

Osher Lifelong Learning Institute, Spring 2023

Contemporary Economic Policy

University of California, Santa Cruz
May, 2023

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



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National Economic Education Delegation

- **Vision**

- One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.

- **Mission**

- NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.

- **NEED Presentations**

- Are **nonpartisan** and intended to reflect the consensus of the economics profession.



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Who Are We?

- **Honorary Board: 54 members**

- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 6 Chairs Council of Economic Advisers
 - o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
 - o Akerlof, Smith, Maskin

- **Delegates: 652+ members**

- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

- **Global Partners: 48 Ph.D. Economists**

- Aid in slide deck development

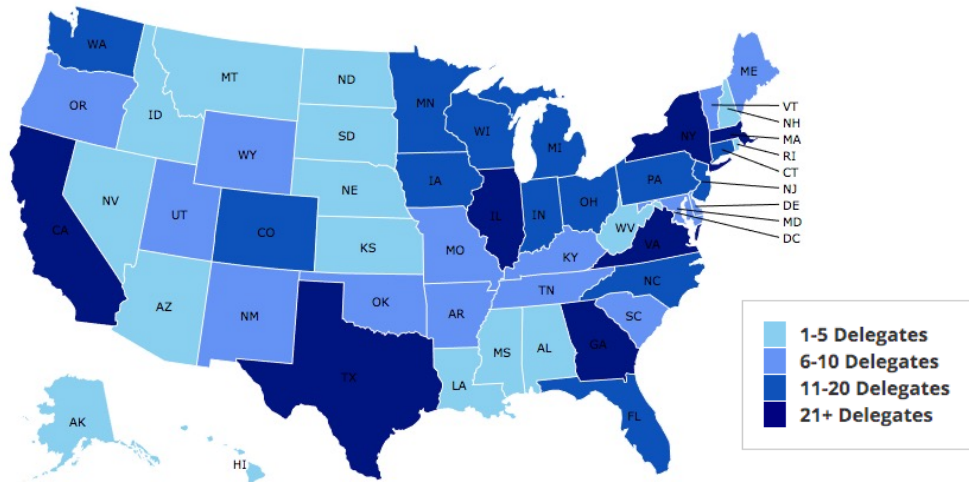


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Where Are We?



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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

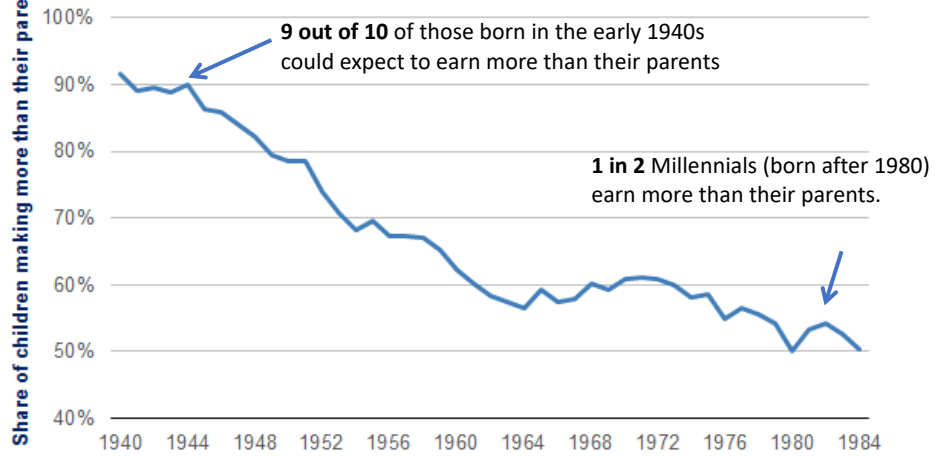
- **Contemporary Economic Policy**
 - **Week 1 (5/2): Economic Inequality**
 - Week 2 (5/7): Economic Mobility
 - Week 3 (5/16): Discriminatory Policies in U.S. History
 - Week 4 (5/23): The Black-White Wealth Gap



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Mobility

The fading American dream?



Source: Chetty et al., "The fading American dream: Trends in absolute income mobility since 1940"

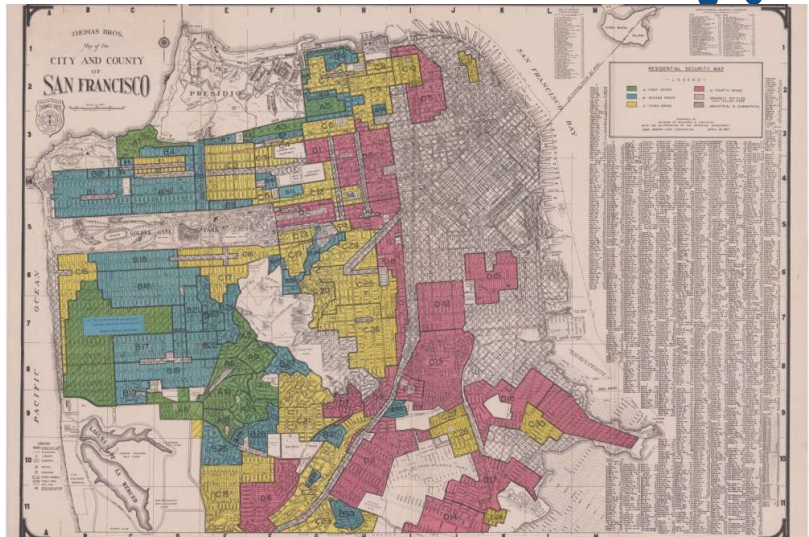
BROOKINGS

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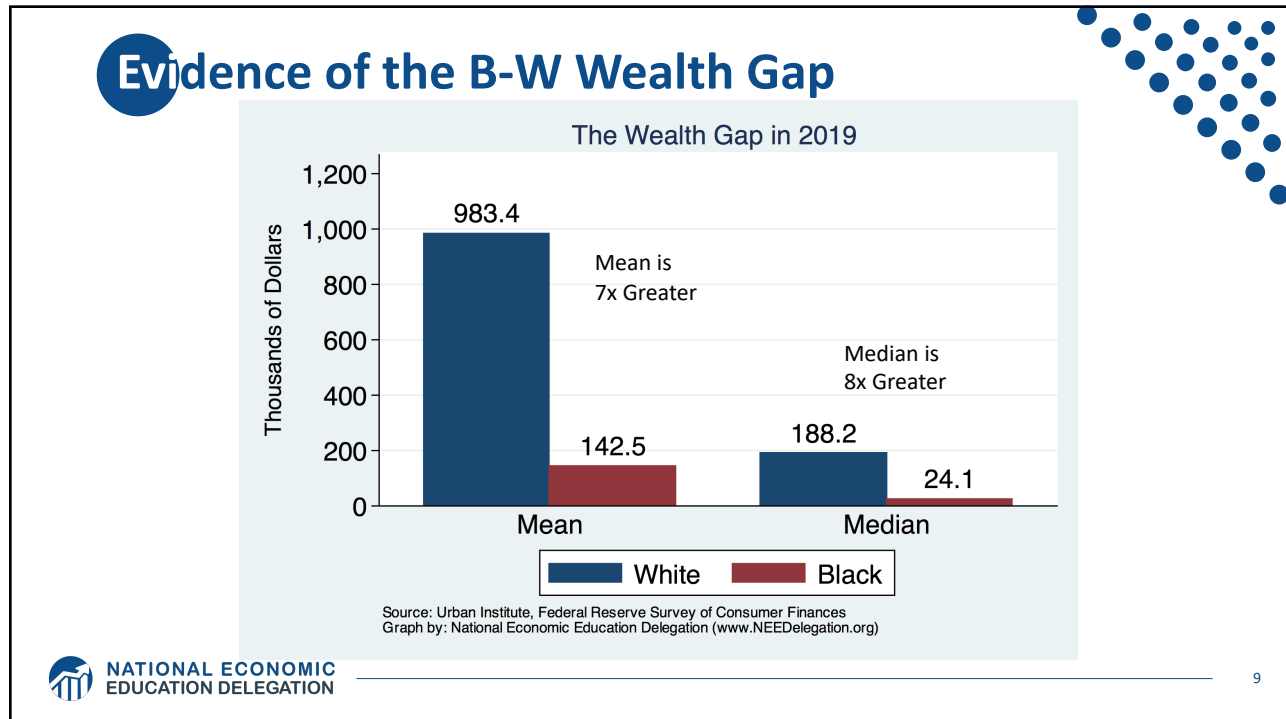
Misguided Past Policies: Redlining

Red areas were largely Black communities, and considered to be too risky for new home loans.

Yellow areas also suffered from discrimination resulting from FHA guidelines.



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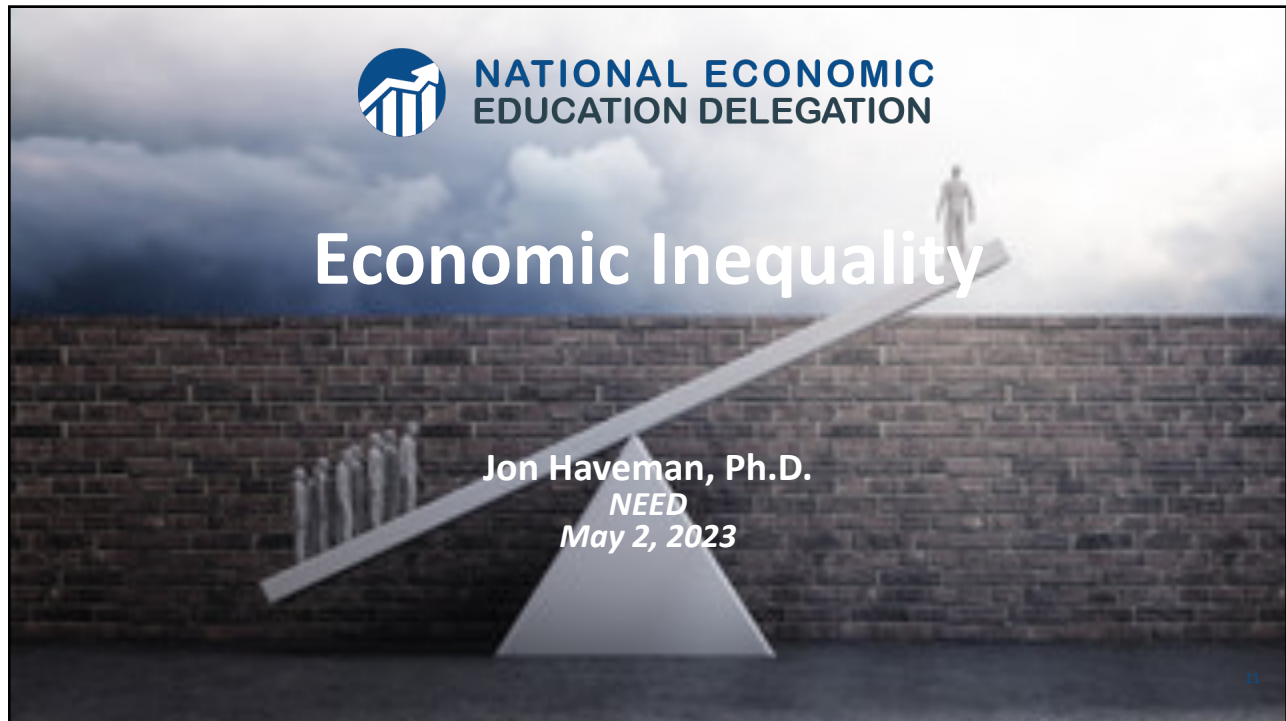
Submitting Questions

- **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 shortly (https://NEEDEcon.org/delivered_presentations.php)**

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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**
 - 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)

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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

- **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%



Source: Piketty and Saez, 2003 updated to 2018.
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

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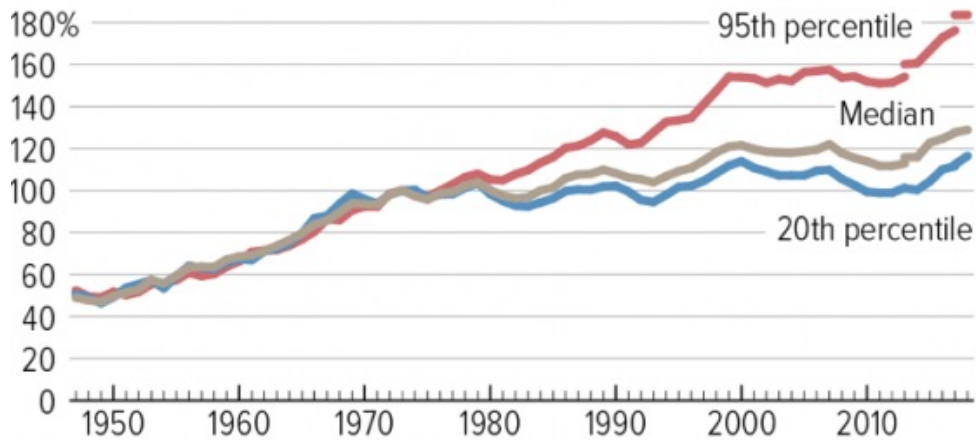
Recent Facts on Income Inequality

- **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.

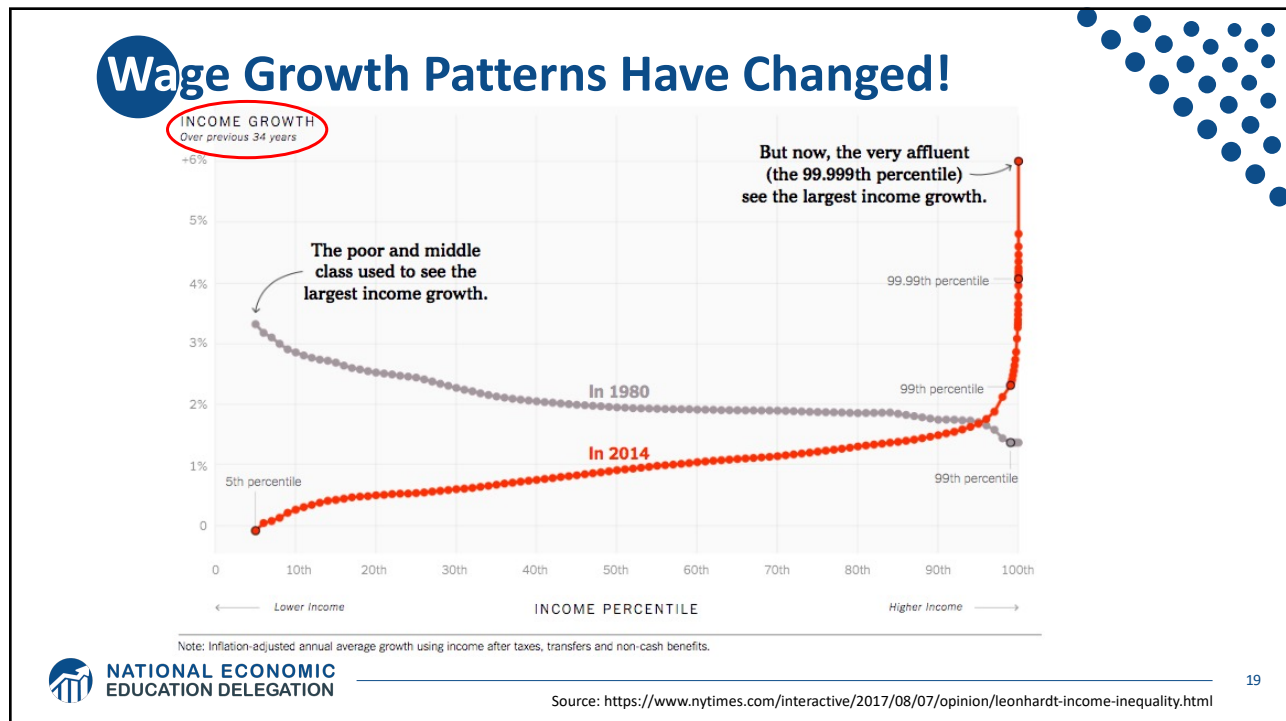
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The Abrupt Increase in Inequality

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



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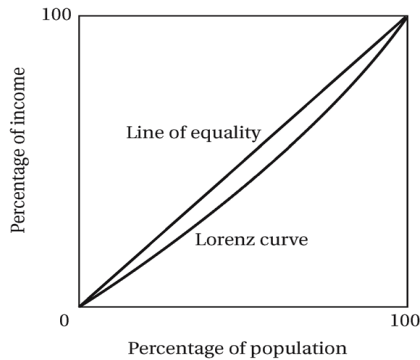
Gini Coefficient – Measuring Inequality

- **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
 - Sometimes measured between 0 and 100.

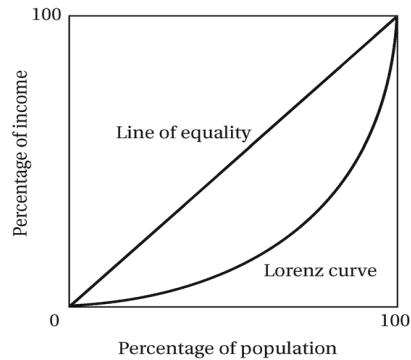
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Lorenz Curve of Income Distribution



(a) A relatively equal distribution

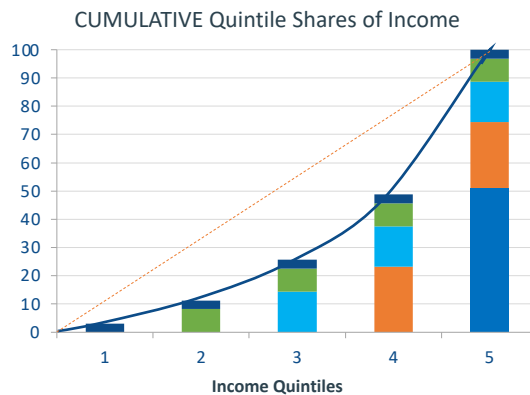
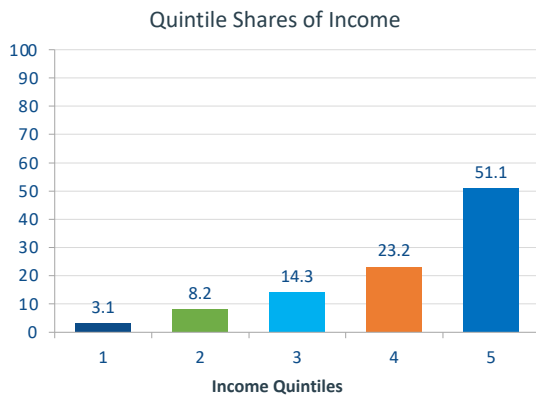


(b) A relatively unequal distribution

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

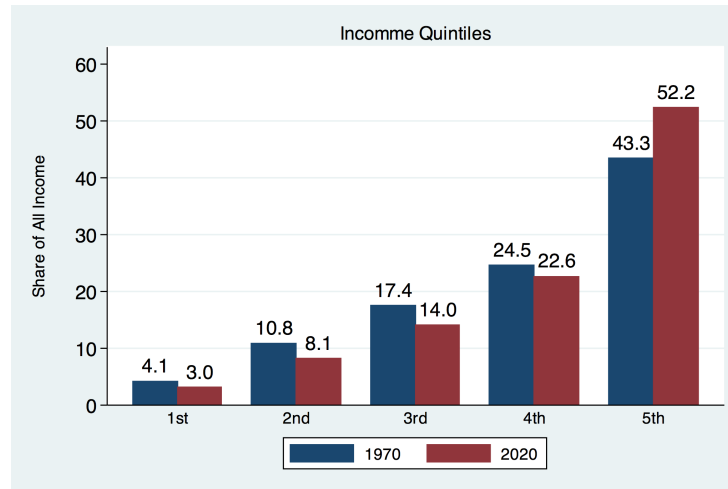


US Income Distribution: 2015



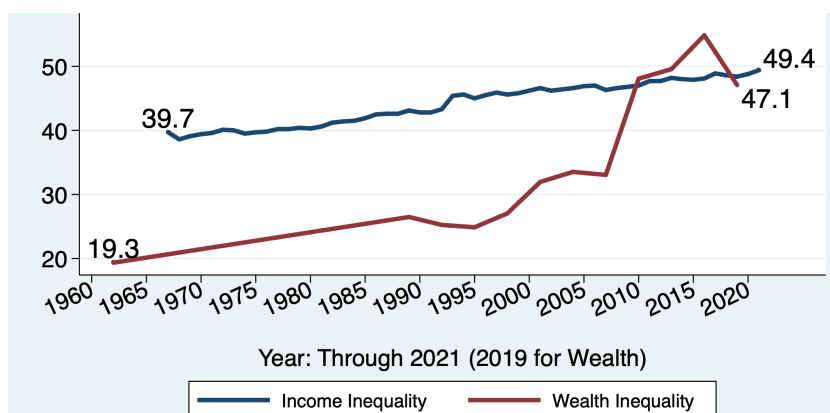
Source: 2015 1-year American Community Survey, based on pre-tax household income.

Income Share Changes Between 1970 and 2020



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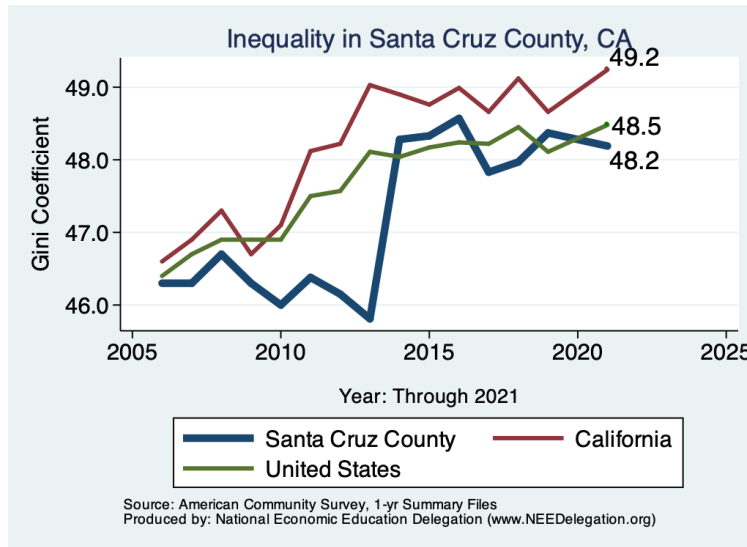
Income and Wealth Gini Coefficients



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 1989.

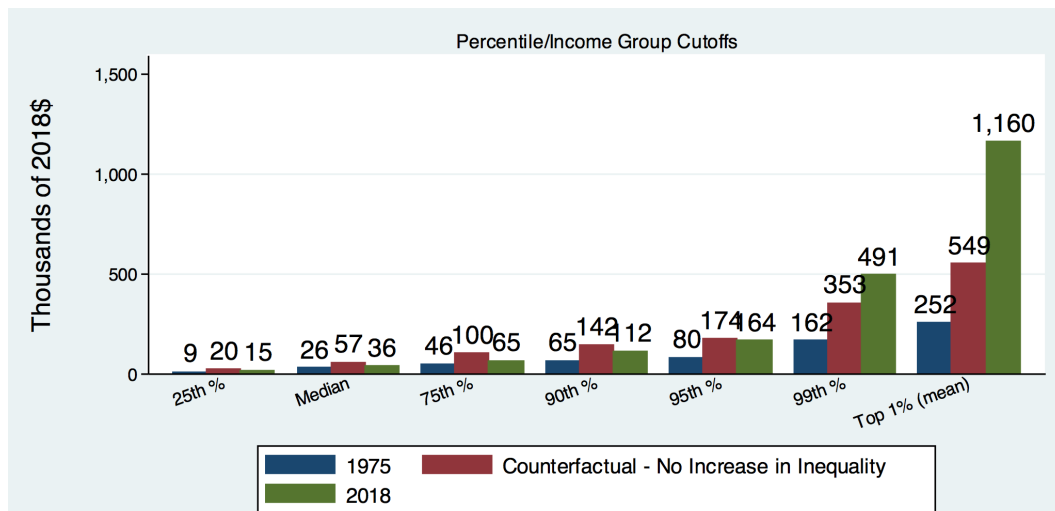
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Your Local Inequality Trend

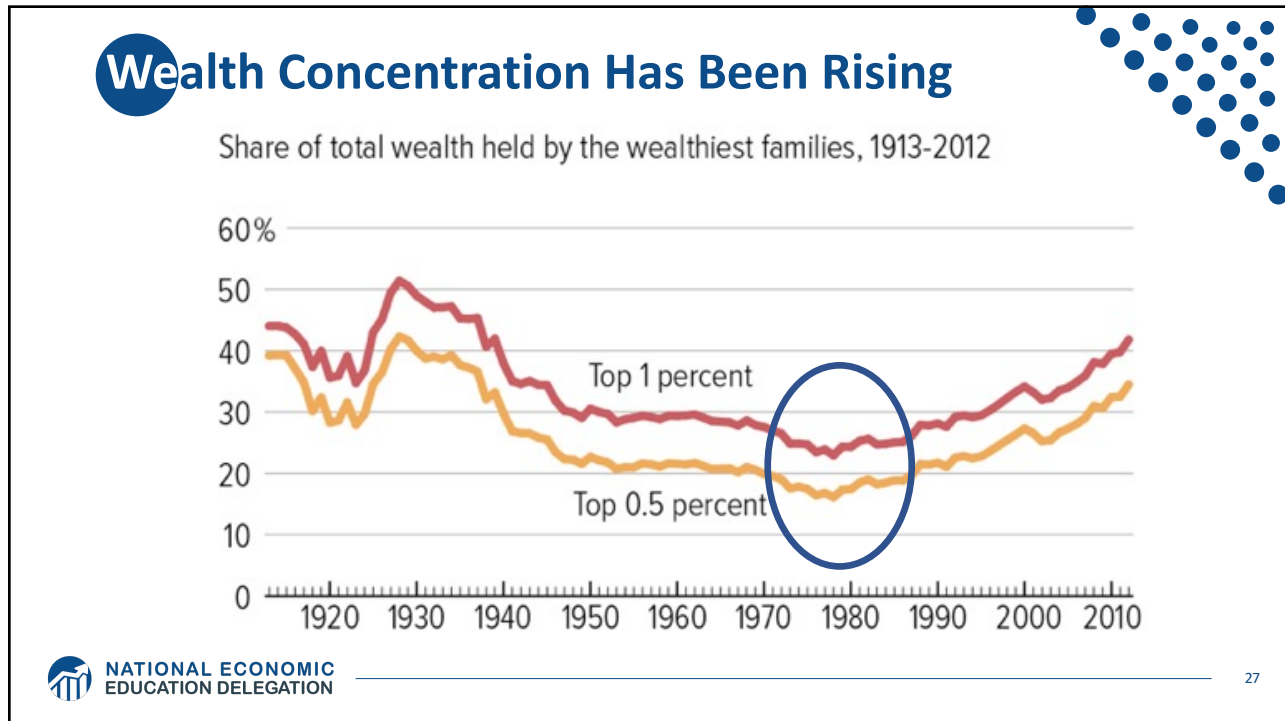


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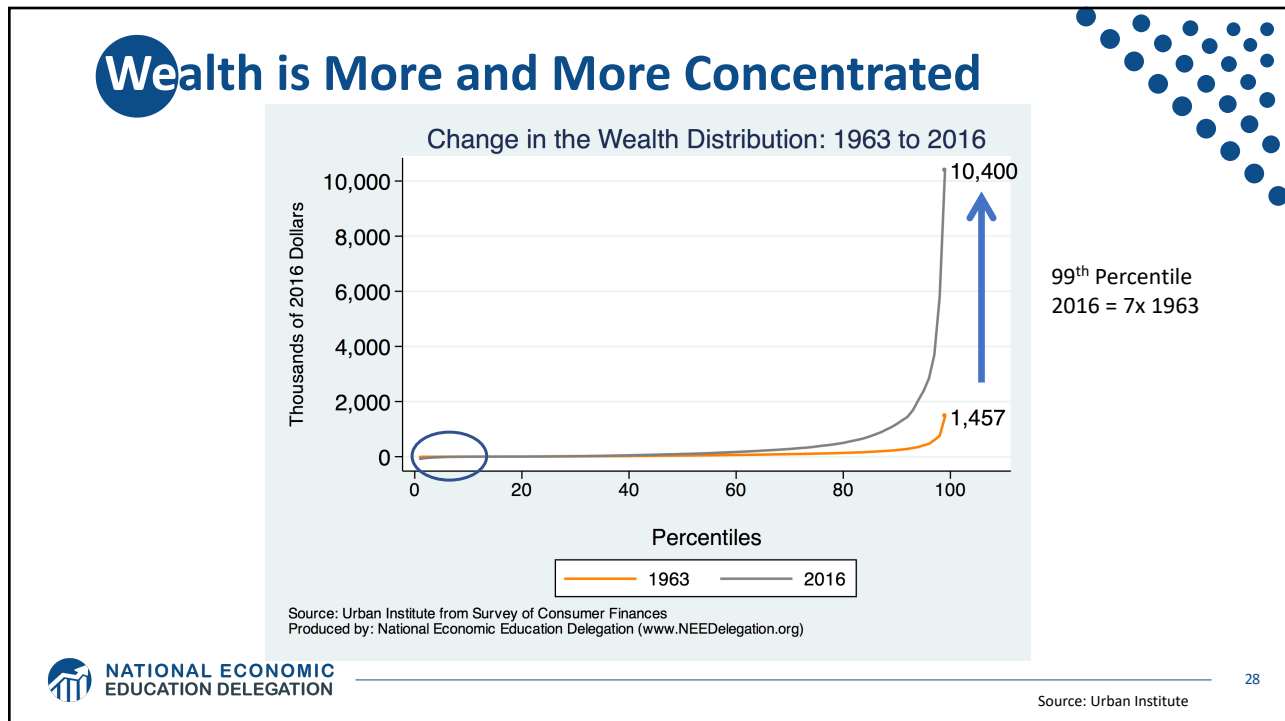
How Has Inequality Influenced Incomes?



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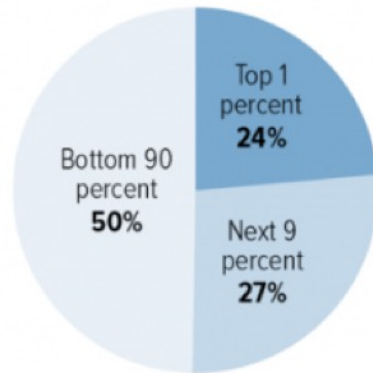
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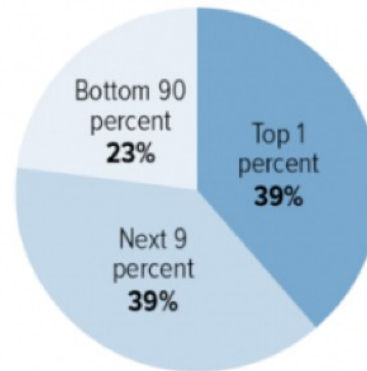
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Wealth Inequality Exceeds Income Inequality

Distribution of before-tax income, 2016



Distribution of wealth, 2016



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

Government Policy and Inequality

- **Market Influence: PRE-distribution**

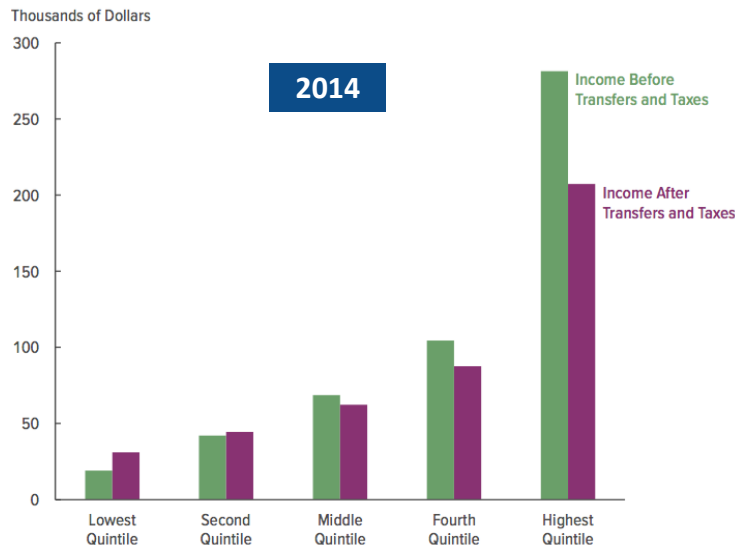
- Characteristics of labor
 - o Access to education
- Effects on labor demand
 - o Market regulation
 - Competition policy
 - o Labor regulations
 - Minimum wage, overtime, health insurance, union regulations, etc.

- **RE-distribution**

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

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Tax and Transfer Programs and Inequality



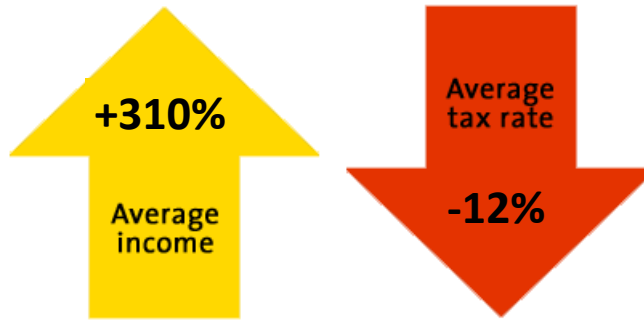
Source: U.S. Congressional Budget Office, "The Distribution of Household Income, 2014", Average Income Before and After Means-Tested Transfers and Federal Taxes, by Income Group, 2014.

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What About Tax Rates?

400 TAXPAYERS WITH HIGHEST INCOMES

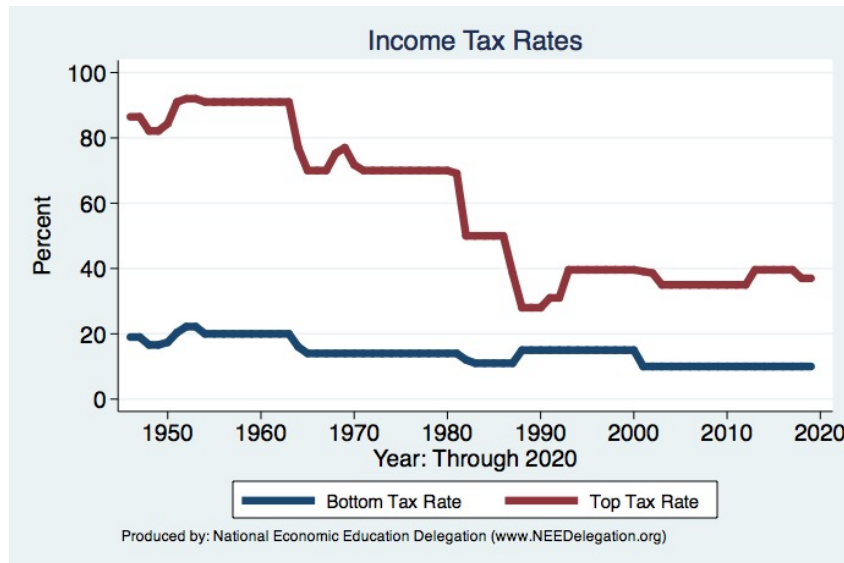
1992-2014



Source: IRS, Statistics of Income Division, December 2016.

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Tax Rates Over Time

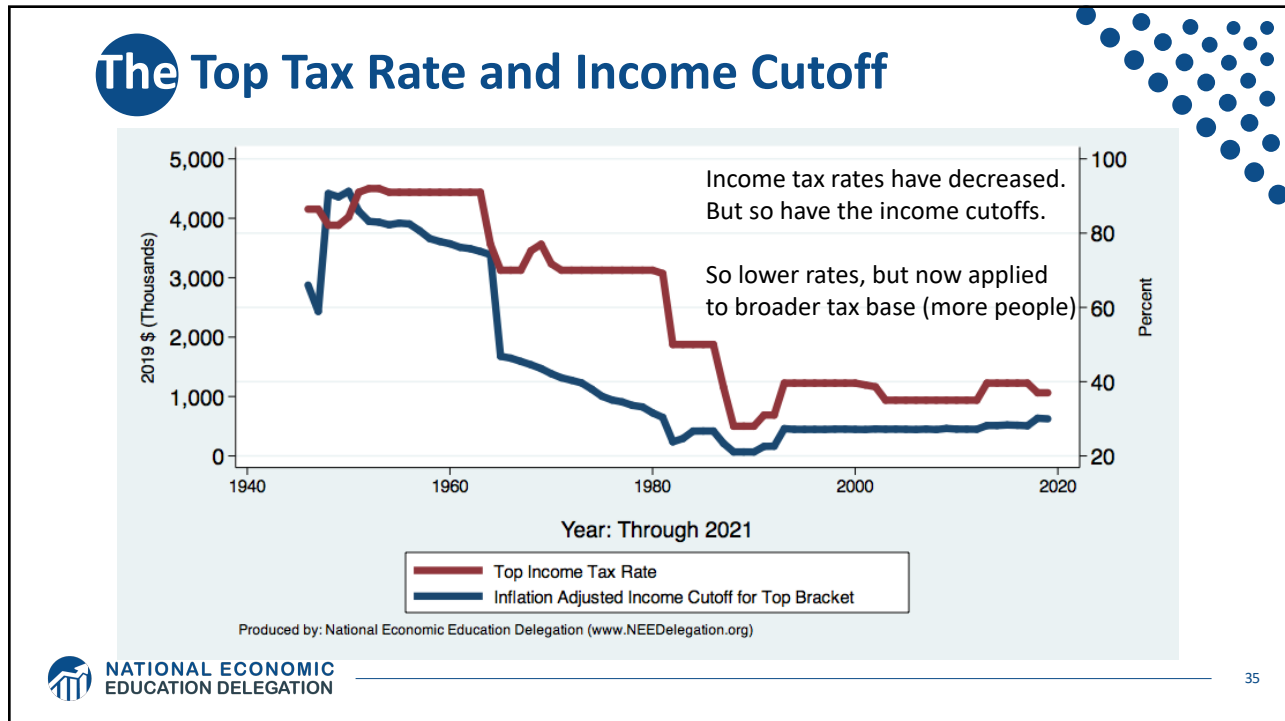


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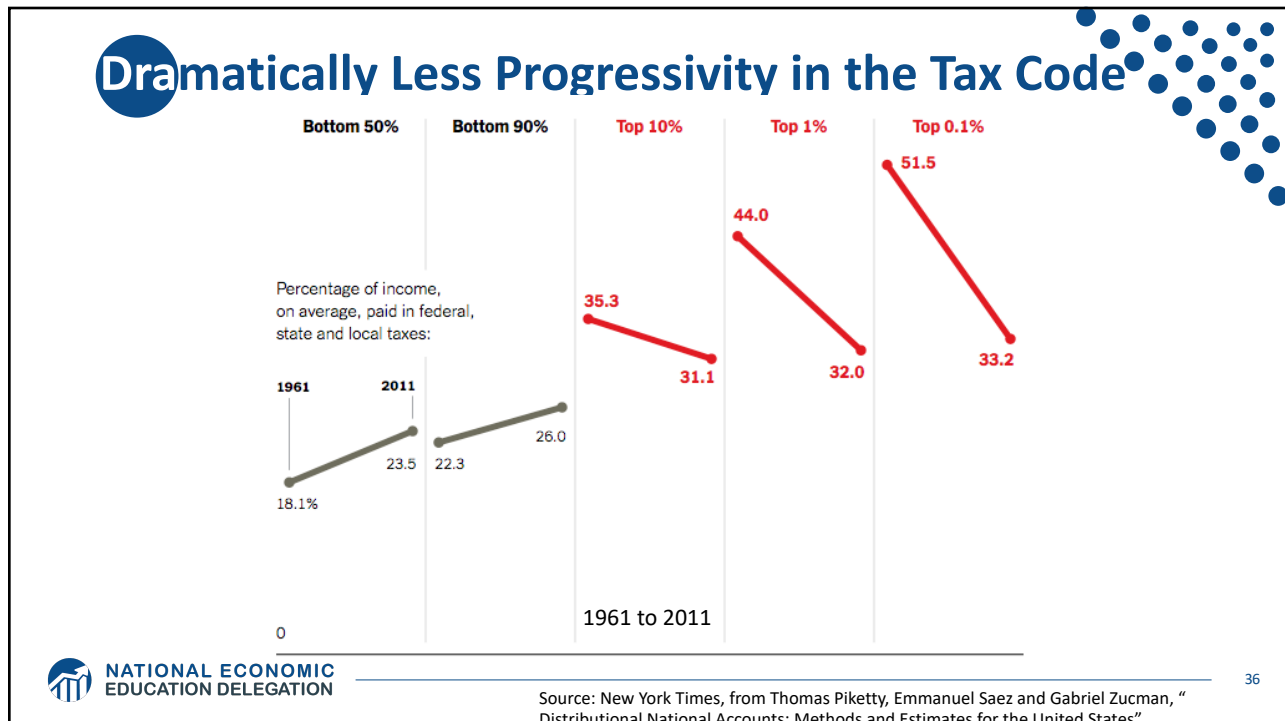


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Market Forces and Inequality

- **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

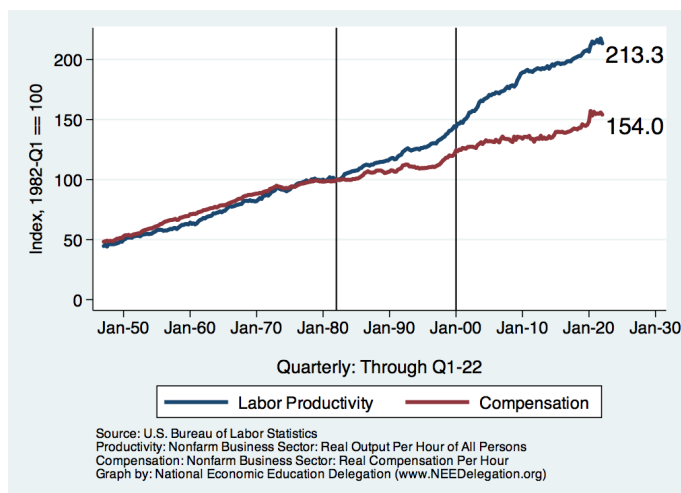


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Labor Income is Unhinged from Productivity



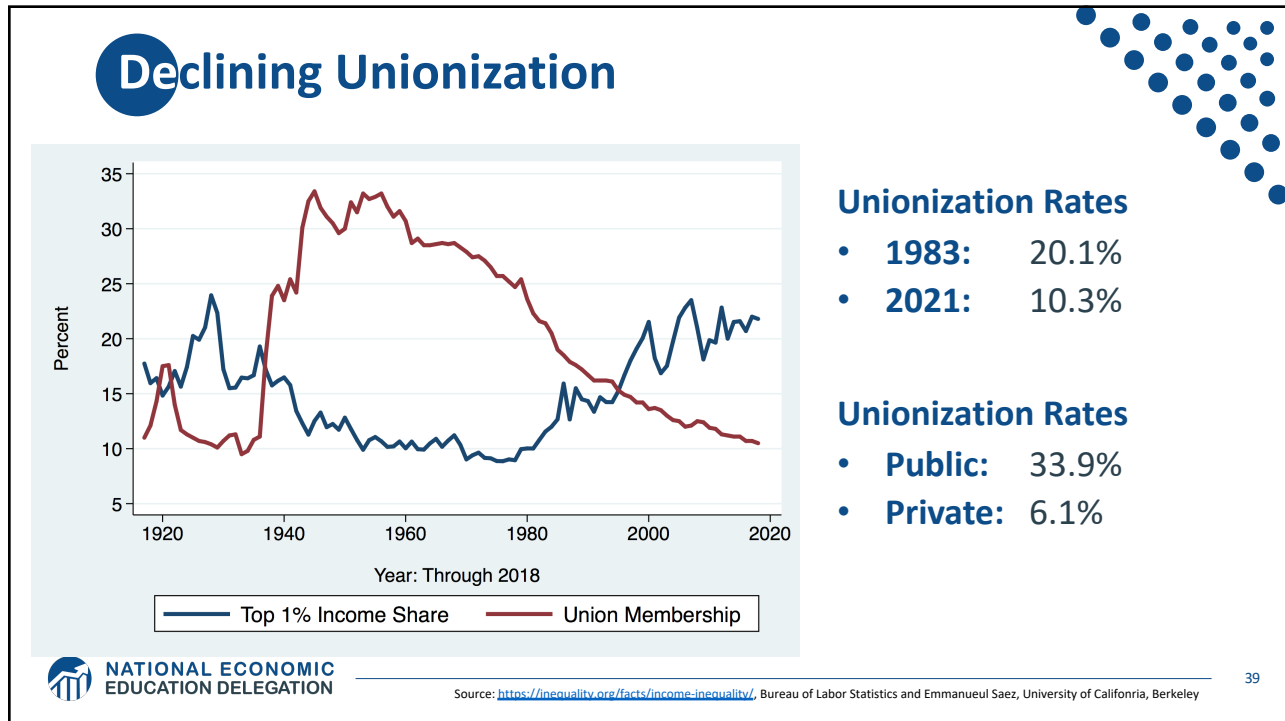
Why? Some theories:

- Declining unionization
- Competition policy
- Technological change
- Globalization

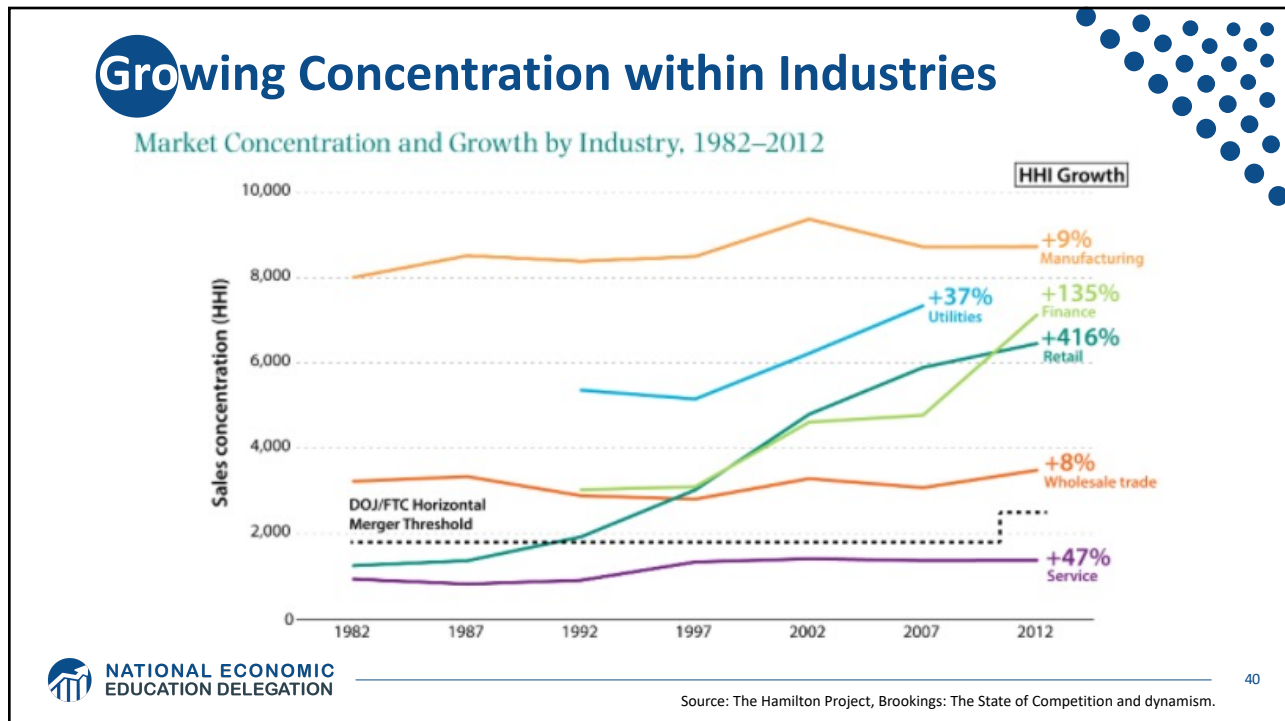


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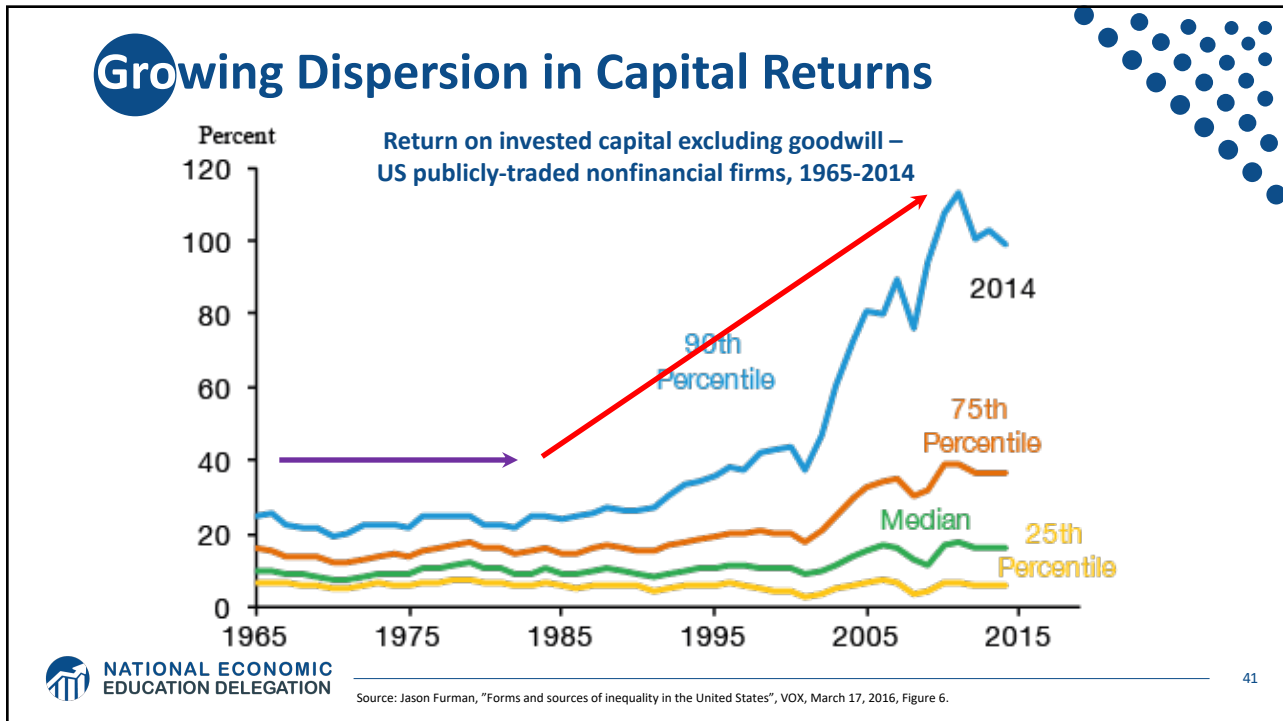
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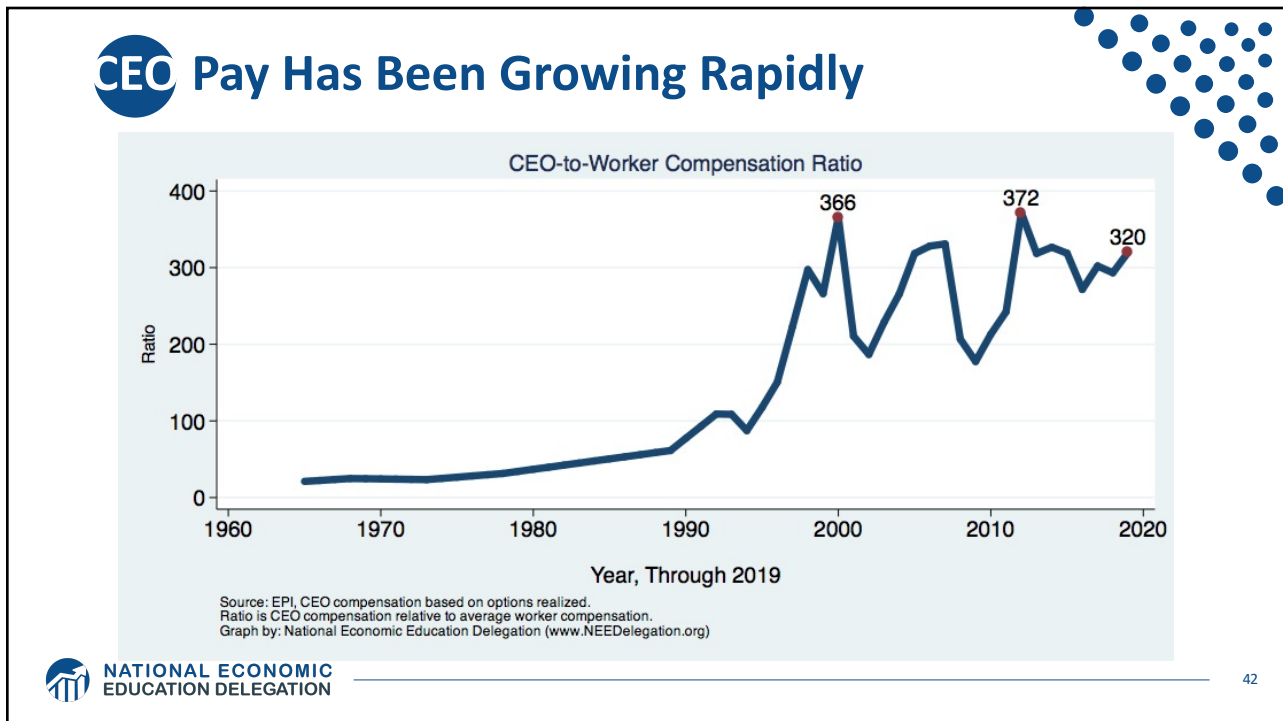
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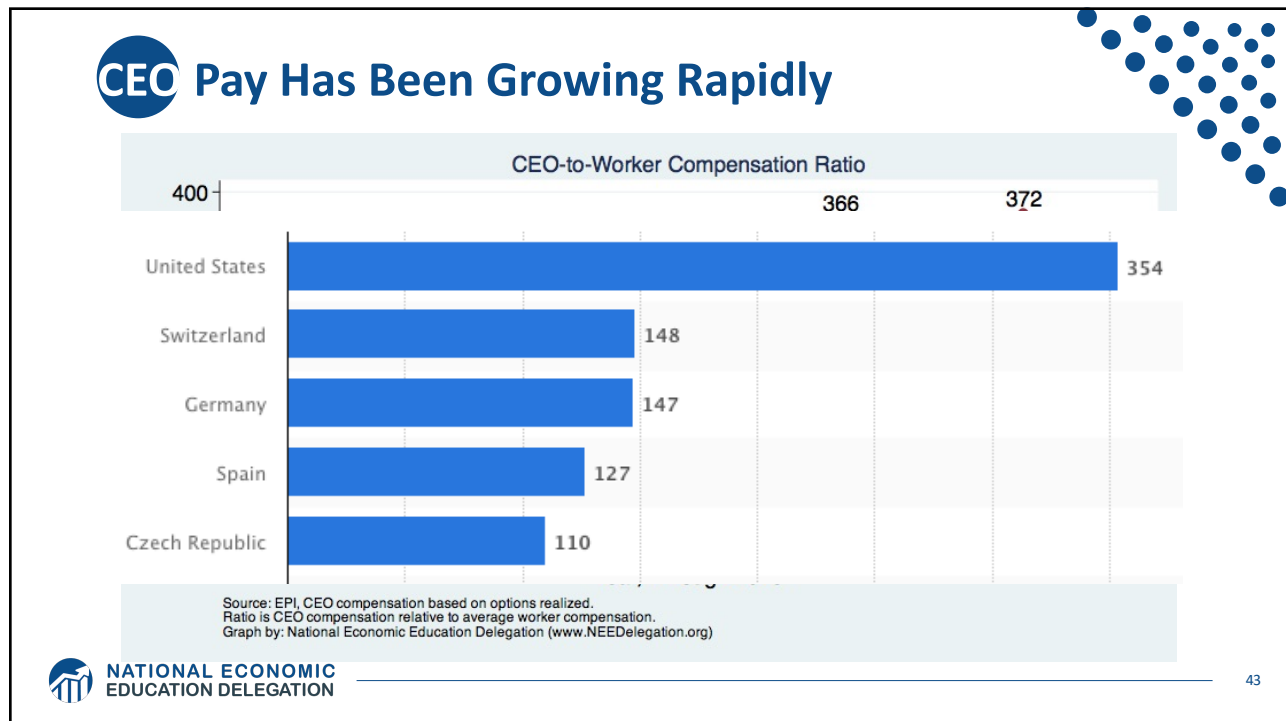
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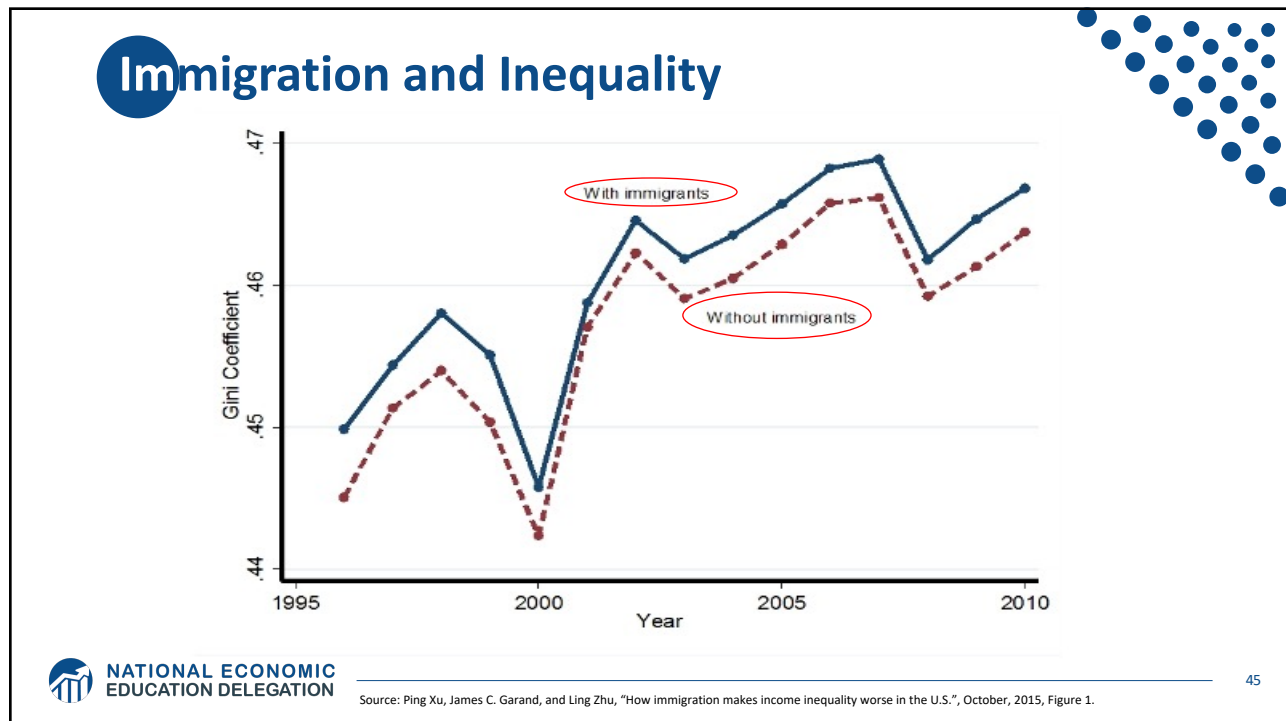
Immigration and Inequality

- **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 displace jobs



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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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What is driving increasing inequality?

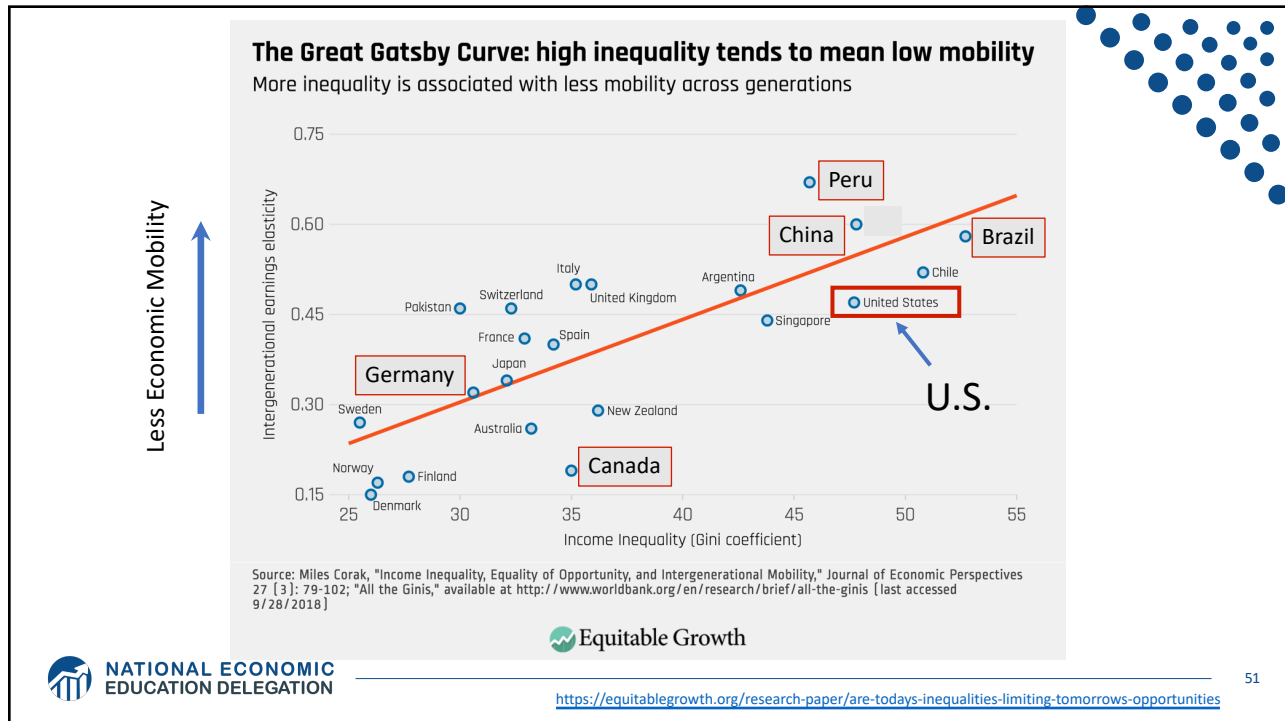
- **Primary drivers:**
 - Technological change
 - Increased globalization and trade
 - Institutions and policy choices
- **These drivers can also influence personal choices in ways that affect measured income inequality.**
 - For example, educational choices or labor force participation.



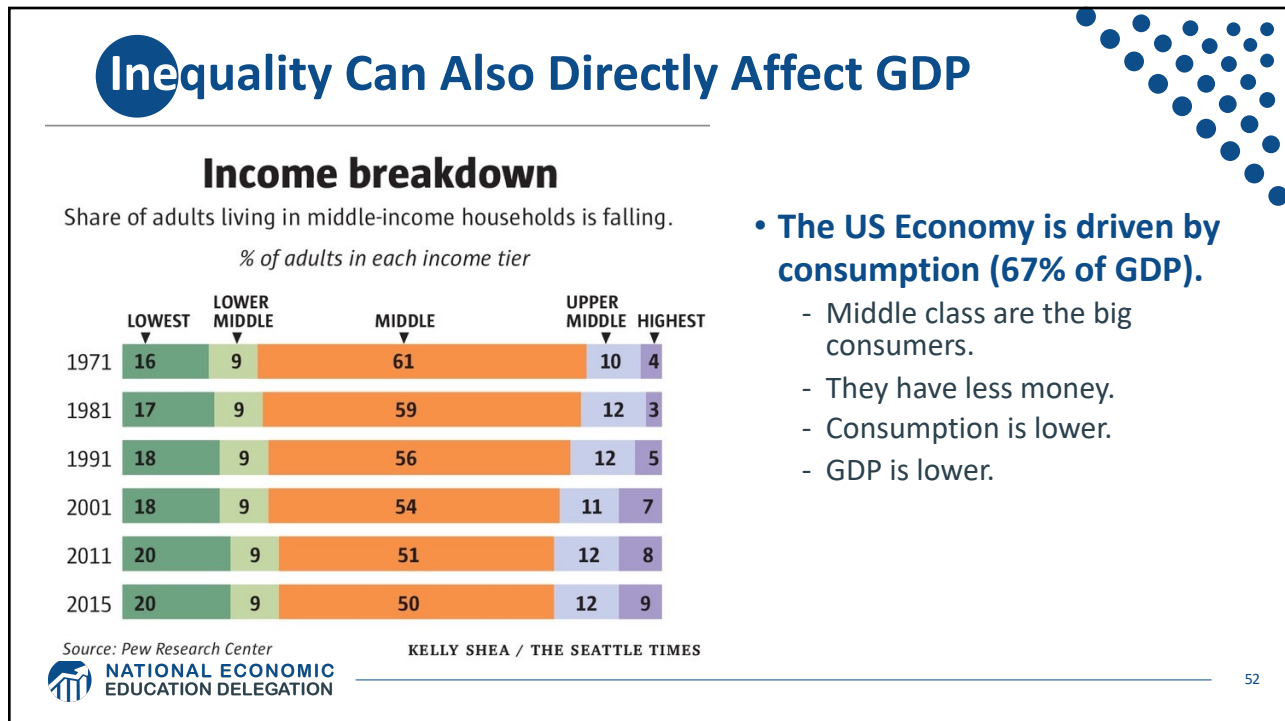
Why Does Inequality Matter?

- **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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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.



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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.**

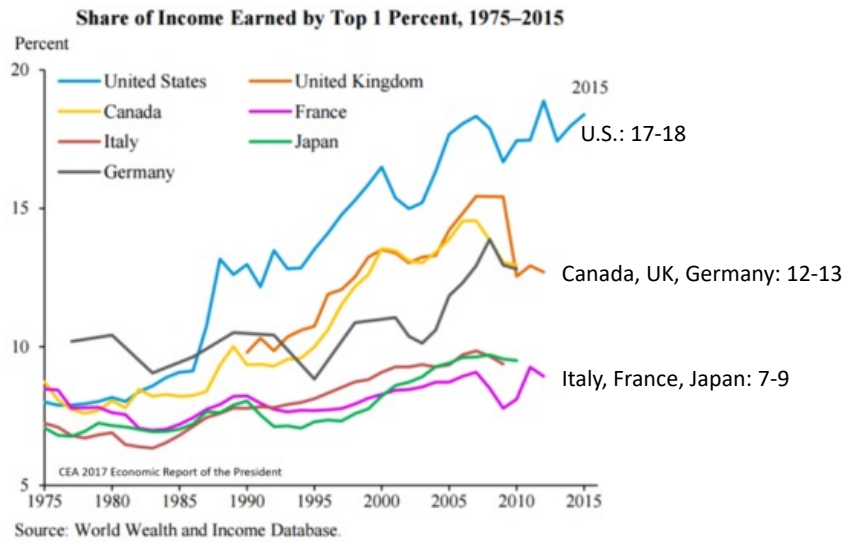


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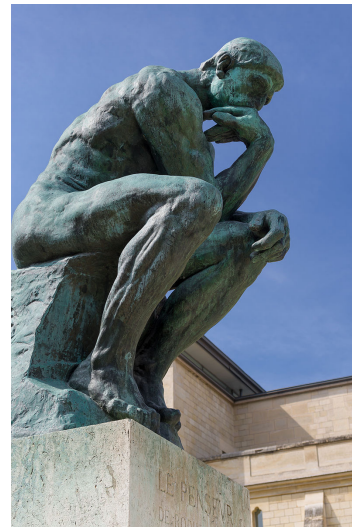
An International Perspective: Comparables



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What to do About Inequality?

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



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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.**

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Mobility

The fading American dream?

| Year | Share (%) |
|------|-----------|
| 1940 | 90 |
| 1944 | 88 |
| 1948 | 80 |
| 1952 | 78 |
| 1956 | 68 |
| 1960 | 65 |
| 1964 | 58 |
| 1968 | 60 |
| 1972 | 62 |
| 1976 | 58 |
| 1980 | 50 |
| 1984 | 52 |

Source: Chetty et al., "The fading American dream: Trends in absolute income mobility since 1940"

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Thank you!

Any Questions?

www.NEEDelegation.org

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