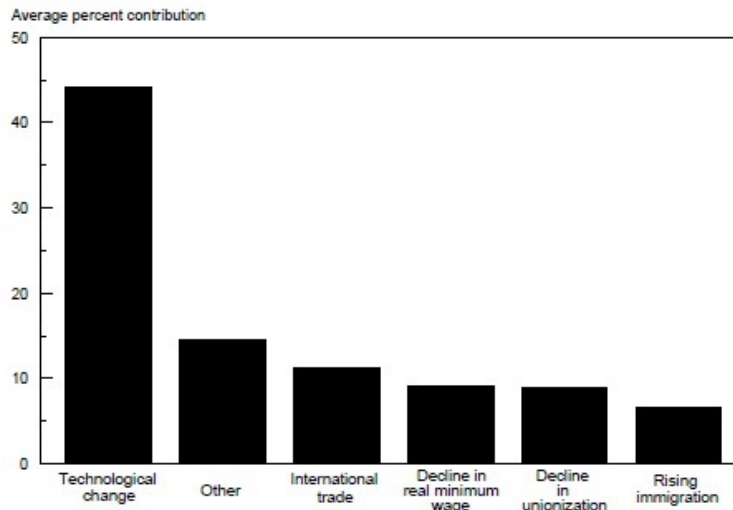
What is driving increasing inequality?

- **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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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, etc.

• RE-distribution

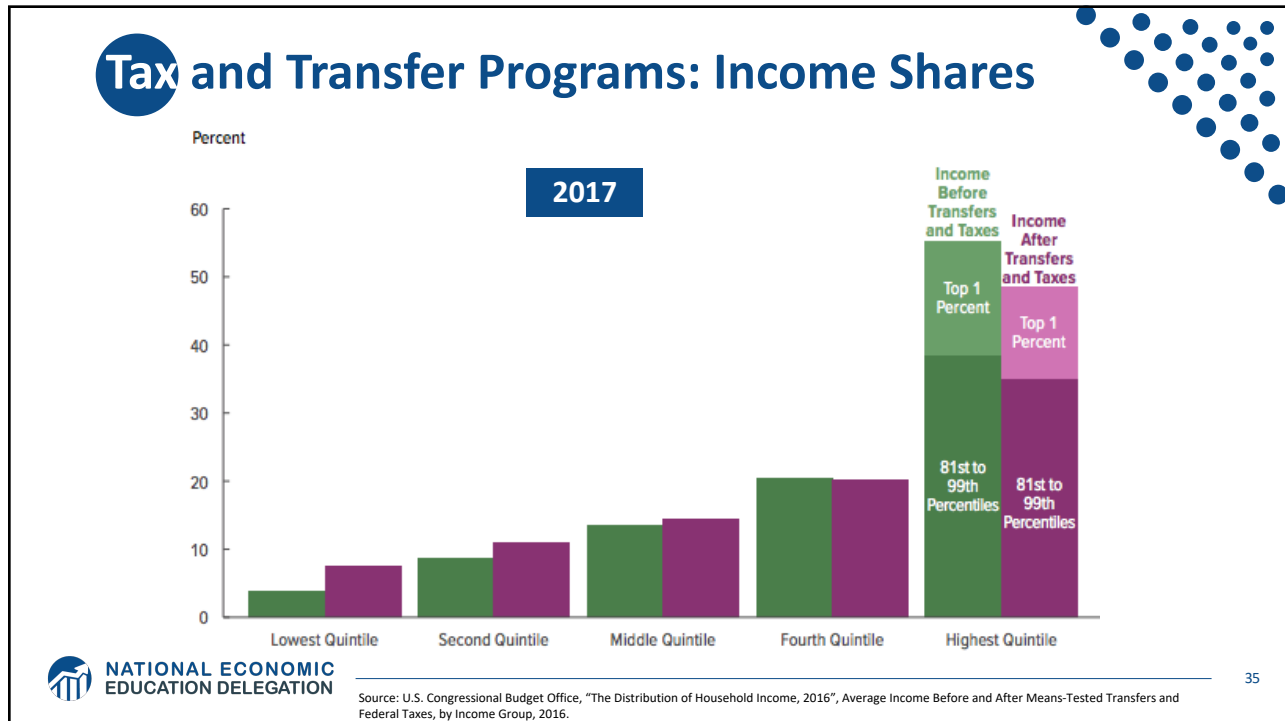
- Tax Rates
- Income support
 - Direct aid
 - Food stamps



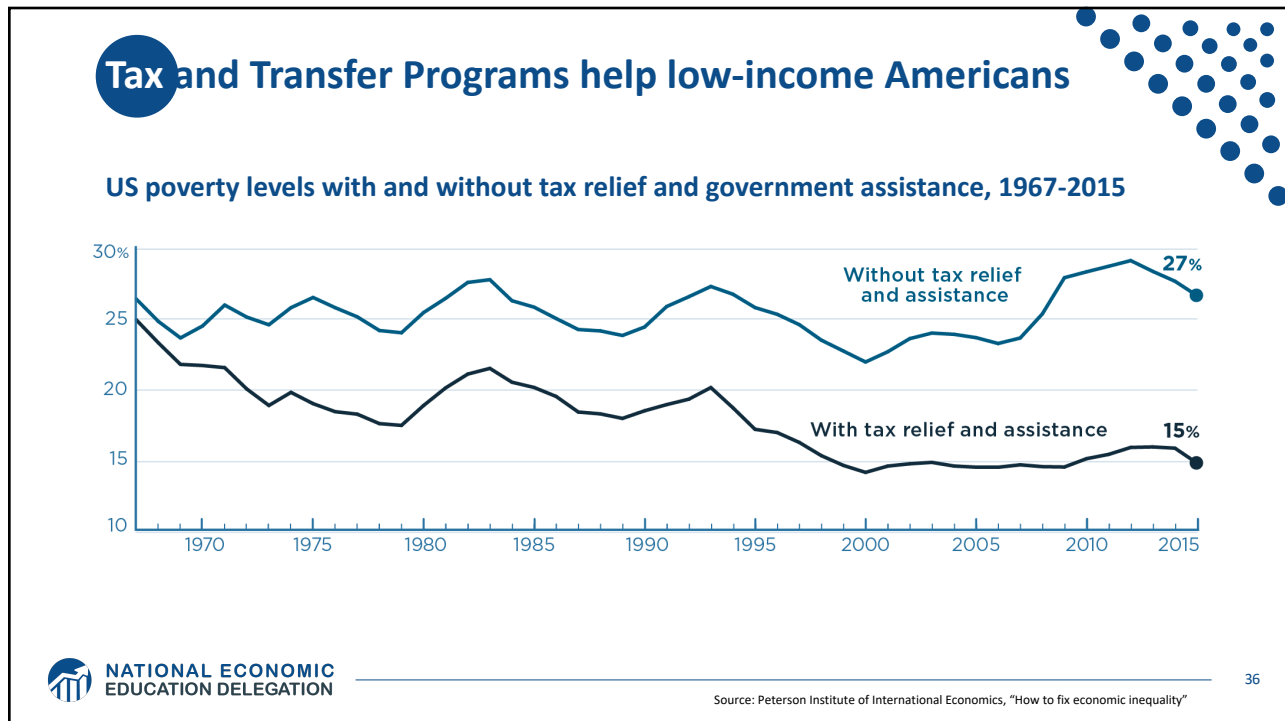
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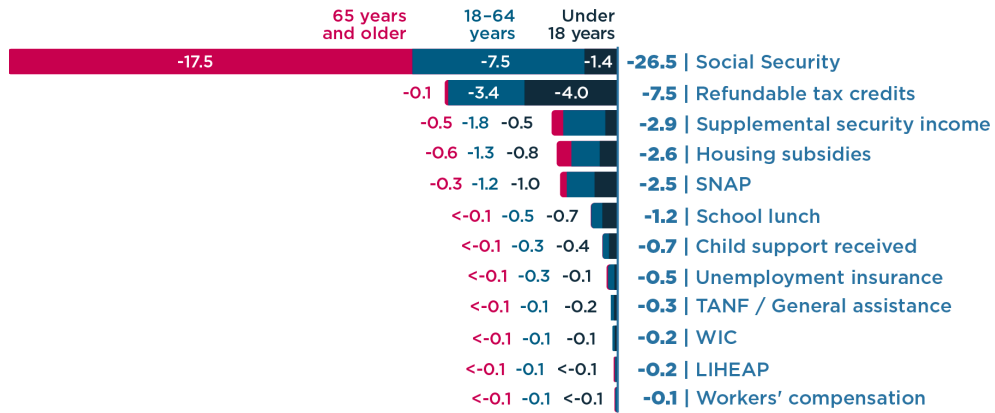
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Tax and Transfer Programs help low-income Americans

Change in the number of people in poverty in the US after transfer programs by age group



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Dramatically Less Progressivity in the Tax Code



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Why Does Inequality Matter?

• Too little inequality can:

- Reduce individual motivation
- Slow economic growth

• Too much inequality can:

- Slow growth
- Reduce individual motivation

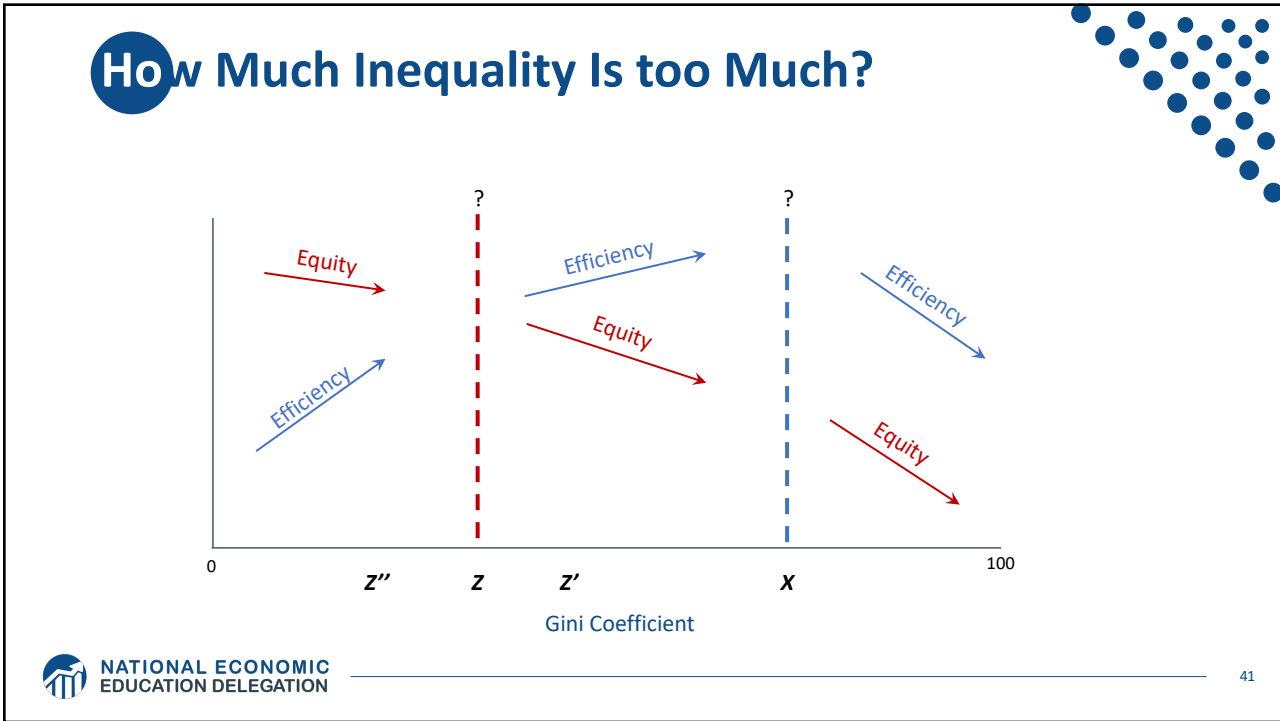
• Too much inequality may also:

- Divide society
- Distort political environment
- Reduce political participation
- Reduce investments in public goods
 - Education
 - Environmental protections

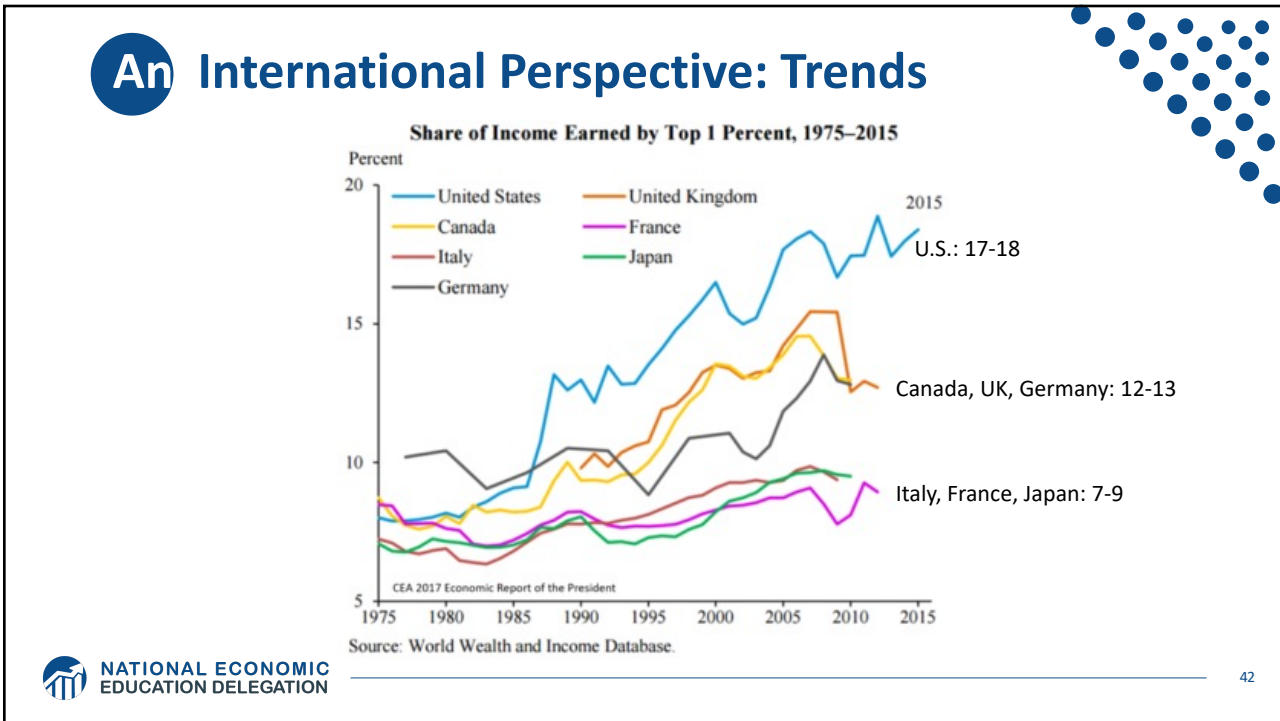


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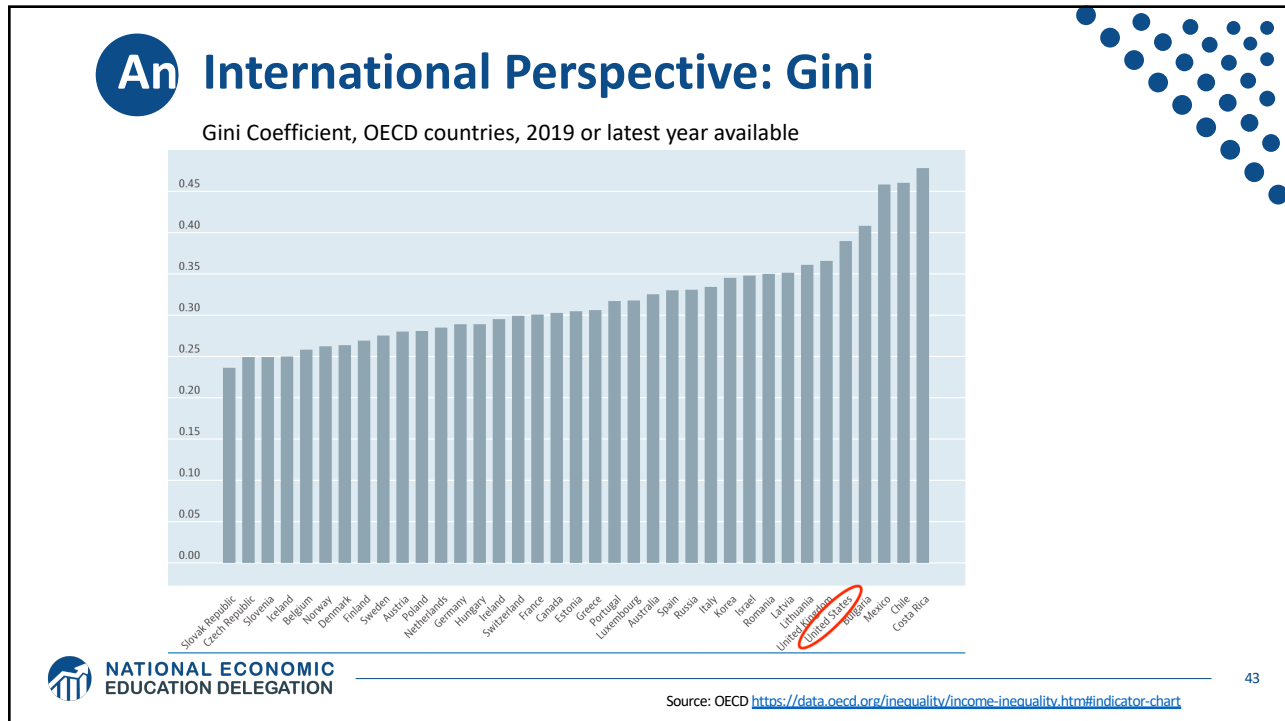
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Addressing Inequality: Immediately Available Policy Solutions (2/2)

- **Corporate Regulation Policies**
 - 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
 - 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.

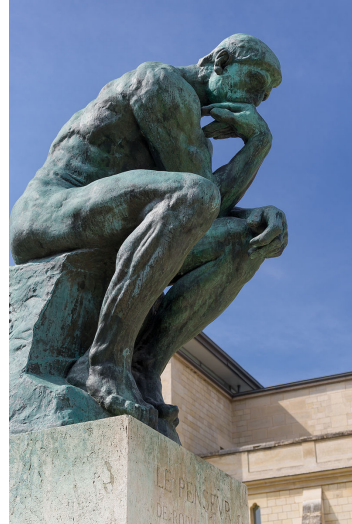


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What to do About Inequality?

- 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.



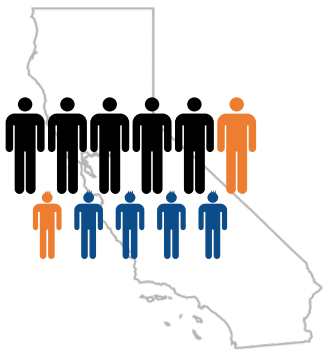
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Summary

- **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.**

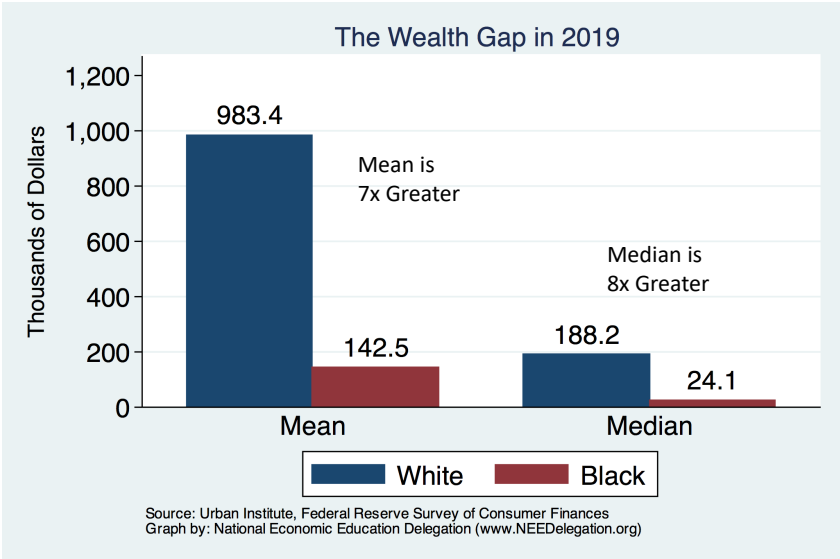


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The B-W Wealth Gap: Jon Haveman

The Wealth Gap in 2019



| Category | White (Thousands of Dollars) | Black (Thousands of Dollars) |
|----------|------------------------------|------------------------------|
| Mean | 983.4 | 142.5 |
| Median | 188.2 | 24.1 |

Mean is 7x Greater
Median is 8x Greater

Source: Urban Institute, Federal Reserve Survey of Consumer Finances
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

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Thank you!

Any Questions?

www.NEEDelegation.org

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