

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

Rochester Institute of Technology  
July-Aug, 2022

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



## **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



## Course Outline

- **Contemporary Economic Policy**

- Week 1 (7/11): Economic Update (Jon Haveman, NEED)
- **Week 2 (7/18): Economic Inequality (Christopher Herrington, VCU)**
- Week 3 (7/25): Trade and Globalization (Alan Deardorff, University of Michigan)
- Week 4 (8/1): Economic Mobility (Jon Haveman, NEED)
- Week 5 (8/8): The Black-White Wealth Gap (Jon Haveman, NEED)
- Week 6 (8/15): Climate Change Economics (Jon Haveman, NEED)
- Week 7 (8/22): Autonomous Vehicles (Jon Haveman, NEED)



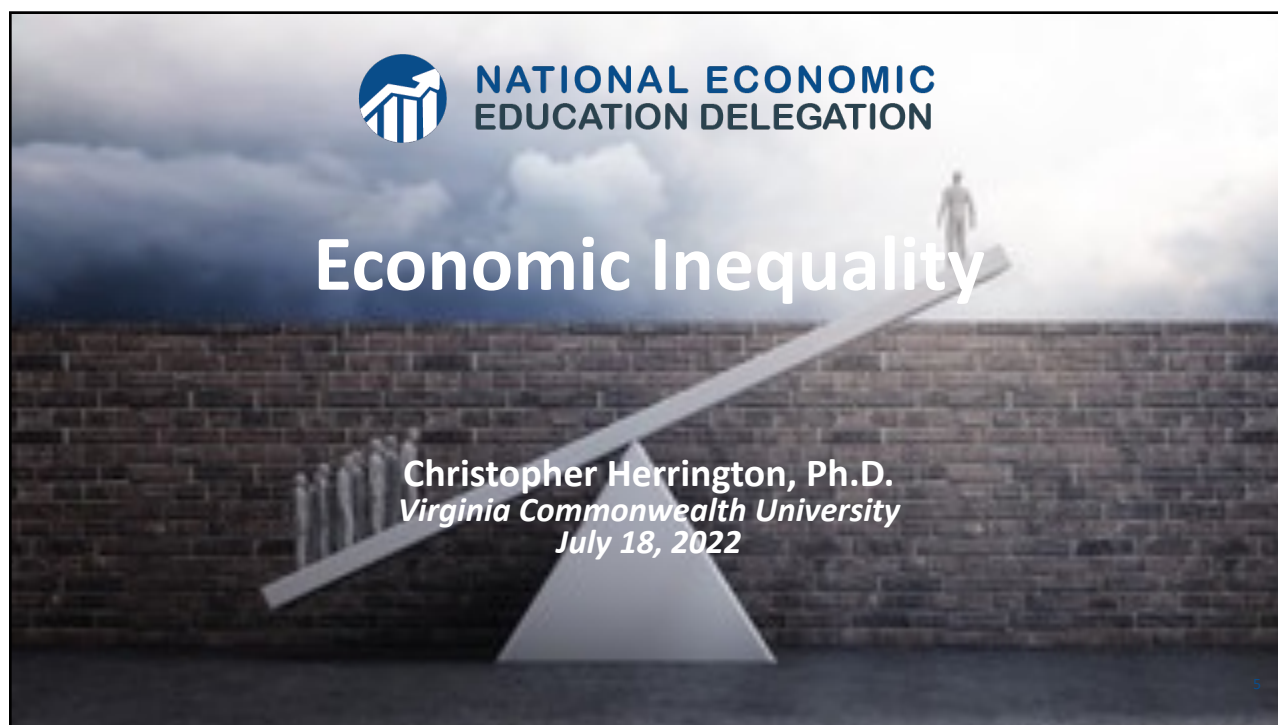
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## Submitting Questions

- **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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## Credits and Disclaimer

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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.

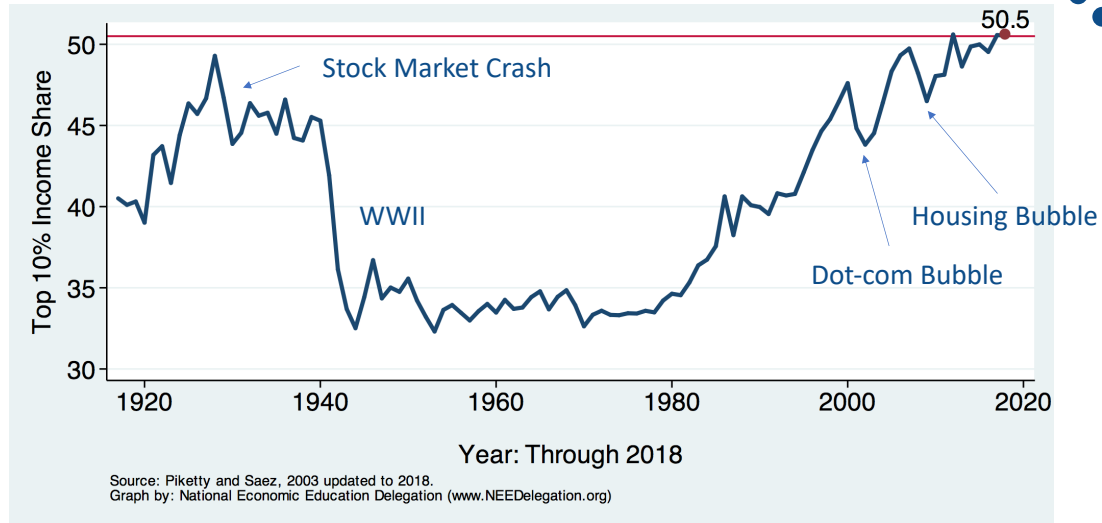
**Wealth** is one's accumulated savings, including physical and financial assets (net worth).



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## National Income Inequality: Share of Top 10%



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## Recent Facts on Income Inequality

- **Beginning in the 1970s, 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.

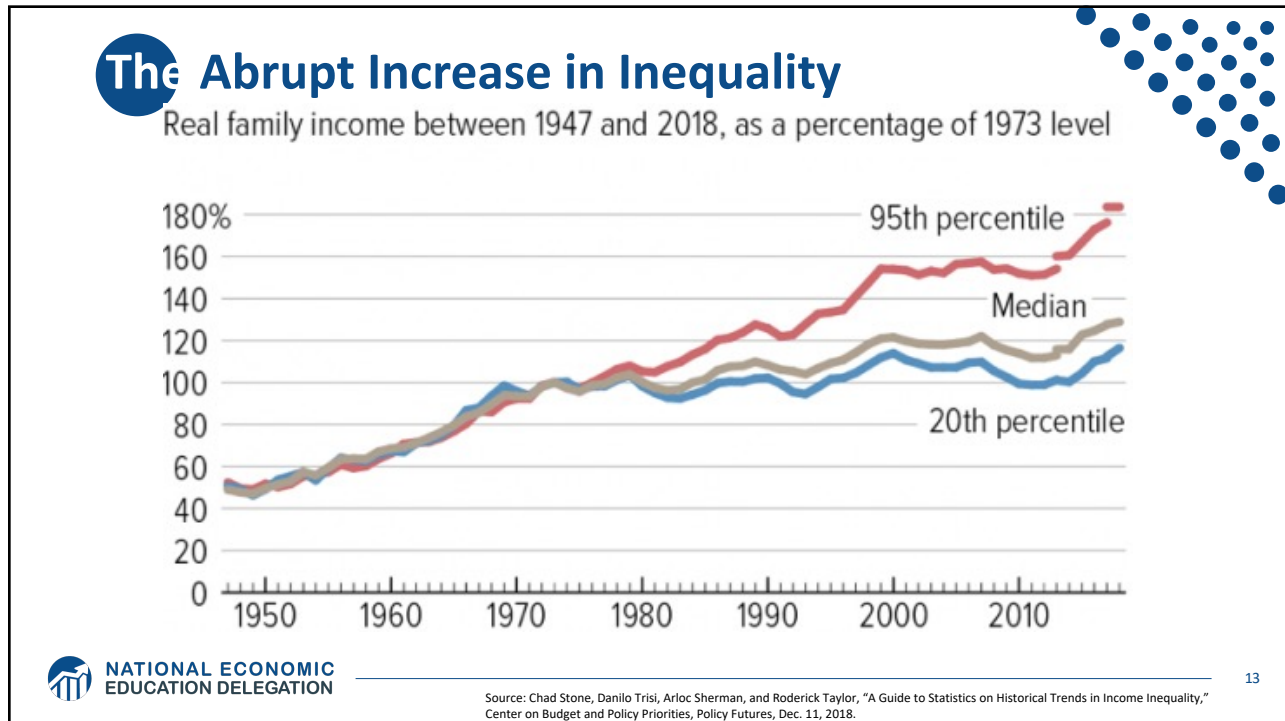


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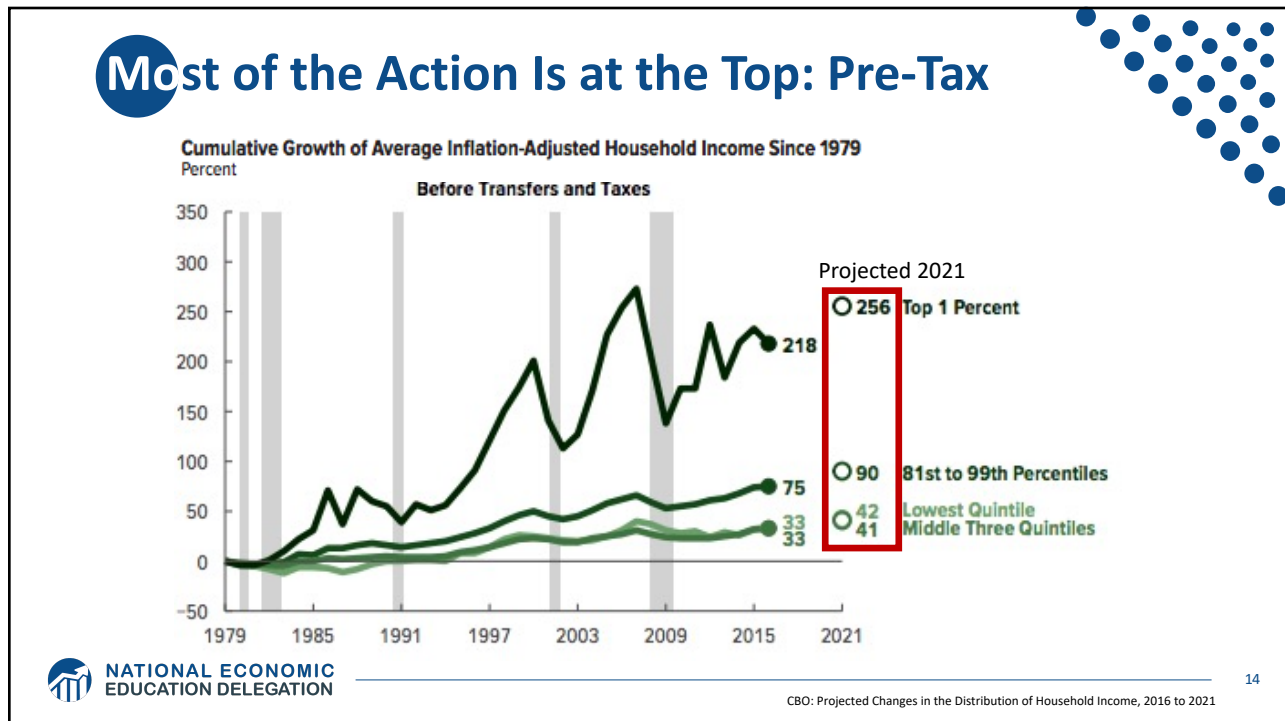
Source: Chad Stone, Danilo Trisi, Arloc Sherman, and Roderick Taylor, "A Guide to Statistics on Historical Trends in Income Inequality," Center on Budget and Policy Priorities, Policy Futures, May 15, 2018.

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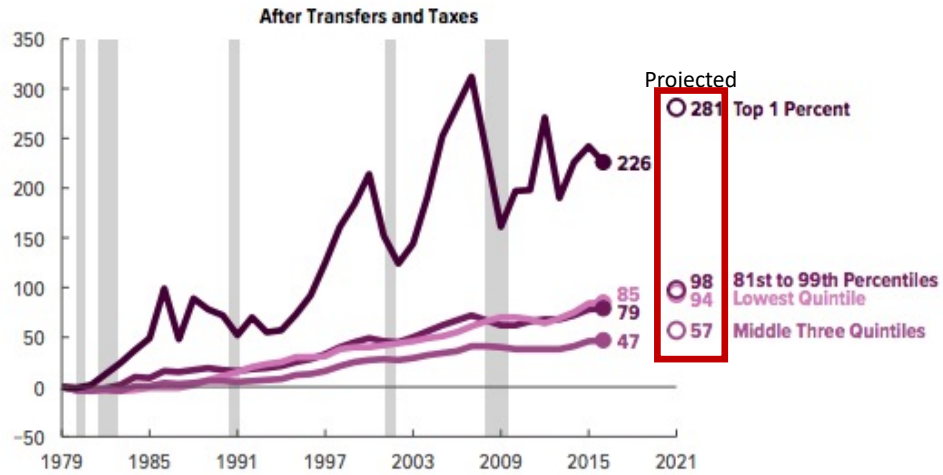
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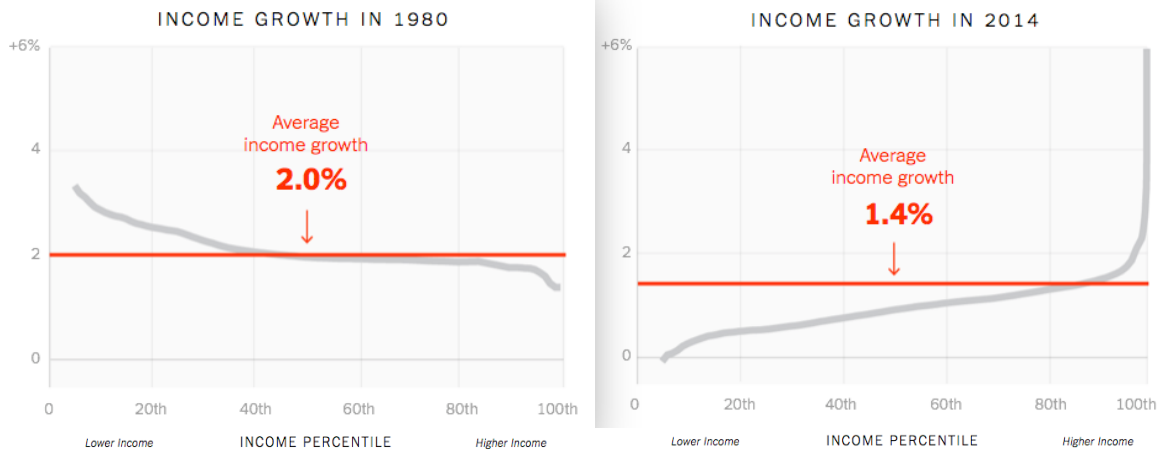
## Most of the Action Is at the Top: Post-Tax

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



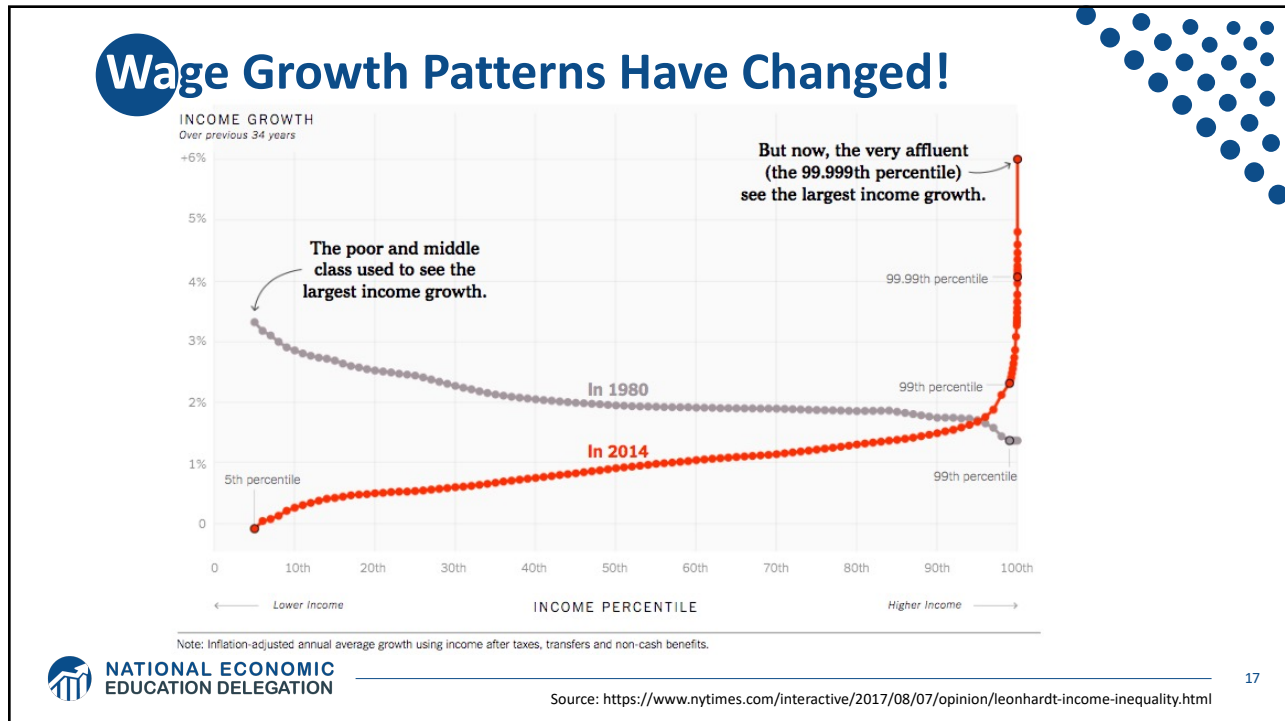
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## Income Growth Pattern – Has Changed

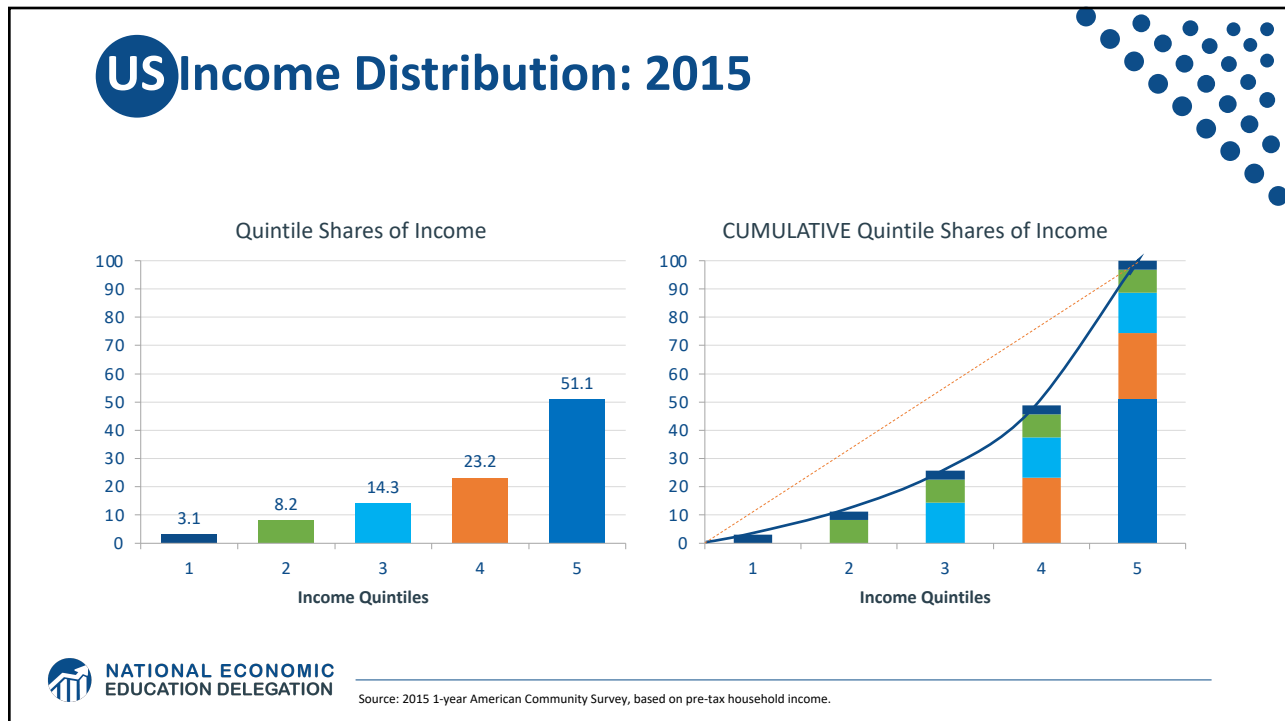


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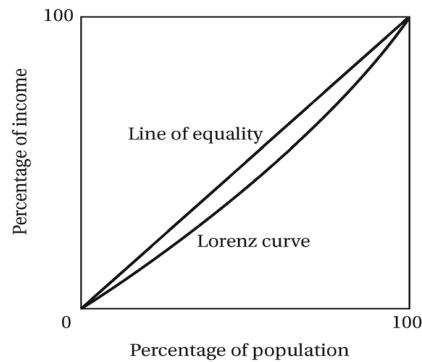


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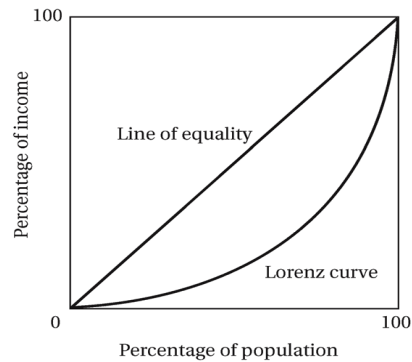


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## Lorenz Curve of Income Distribution



(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

## 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

## Calculating the Gini Coefficient

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

Bigger A: More inequality  
Smaller A: Less inequality

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## Income Share Changes Between 1970 and 2020

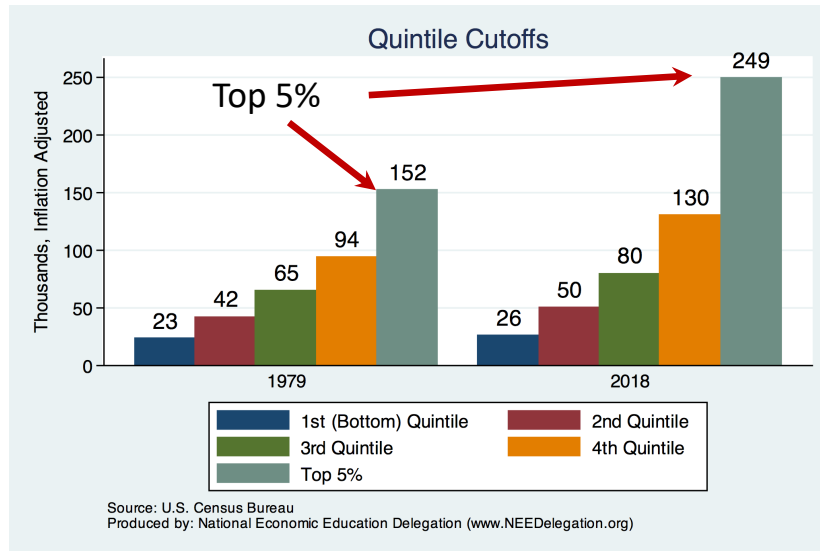
Quintile	1970 (%)	2020 (%)
1st	4.1	3.0
2nd	10.8	8.1
3rd	17.4	14.0
4th	24.5	22.6
5th	43.3	52.2

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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

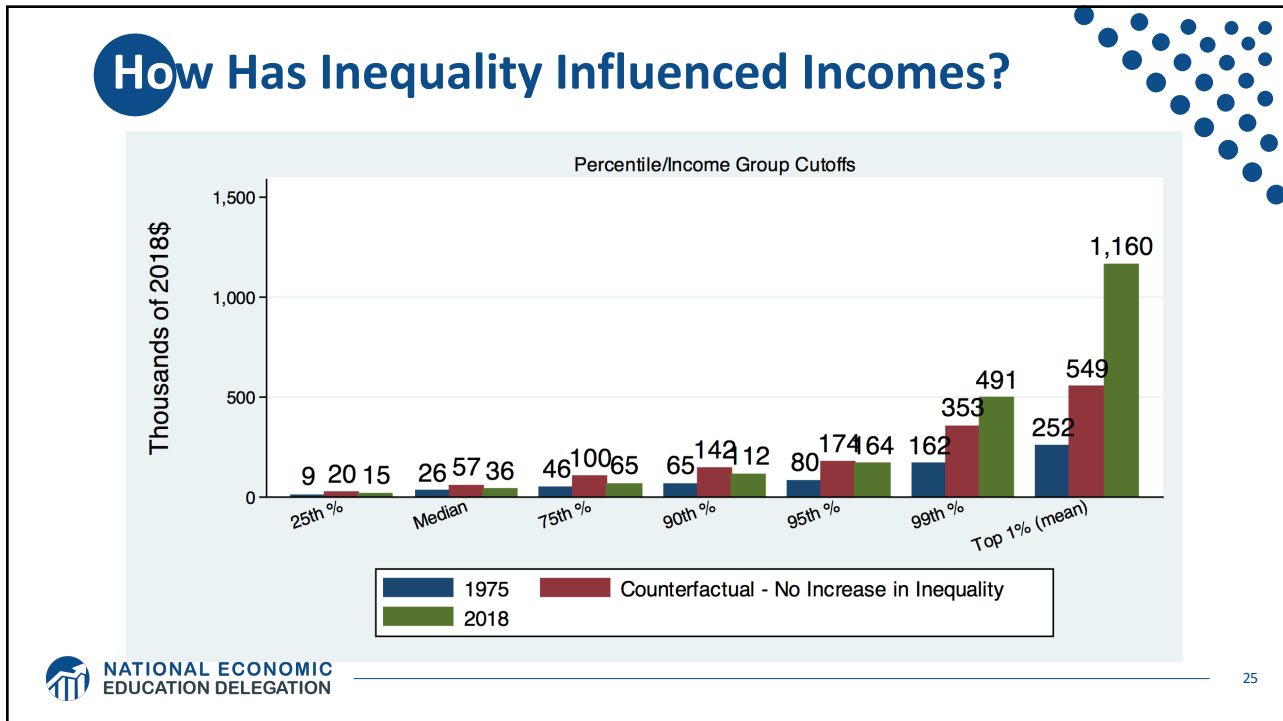
Bottom 90% of Households

Middle Class

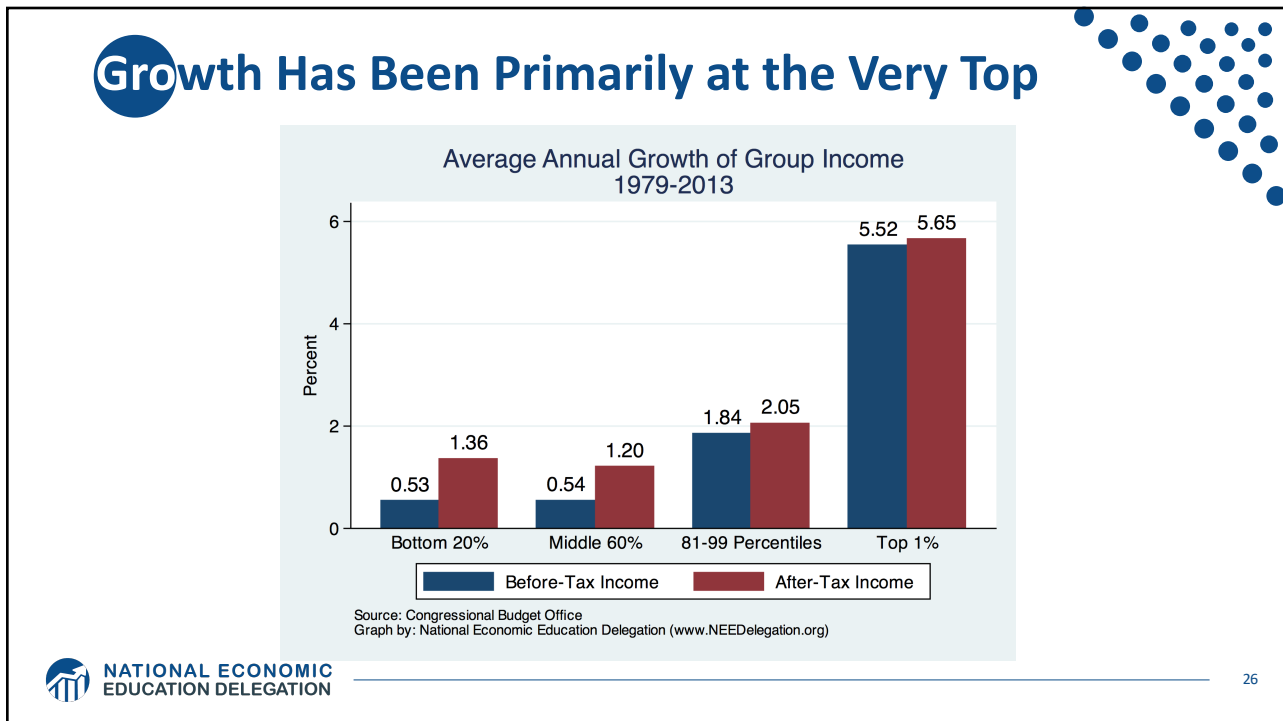
INCOME GROUP	TOTAL LOSS/GAIN IN ANNUAL INCOME*	AVERAGE LOSS/GAIN PER HOUSEHOLD PER YEAR*
<b>TOP 1%</b>	\$673 billion more	\$597,241 more
<b>96-99</b>	\$140 billion more	\$29,895 more
<b>91-95</b>	\$29 billion more	\$4,912 more
<b>81-90</b>	\$43 billion less	\$3,733 less
<b>61-80</b>	\$194 billion less	\$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

\* 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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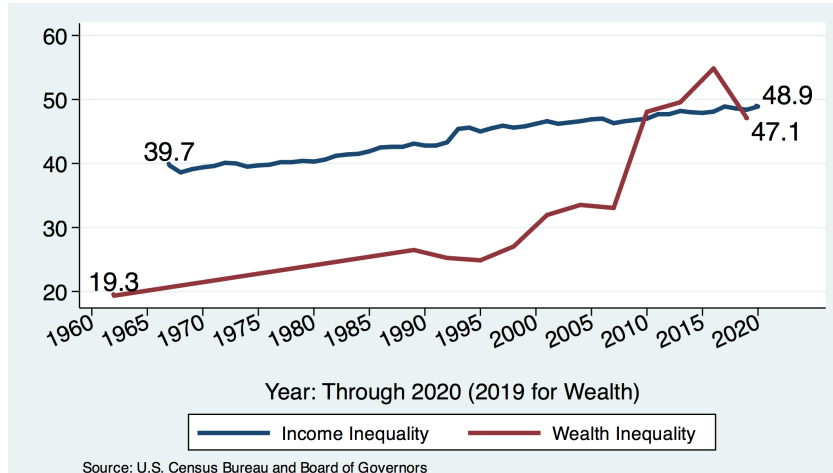


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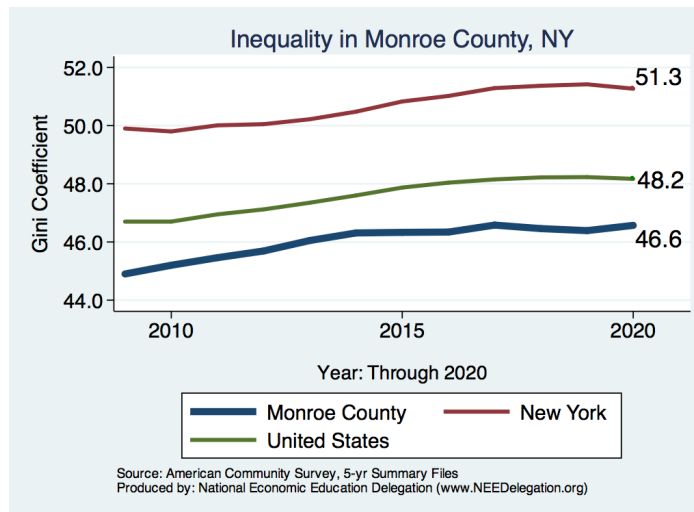


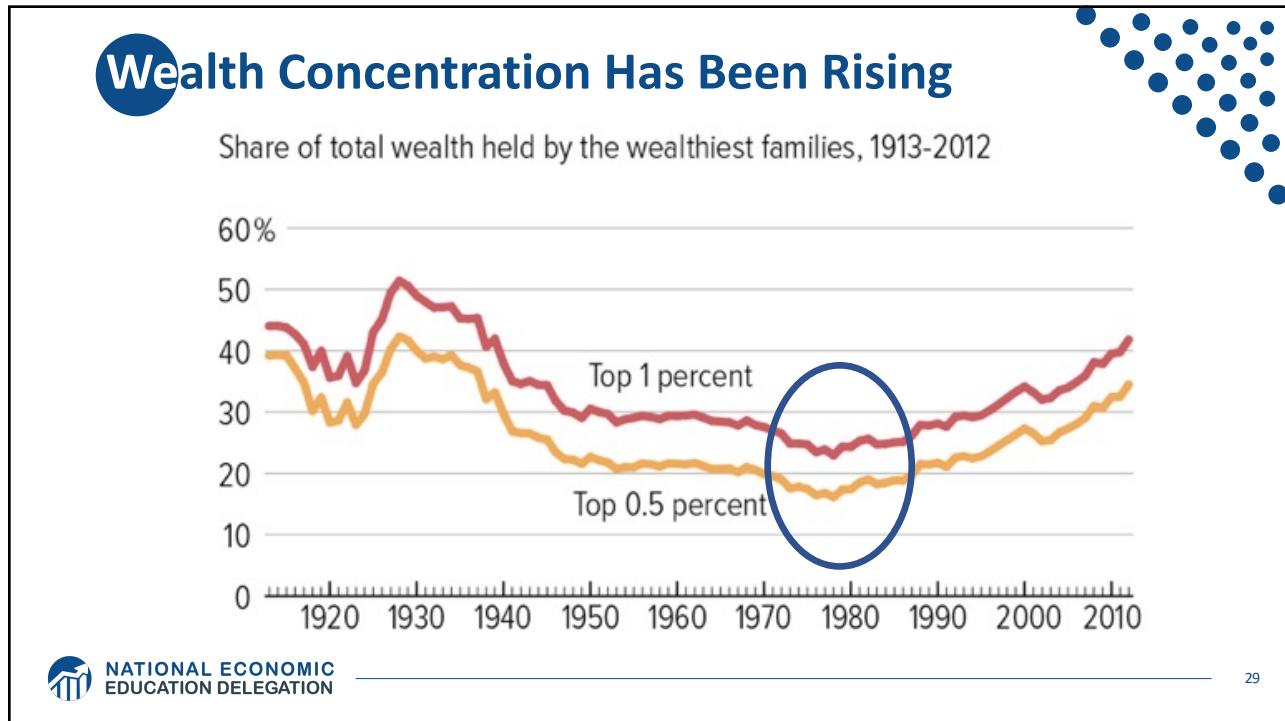
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## Income and Wealth Gini Coefficients

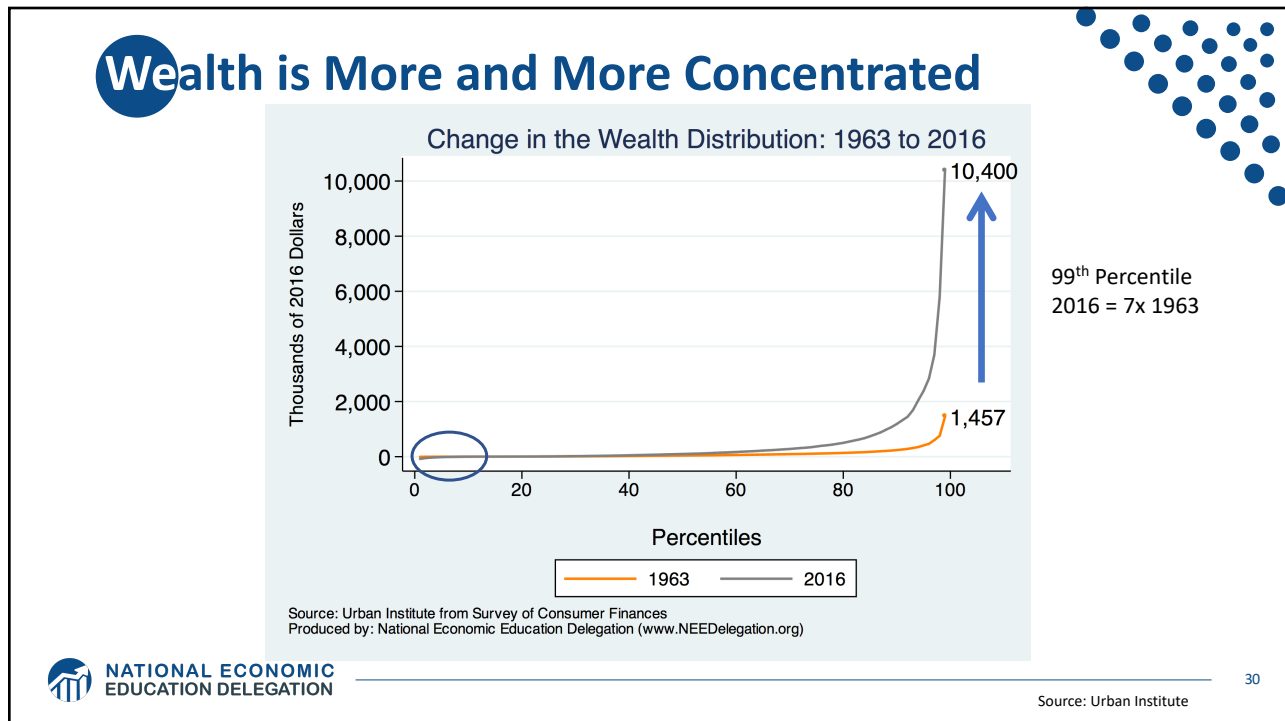


## Your Local Inequality Trend





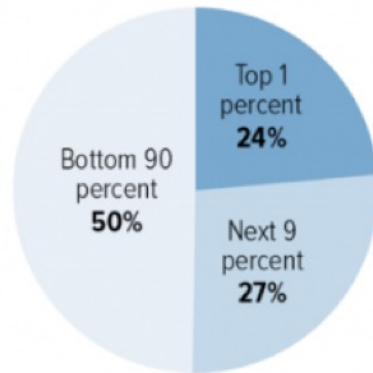
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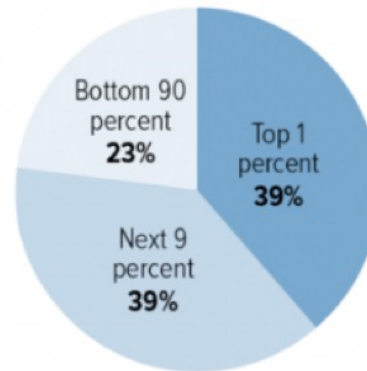
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## Wealth Inequality Exceeds Income Inequality

Distribution of before-tax income, 2016



Distribution of wealth, 2016



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## 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**

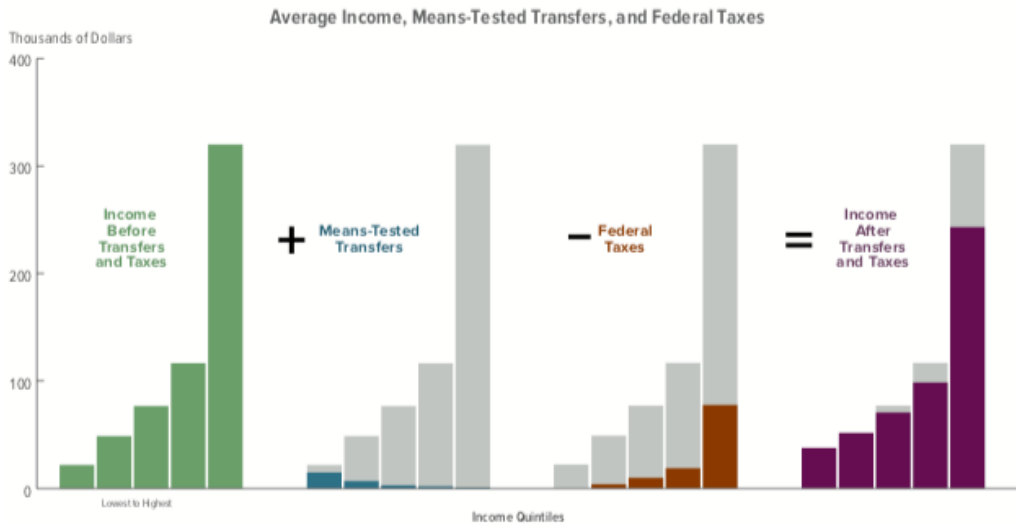
- Characteristics of labor
  - o Access to education
- Effects on labor demand
  - o Market regulation
    - Competition policy
  - o Labor regulations
    - Minimum wage, overtime, health insurance, union regulations, etc.

- **RE-distribution**

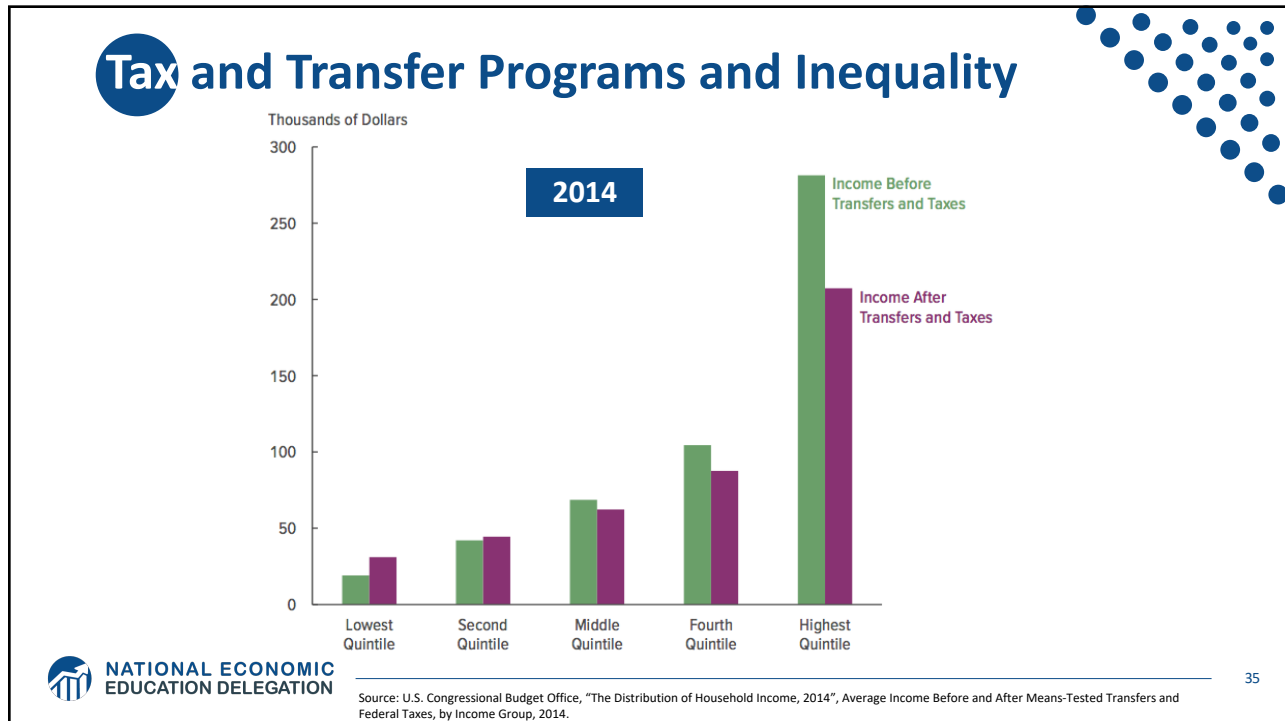
- Tax Rates
- Income support
  - o Direct aid
  - o Food stamps

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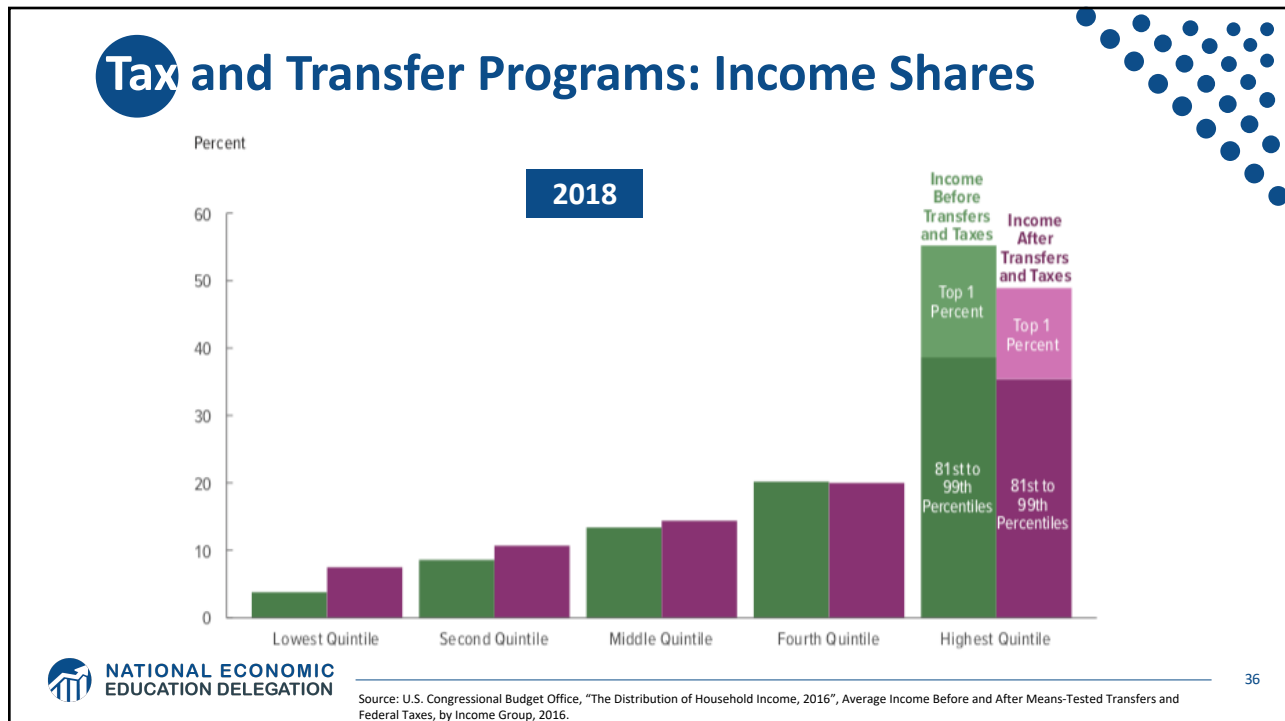
# Taxes, Transfers, and Income



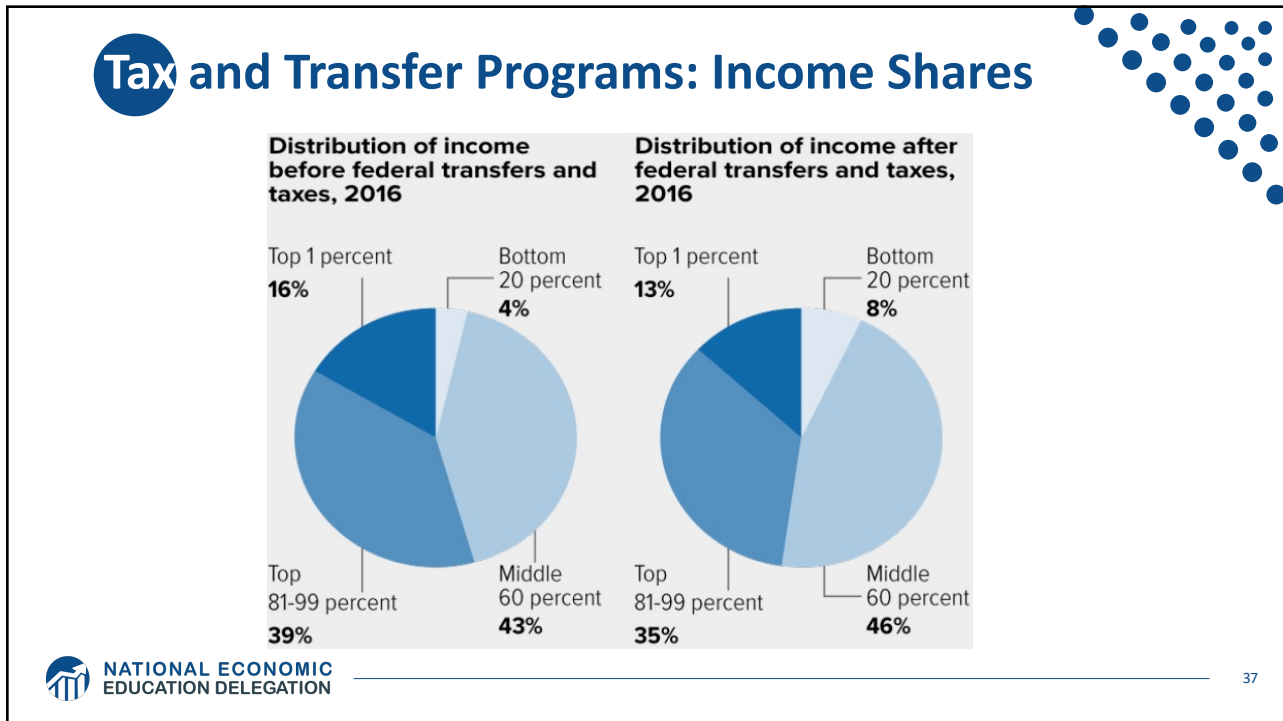
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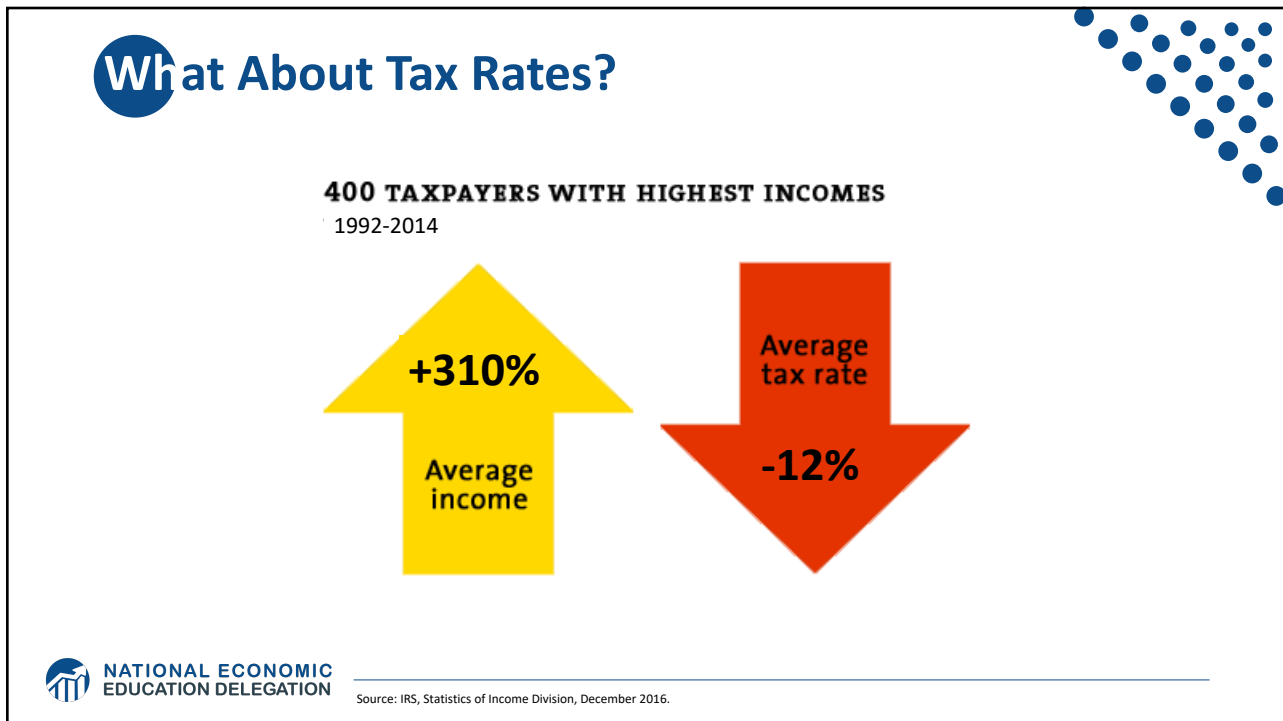
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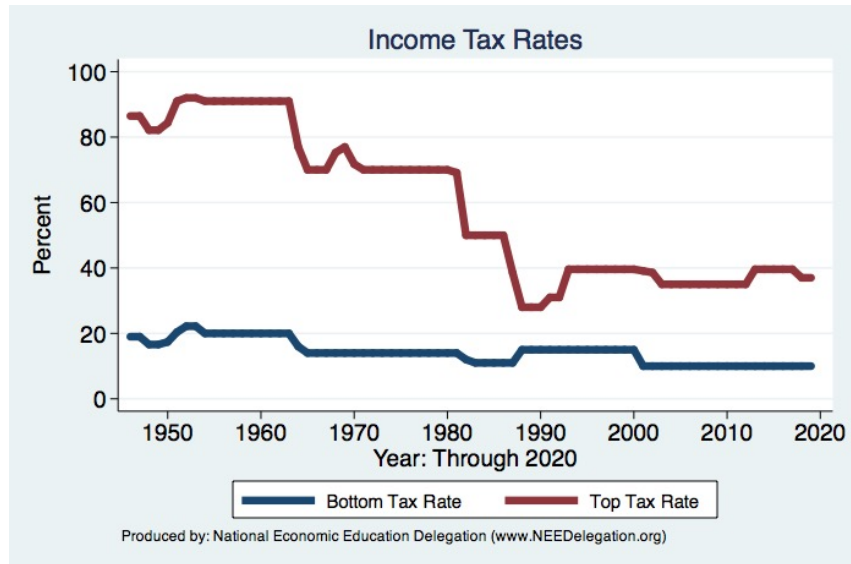


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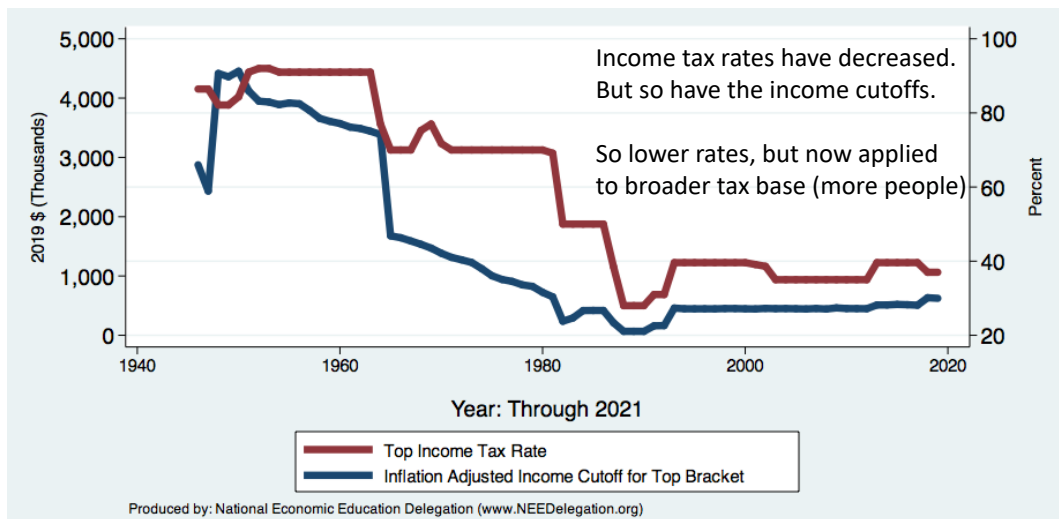
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## Tax Rates Over Time

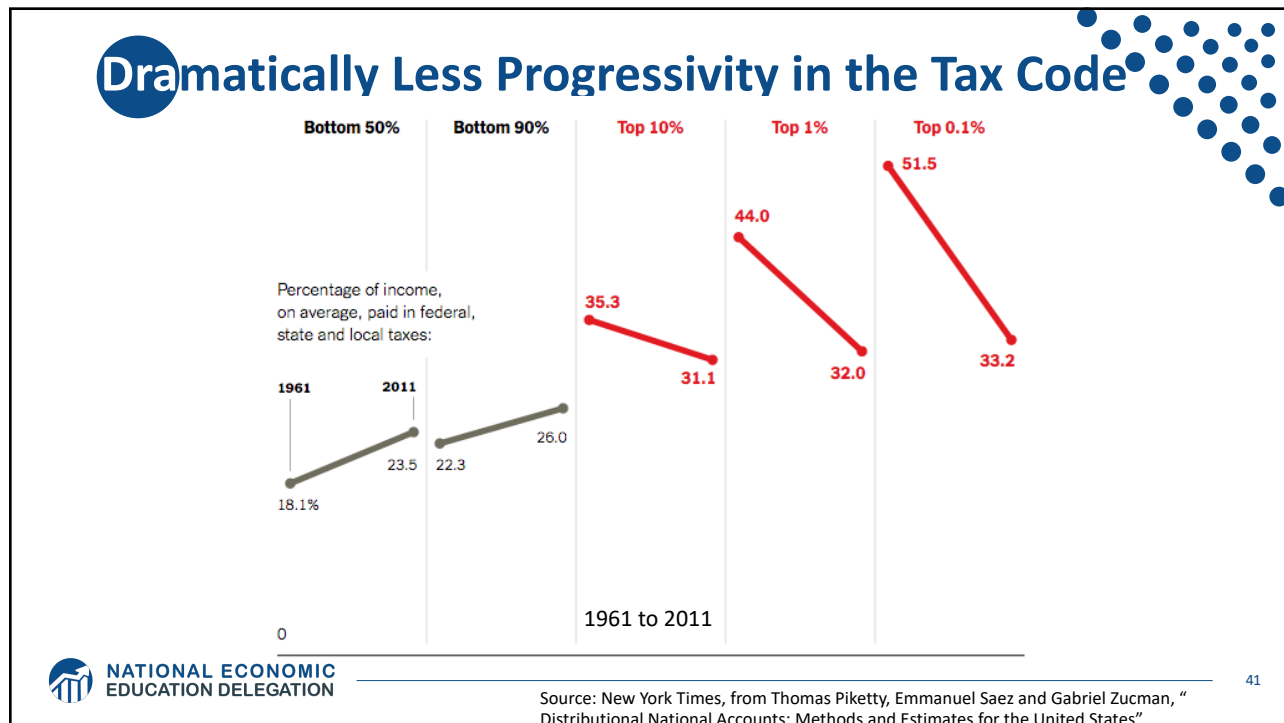


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## The Top Tax Rate and Income Cutoff



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## Market Forces and Inequality

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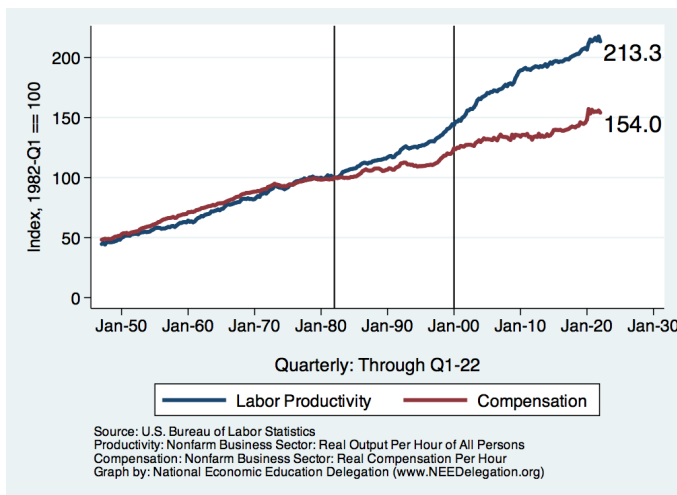
## Where Does Inequality Come From? Summary

- **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

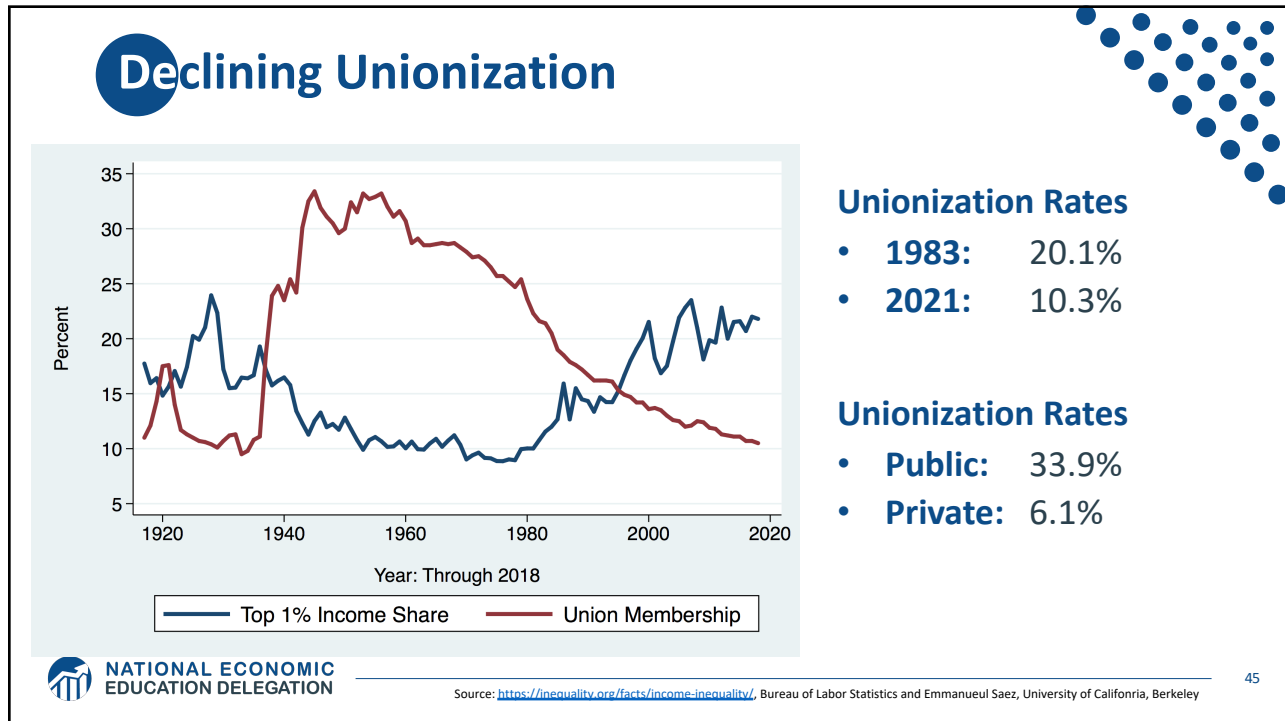


### Why? Some theories:

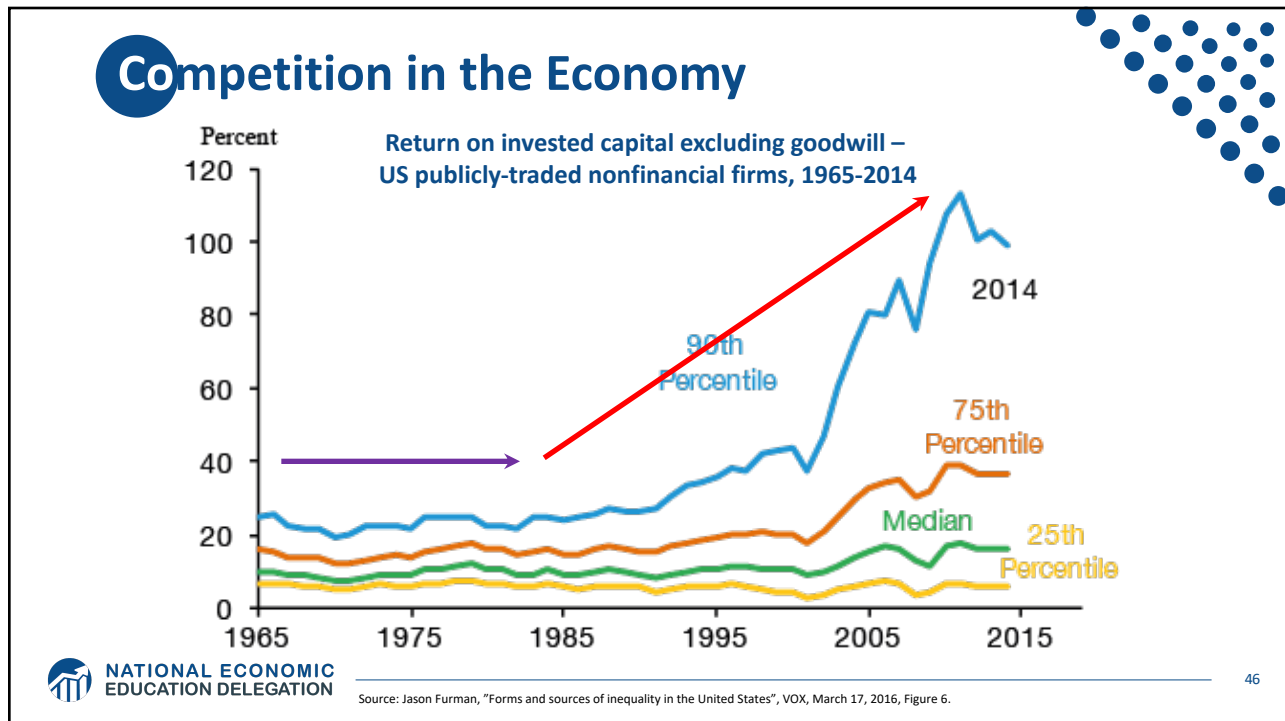
- Declining unionization
- Competition policy
- Immigration
- Technological change
- Globalization



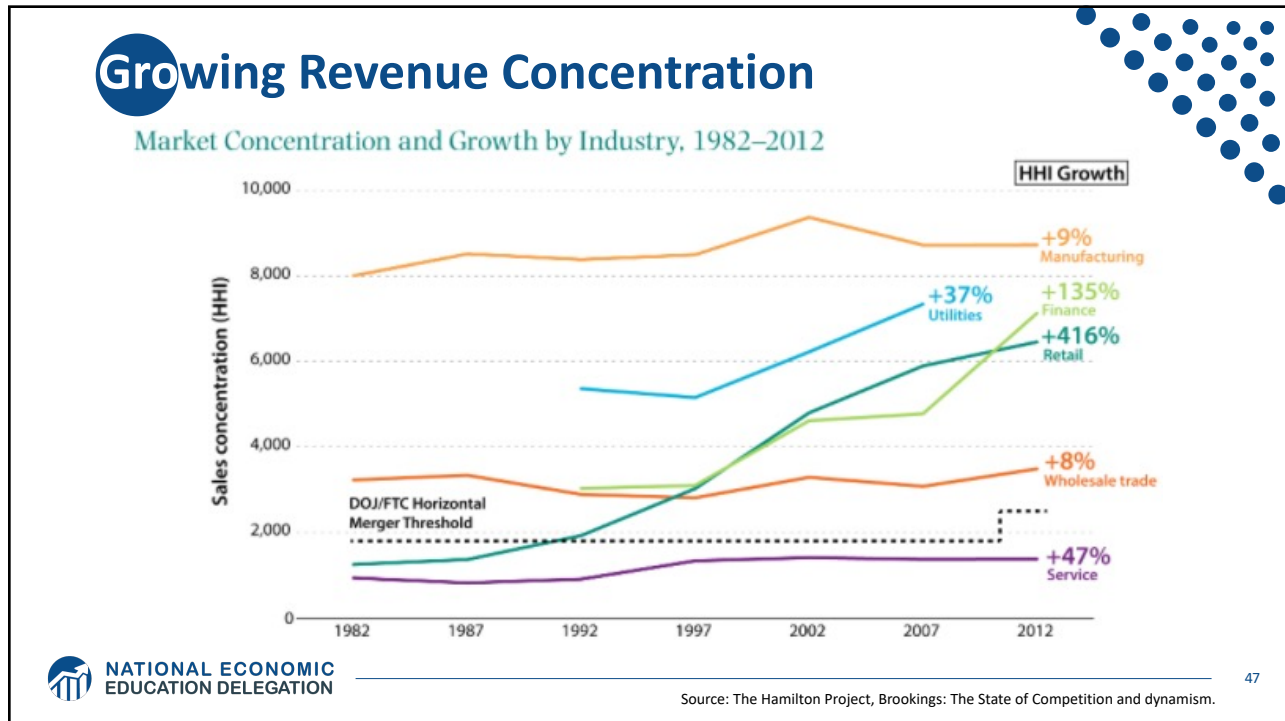
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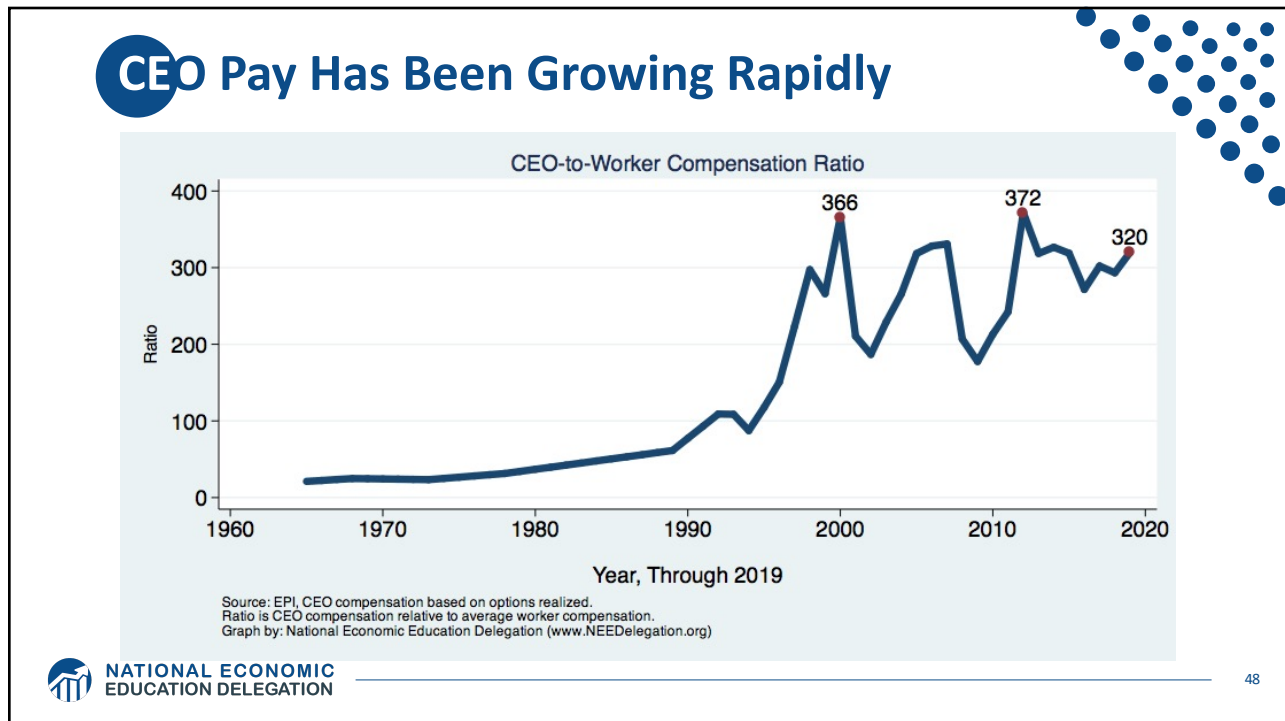
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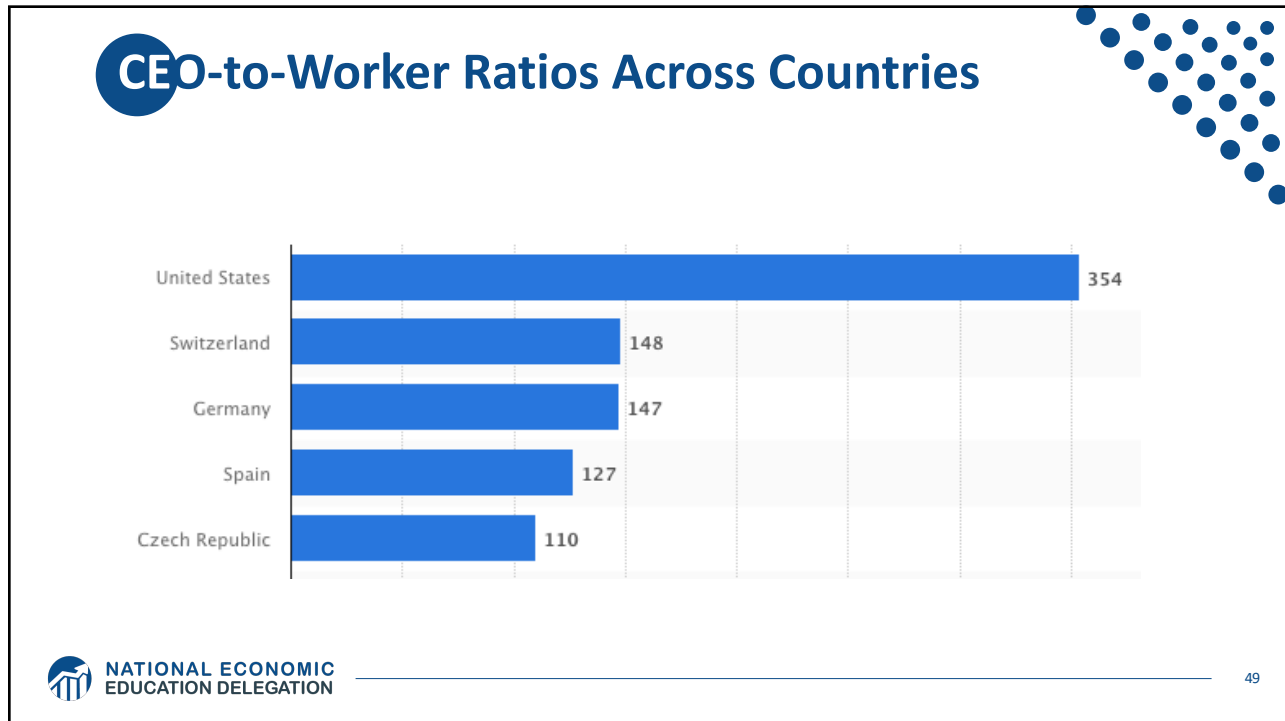


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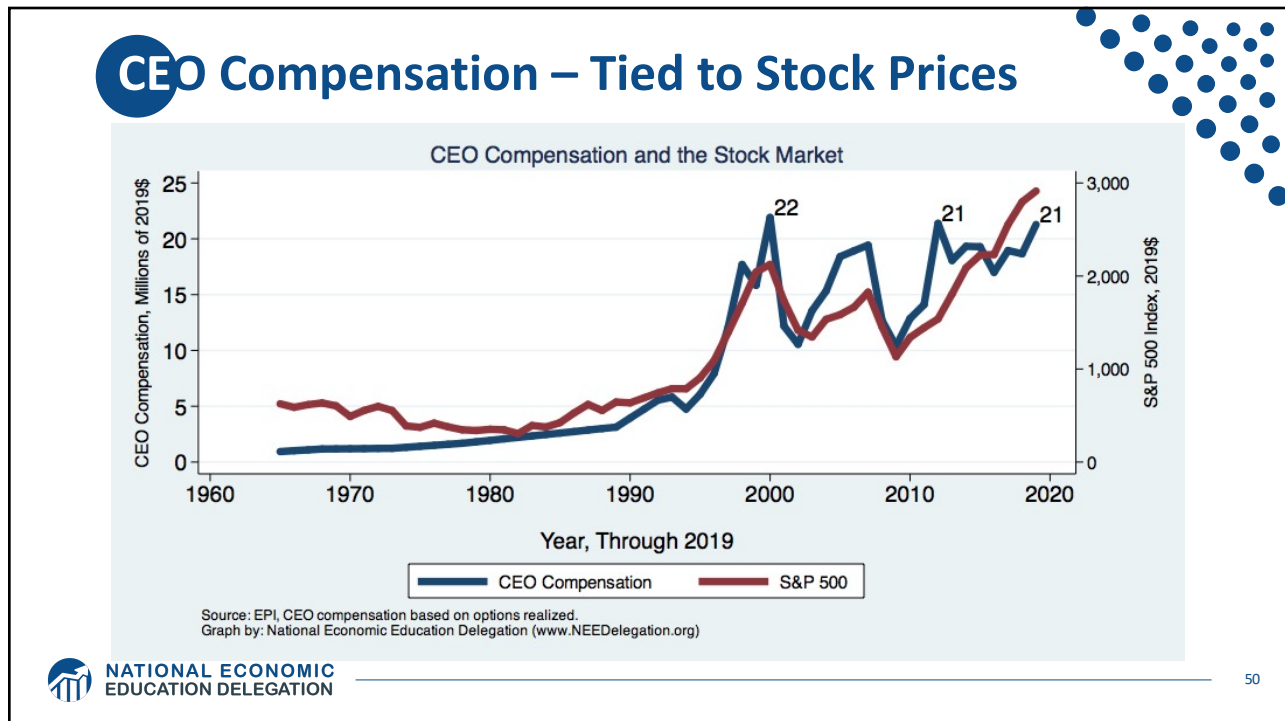


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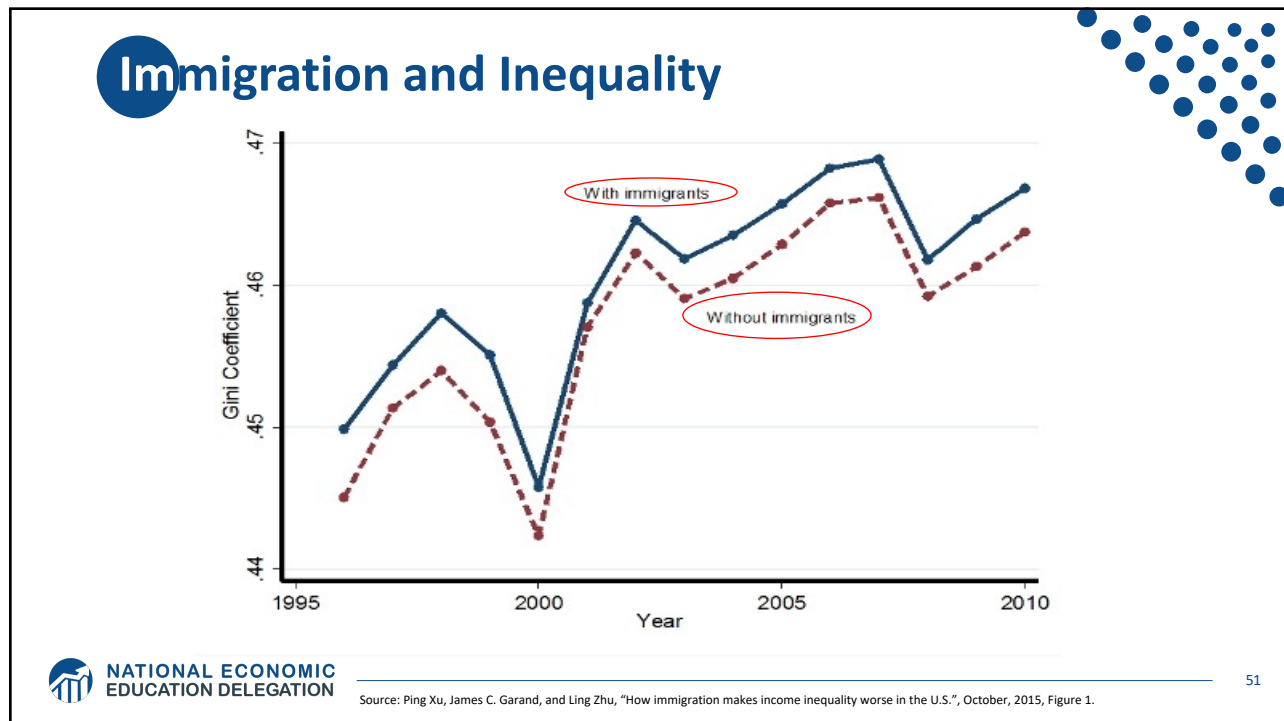




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## Immigration and Inequality- Summary

- **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
- **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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## 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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## 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

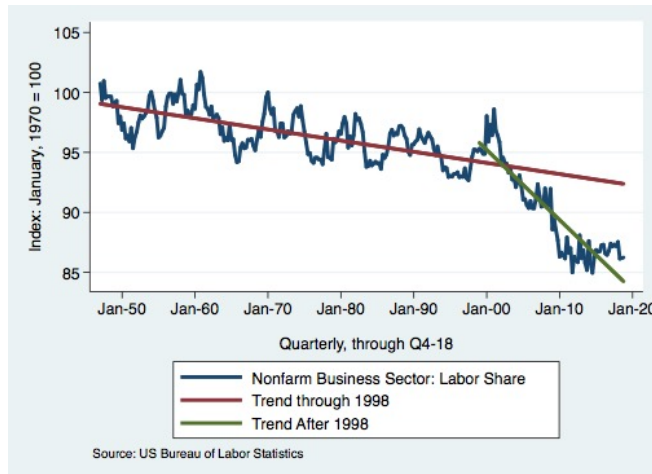
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## Mechanisms for the Effects of Globalization

- **Merchandise trade**
  - Importing goods that are made with low-skilled workers and exporting goods that are made with high-skilled workers
    - 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%

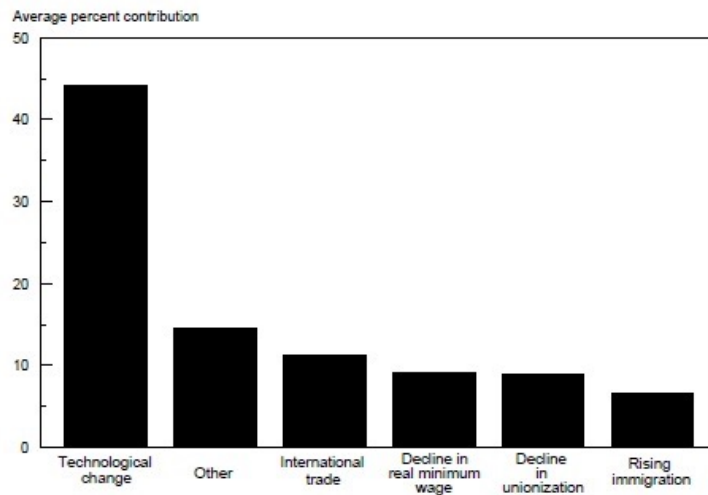
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## What is driving increasing inequality?

- **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

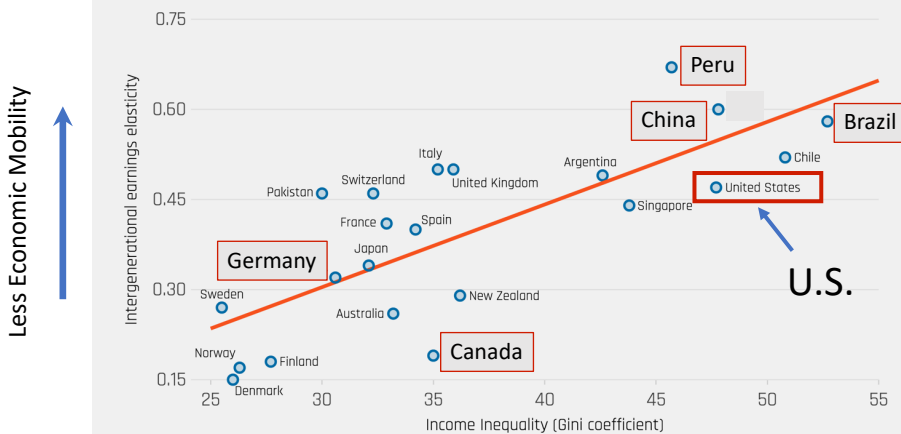
- **Too much inequality may also:**

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

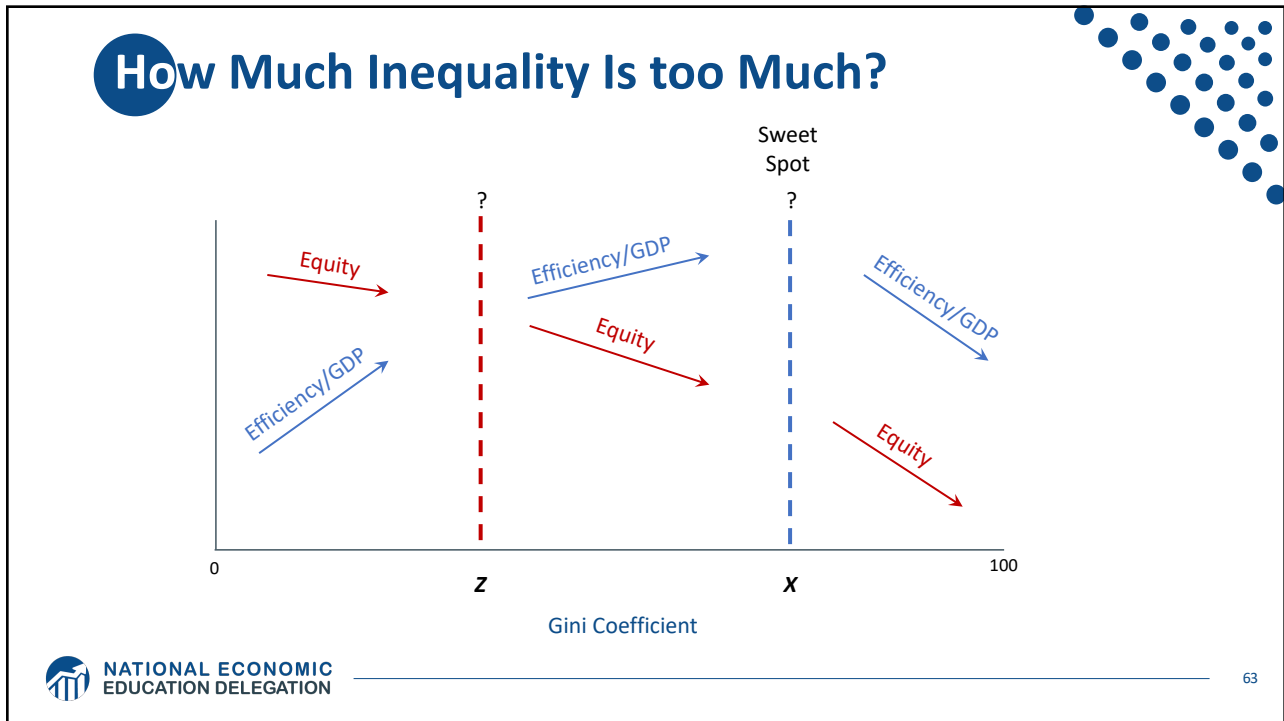


## The Great Gatsby Curve: high inequality tends to mean low mobility

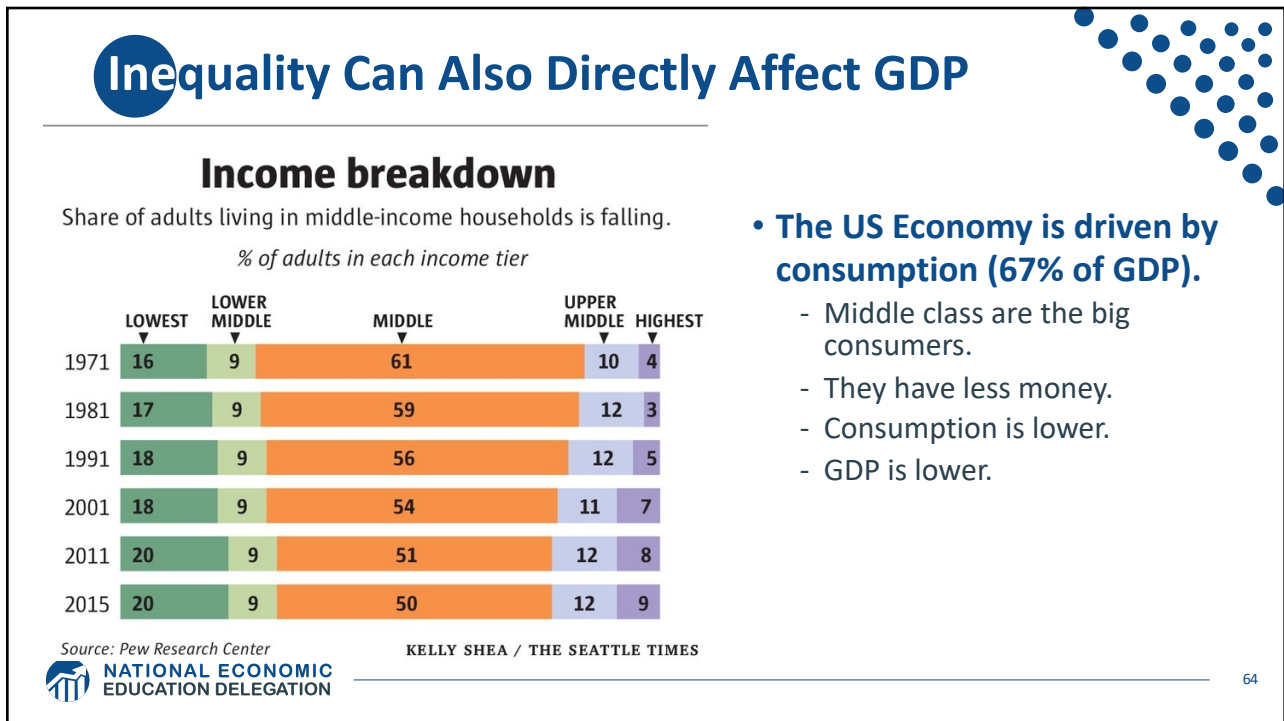
More inequality is associated with less mobility across generations



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]



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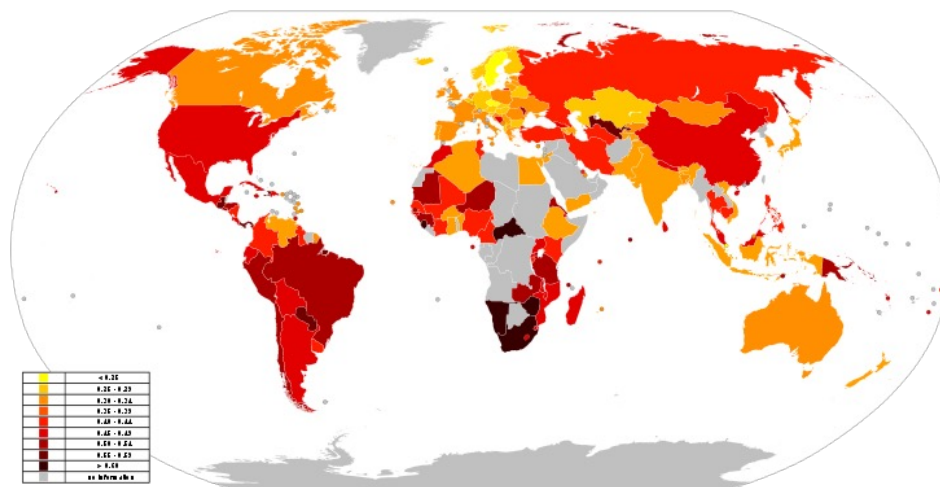


## Too Much Inequality Can:

- 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.

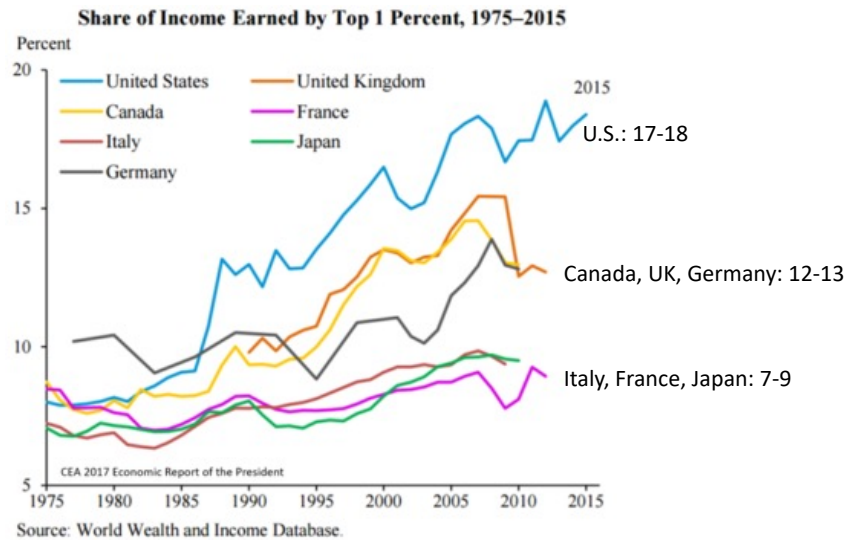
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## An International Perspective



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## An International Perspective: Comparables



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## Addressing Inequality: Is It A Problem?

- **Why it might be a problem.**

- Economic issues (*Efficiency*)
  - o There is evidence that increased inequality can slow economic growth.
  - o Or, inequality concentrates resources among investors.
- Noneconomic issues (*Equity*)
  - o Values, ethics and morals will drive individual evaluations 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**

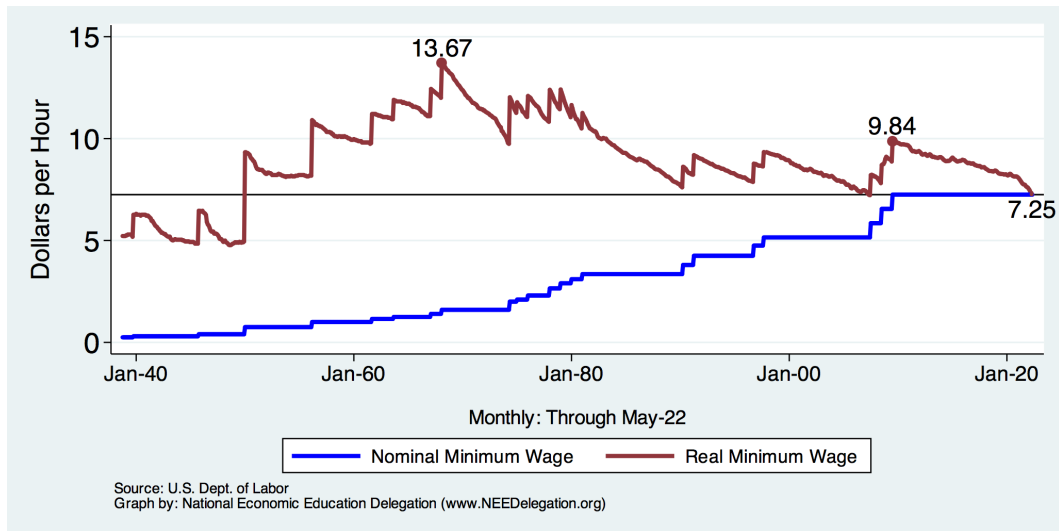
- Tax and transfer programs

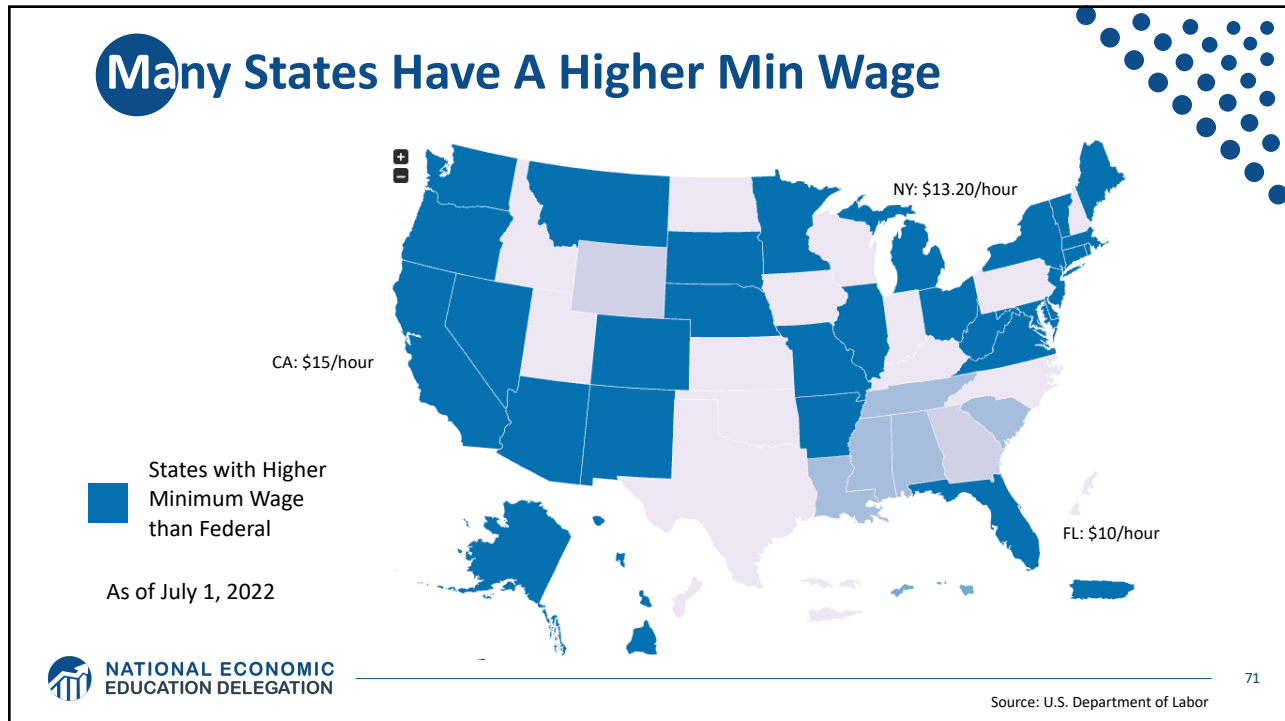
- **PRE-distribution**

- Strengthen labor unions
- Collective bargaining
- Other policies that favor labor over business owners
- Minimum wages

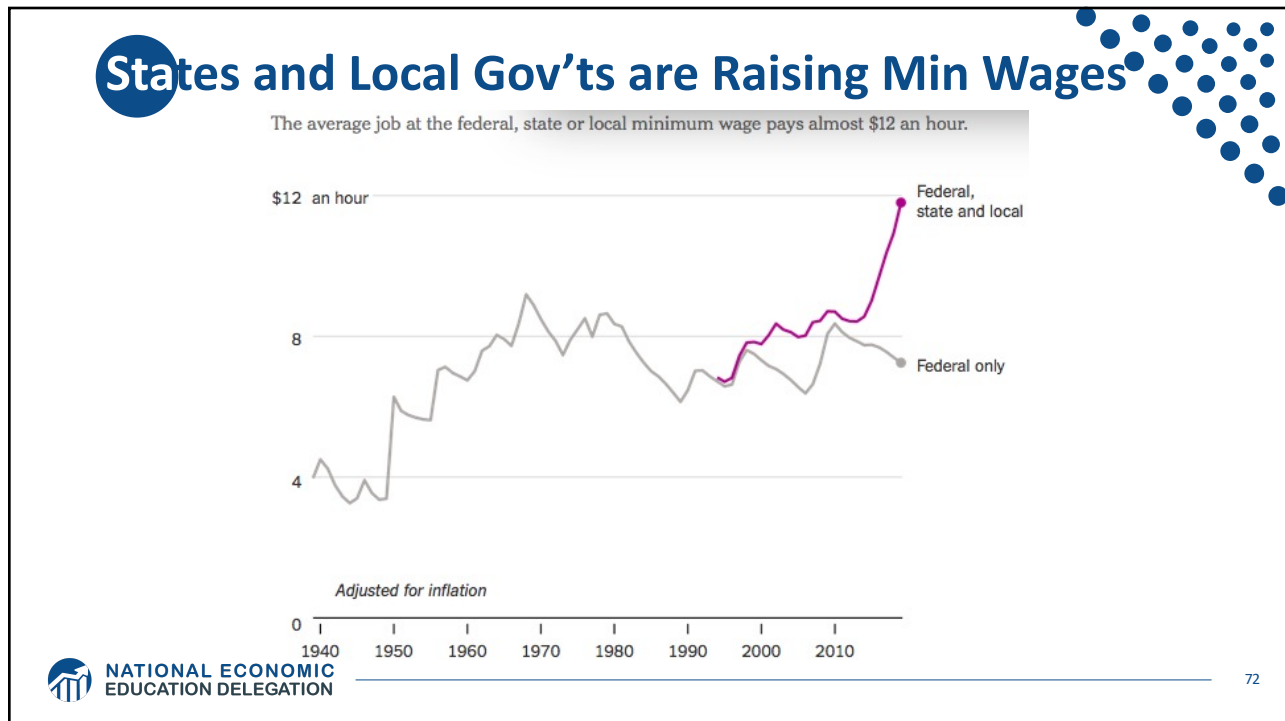


## Historical Values of Minimum Wages





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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
    - 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 - paths to higher ed and funding for low-income students
    - 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.

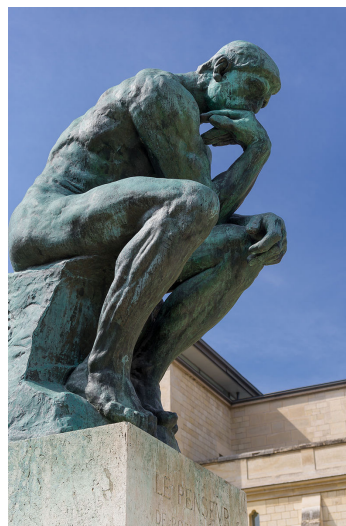


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## What to do About Inequality?

- 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



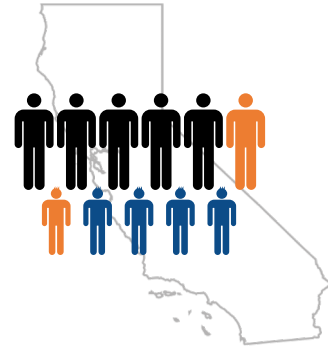
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## Summary

- **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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## Next Week: Trade & Globalization



Source: [www.shipmap.org](http://www.shipmap.org)



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**Thank you!**

## Any Questions?

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