

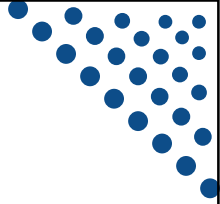
Osher Lifelong Learning Institute, Winter 2024 **Contemporary Economic Policy**

University of Cincinnati
January-February 2024

Jon Haveman, Ph.D.
National Economic Education Delegation

Available **NEED** Topics Include:

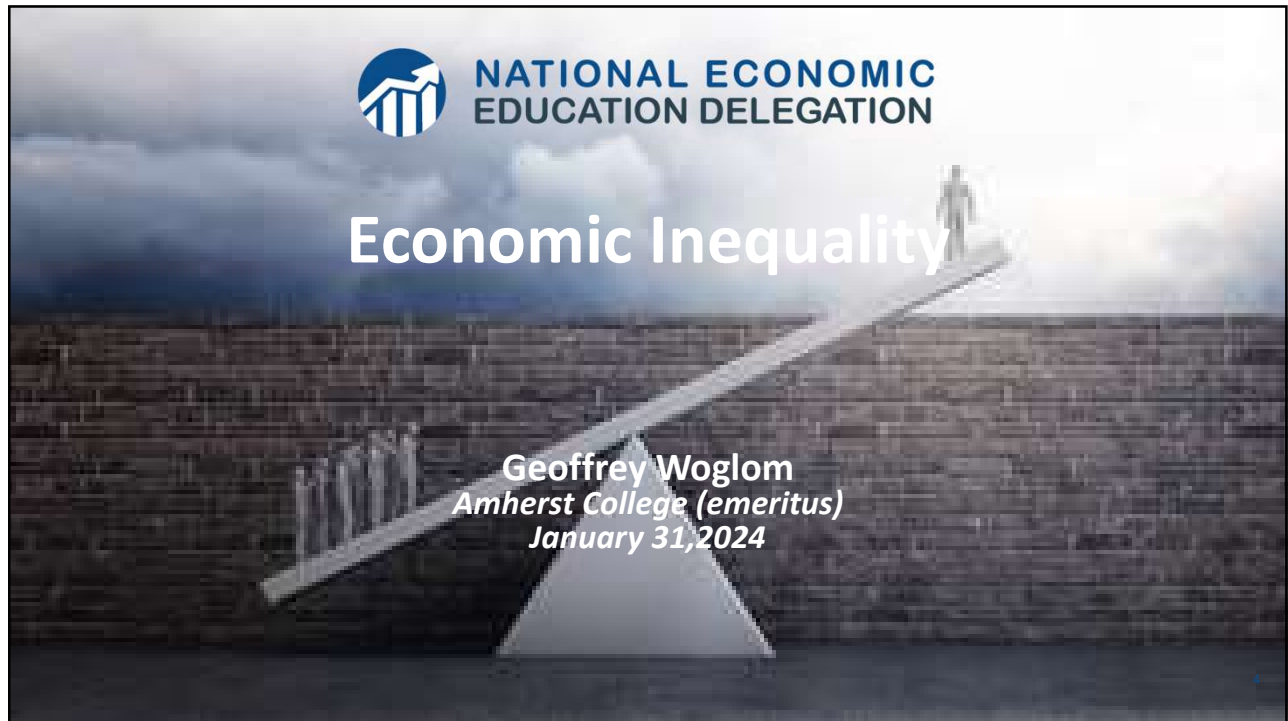
- US Economy
- Healthcare Economics
- Climate Change
- Economic Inequality
- Economic Mobility
- Trade and Globalization
- Minimum Wages
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- Black-White Wealth Gap
- Autonomous Vehicles
- US Social Policy



Course Outline

- **Contemporary Economic Policy**

- Week 1 (1/24): Economic Update (Geoffrey Woglom Amherst College)
- **Week 2 (1/31): Economic Inequality (Geoffrey Woglom)**
- Week 3 (2/7): Economic Mobility (Kathryn Wilson Kent State U))
- Week 4 (2/14): Discrimination in U.S. Policy History (Jon Haveman NEED))
- Week 5 (2/21: The Black-White Wealth Gap (Jon Haveman)



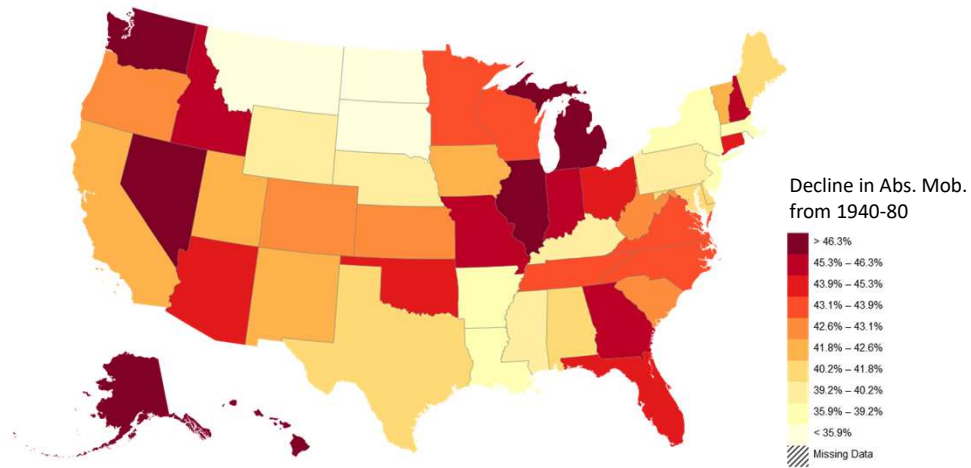
Credits and Disclaimer

- **This slide deck was authored by:**
 - Jon Haveman, Executive Director of NEED
 - Geoffrey Woglom, Amherst College
- **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
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II. Empirical Patterns of Economic Mobility

American Dream: Geography Matters

Trends in Absolute Mobility by State: Change from 1940-1980



Outline

- Definitions.
- Snapshots of US Inequality.
- Inequality over time.
- Does it matter?
- The New Inequality?
- What to do about it.

Economic Inequality: Income

- **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 Material Inequality

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

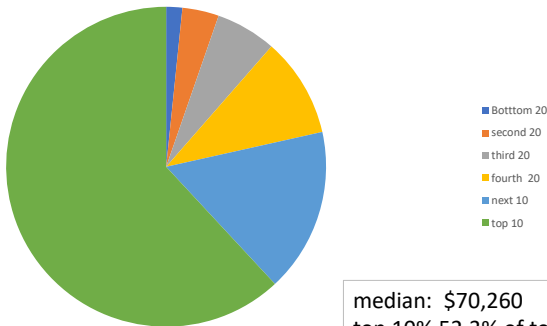
How does wealth differ from income?

Income is measured over a period of time, say one year and measures ability to consume today.

Wealth is one's accumulated savings, including physical and financial assets (net worth), and measures the ability to consume now and in the future.

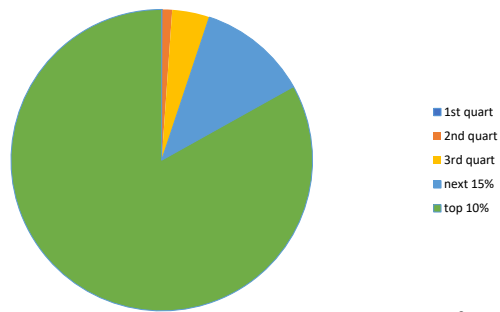
Measuring Material Inequality

Before-Tax Household Income 2022



median: \$70,260
top 10% 52.3% of total

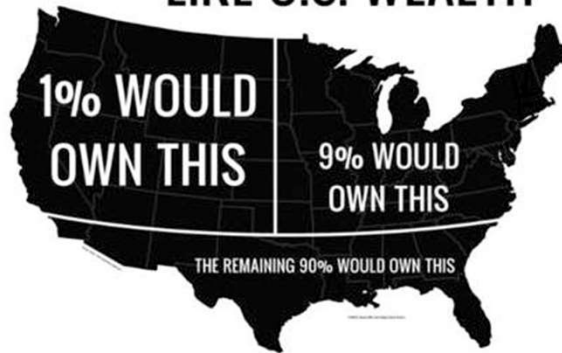
Household Net Worth 2022



Top 10% comprise 73% of total

Wealth inequality in America

IF U.S. LAND WERE DIVIDED LIKE U.S. WEALTH

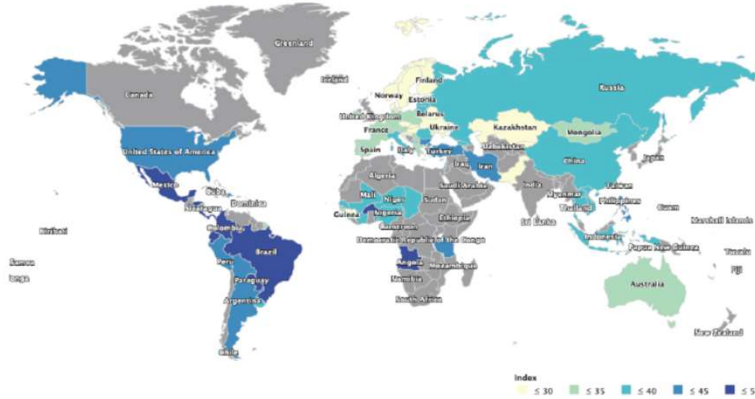


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How We Compare to the Rest of the World

Figure 2
Gini Index by Nation

FRED 2018 GINI Index by Nation (Index)

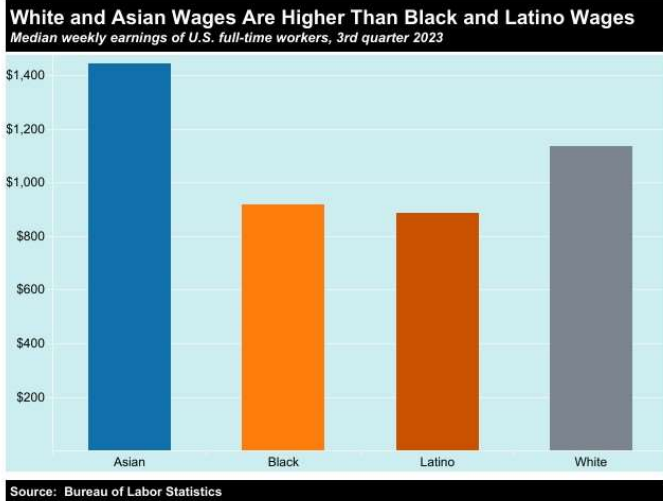


SOURCE: World Bank via FRED*, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/graph/?m=ORFb>, accessed April 6, 2021.

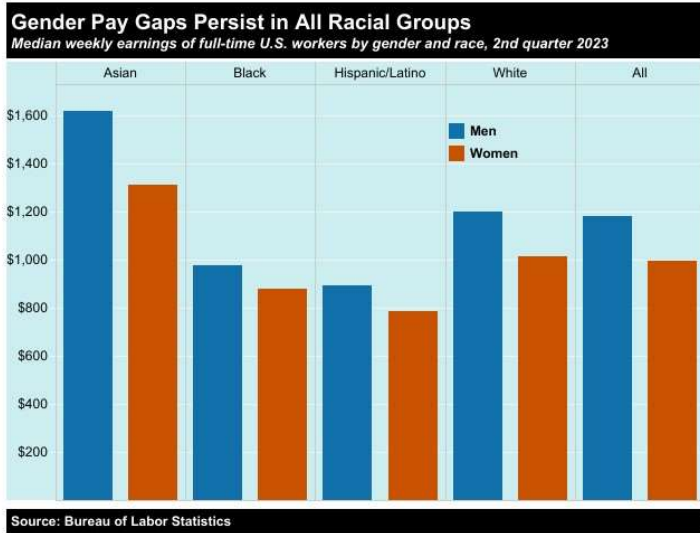
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https://files.stlouisfed.org/files/htdocs/publications/page1-econ/2022/09/01/income-and-wealth-inequality_SE.pdf

Racial Wage Gaps

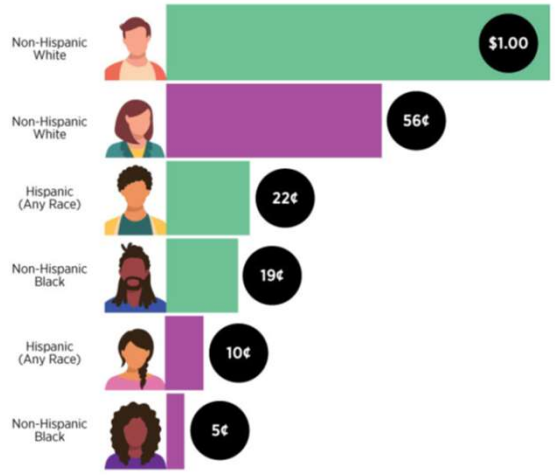


Gender Pay Gaps



Racial and Gender Wealth Inequality

The U.S. Wealth Gap is Particularly Large for Families Headed by Women of Color

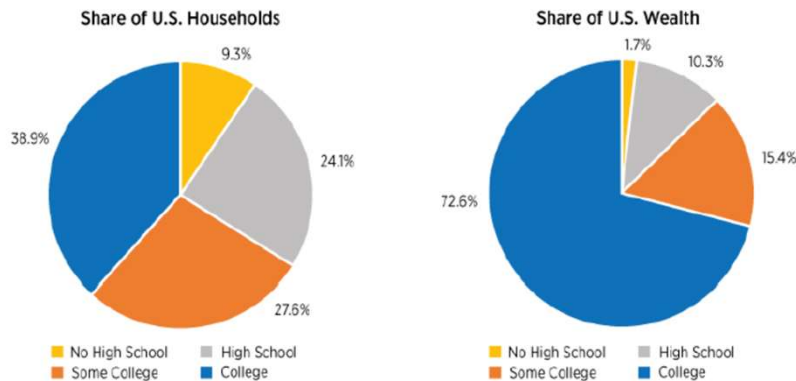


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FEDERAL RESERVE BANK OF ST. LOUIS

NOTES: Demographic characteristics are taken from the survey respondent. All marital statuses are included. SOURCES: Federal Reserve Board's Survey of Consumer Finances (2019) and author's calculations

Household Wealth by Education, 2023, Q2



FEDERAL RESERVE BANK OF ST. LOUIS

SOURCES: Distributional Financial Accounts and Institute for Economic Equity calculations.

NOTE: College represents families with at least a bachelor's degree; other education levels represent the families' highest completed education.

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Case and Deaton's Astounding Findings

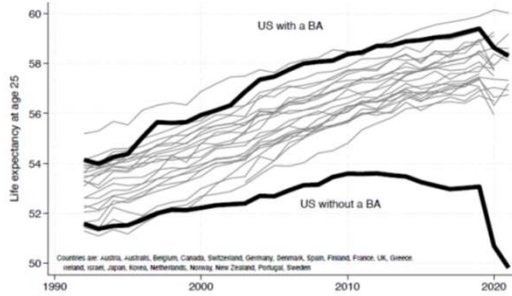
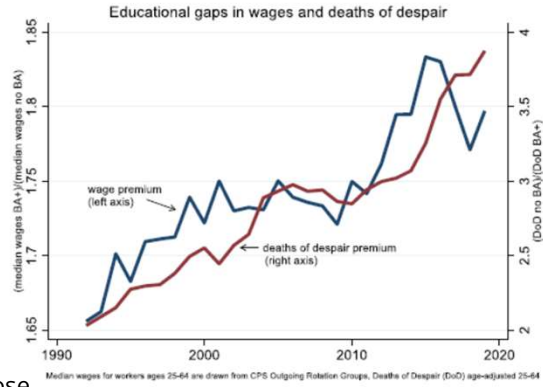


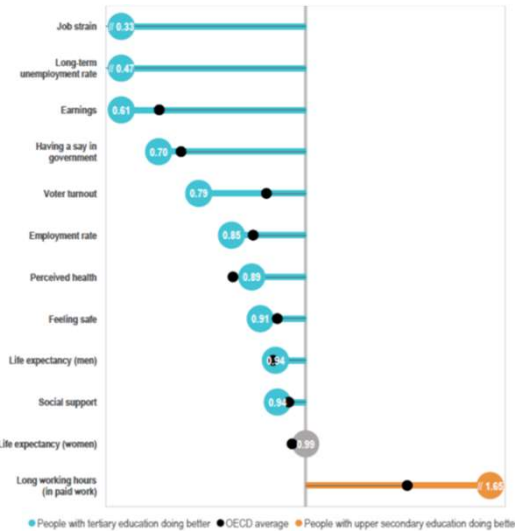
Figure 3: Adult life expectancy for Americans by college degree and for 22 rich countries



Opioids were involved in more than 80,000 overdose deaths in 2021, which was 10 times the number of opioid overdose deaths in 1999. <http://wonder.cdc.gov/>

Education Matters for Broader Measures of Inequality

Ratio of indicators of well being



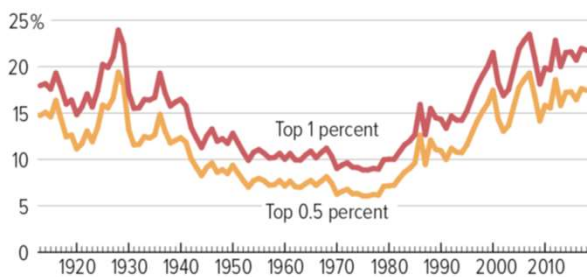
Summary of Snapshot

- Top 10% earns over 50% of total income and 70% of total wealth
- US is one of the more unequal countries in the industrialized world.
- Earning a BA is important for
 - Earnings.
 - Life Satisfaction.
 - Life Expectancy.

How Did We Get Here: The Long View

Income Concentration at the Top Has Risen Sharply Since the 1970s

Share of total before-tax income flowing to the highest income households (including capital gains), 1913-2018

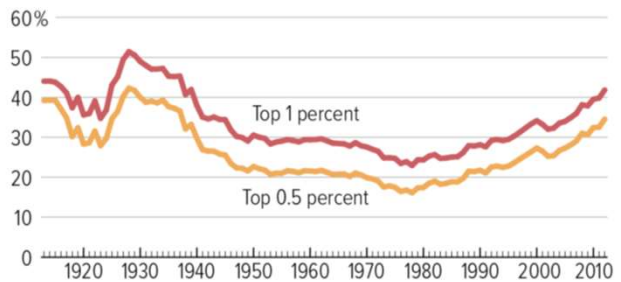


Source: Emmanuel Saez, based on IRS data

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

Wealth Concentration Has Been Rising Toward Early 20th Century Levels

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



Source: Saez and Zucman, May 2016

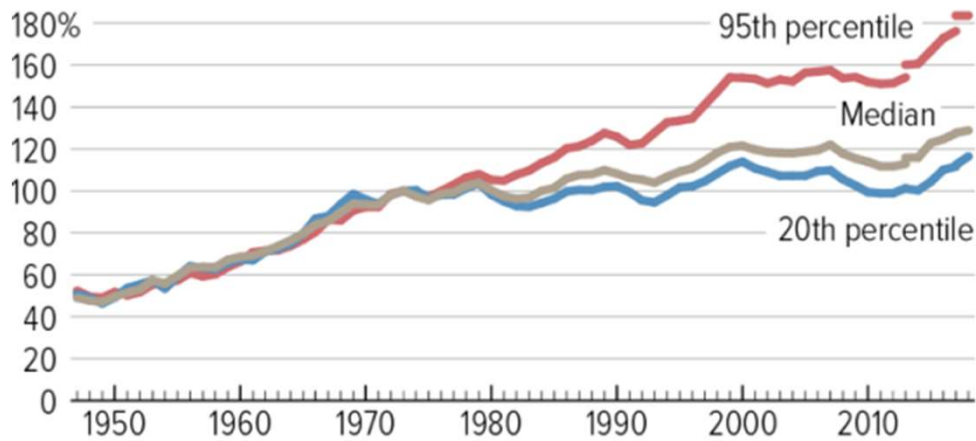
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The “Great Divergence:” 1979-2019

- **Beginning in the late 1970s, income gaps widened.**
 - Income growth in the middle and lower parts of the distribution slowed.
 - Incomes at the top continued to grow strongly.

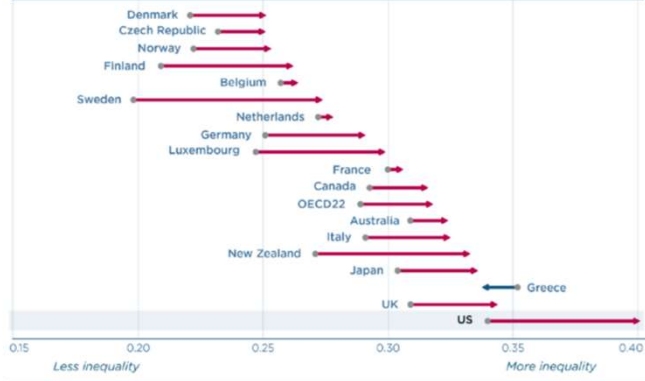
The Abrupt Increase in Inequality

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



Increasing Inequality is Not Just US Phenomenon

Figure 1: Change in Gini coefficient, 1985 to 2013



Note: 1985 data refer to 1985 or closest available year. 2013 data refer to 2013 or nearest available year. The Gini coefficient measures how equally income is distributed across a population, from 0 (perfectly equal) to 1 (all income to one person).

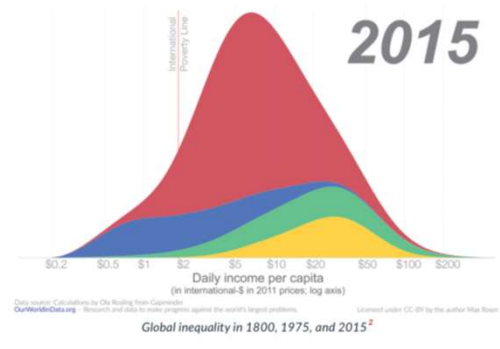
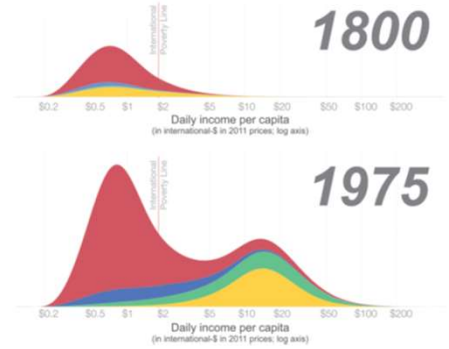
Source: Organization for Economic Cooperation and Development (OECD), "In It Together: Why Less Inequality Benefits All."

But Global Inequality is Falling!

Global income distribution in 1800, 1975, and 2015

Income is measured by adjusting for price changes over time (inflation) and for price differences between countries (purchasing power parity (PPP) adjustment). These estimates are based on reconstructed National Accounts and within-country inequality measures. Non-market income (e.g. through home production such as subsistence farming) is taken into account. The International Poverty Line is set by the United Nations and is the poverty line that defines extreme poverty.

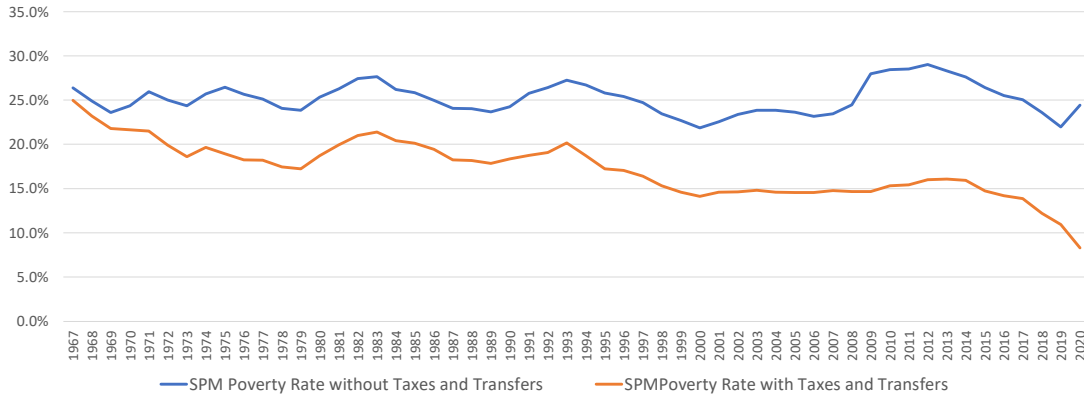
Legend: Europe (Yellow), Asia and Pacific (Red), Africa (Blue), North- and South America (Green)



Global inequality in 1800, 1975, and 2015²

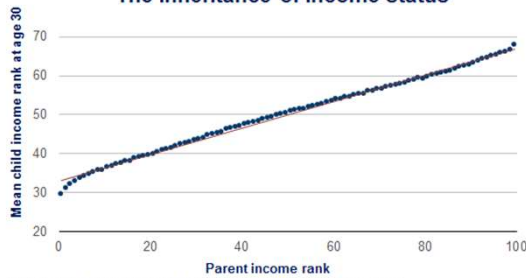
“Inequality Doesn’t Matter; Poverty Does” (?)

US Poverty and the Effects of Tax and Transfer Programs.



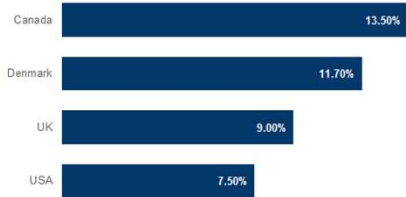
“Inequality Doesn’t Matter with Intergenerational Mobility (Horatio Alger)” (?)

The inheritance of income status



Source: Chetty et al., “Where is the land of opportunity? The geography of intergenerational mobility in the United States.” Figure 11a: Association between children’s and parent’s percentile rank

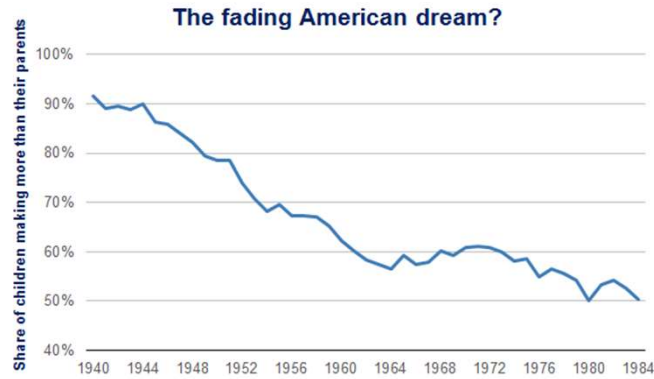
Relative mobility is almost twice as high in Canada



■ Probability that a child born to parents in the bottom fifth of the income distribution reaches the top fifth

Sources: Chetty et al., “Where is the land of opportunity? The geography of intergenerational mobility in the United States” (USA); Blanton and Machin, “Up and down the generational income ladder in Britain: Past changes and future prospects” (UK); Boserup, Kopczuk, and Kremer, “Intergenerational Wealth Mobility: Evidence from Danish Wealth Records of Three Generations” (Denmark); Corak and Heisz, “The intergenerational earnings and income mobility of Canadian men: Evidence from longitudinal tax data” (Canada)

Inequality Doesn't Matter because Children Are Better Off Than Their Parents (?)



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

BROOKINGS

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.

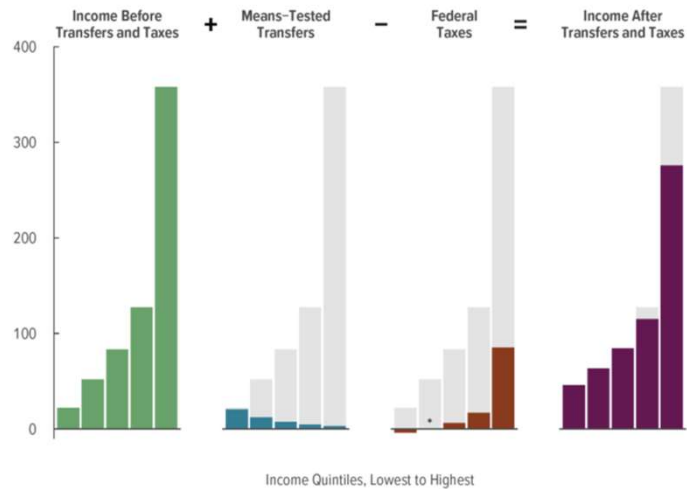
• RE-distribution

- Tax Rates
- Income support
 - o Direct aid
 - o Food stamps
- Medicare & SSA rules

Tax and Transfer Programs and Inequality

Average Real Income, Means-Tested Transfers, and Federal Taxes in 2020

Thousands of 2020 Dollars



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https://www.cbo.gov/system/files/2023-11/59509-household-income_2019-2020.pdf

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Market Forces and Inequality

• Changing demand patterns

- Technology and “skill-biased technological change”
- Increased Trade and Globalization
- Industry composition
 - o PCs instead of typewriters
 - o Services instead of goods
 - o Professional services instead of personal services

• Competition in labor markets

- Unionization
- Market concentration



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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 and college degrees.
 - Owners over workers.
- **What will AI do to this story?**



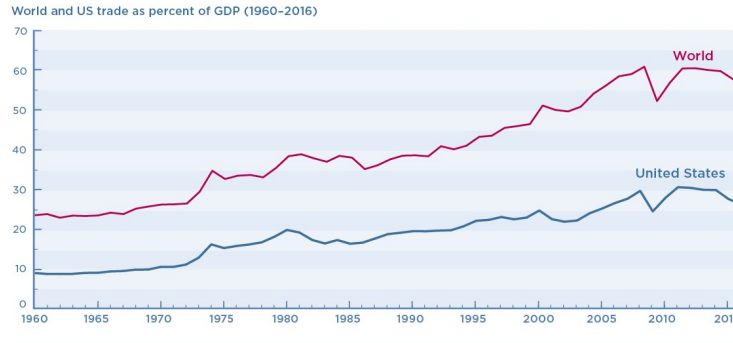
Globalization

- **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 Globalization lifted 300 million Chinese out of poverty.



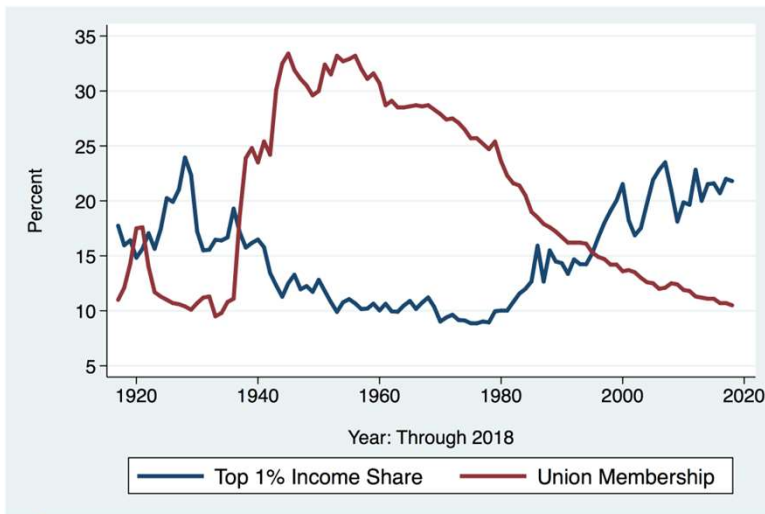
History of Globalization

US trade grew to levels exceeding a third of its GDP. World trade volume now surpasses half of world GDP.



Sources: World Bank: World Bank DataBank and International Debt Statistics; International Monetary Fund: International Financial Statistics and Balance of Payments databases; GDP estimates from World Bank and Organization for Economic Cooperation and Development.

Declining Unionization



Unionization Rates

- **1983:** 20.1%
- **2022:** 10.1%

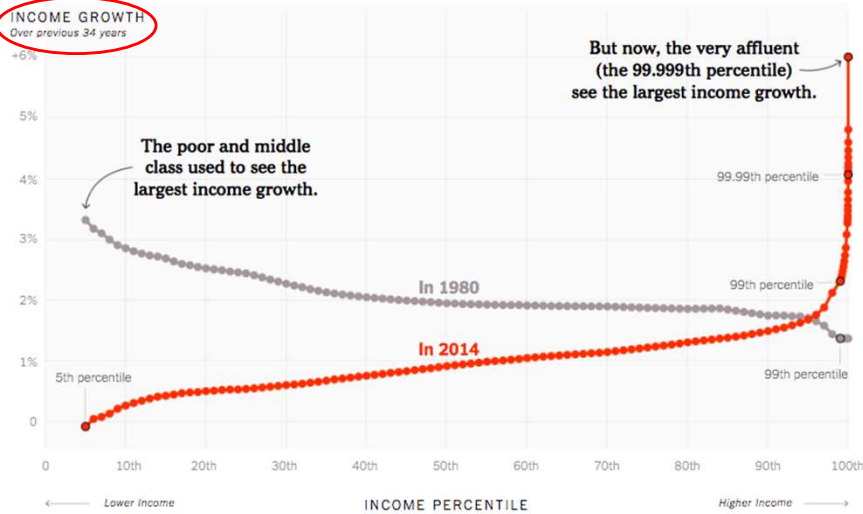
Unionization Rates

- **Public:** 33.1%
- **Private:** 6.0%

Why Does Inequality Matter?

- **Economic Reason:** too much inequality slows economic growth.
- **Ethical Reasons:** concern for our neighbors.
- **Political Reasons:** political polarization leads to government paralysis and an inability to take needed action.

How Has Income Inequality Changed?



Note: Inflation-adjusted annual average growth using income after taxes, transfers and non-cash benefits.

Average Income Growth by Generation

Generation	Bottom 50%	Middle 40%	Top 10%	Top 1%
Greatest (46-70)	2.85	2.57	2.03	1.27
Boomer (70-94)	0.15	1.20	1.86	2.28
Gen X (94-15)	0.61	0.93	1.94	2.56

Distributional National Accounts: Methods and Estimates for the United States (with T. Piketty and E. Saez, Accessed from: <https://gabriel-zucman.eu/usdina/> and my calculations.

Something changed in the nature of our economy and society somewhere at about the same time as the rise in inequality.



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New Inequality due to Meritocracy

- **Greatest Generation and Meritocracy**

1. GI Bill.
2. High-paying, unionized manufacturing jobs.

- **Boomers**

1. 1960s: SATs become more important and legacy status less for college.
2. Economy is more competitive which tended to lessen prejudices against Catholics and Jews.
3. The rise of suburbs
 - a. Less socioeconomic and racial diversity.
 - b. Investments in high quality public schools.

- **Gen X**

1. Affluent, college educated boomers invest heavily in children's education.
2. Globalization and the related decline in unionization eliminates high-paying blue collar jobs.

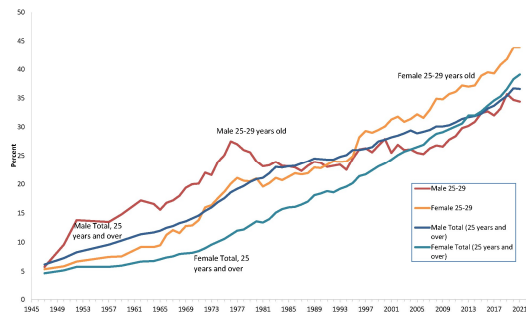


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The Growing Importance of Education

Figure 6: Percent of Population 25 Years and Over, and 25 to 29 Years Old, with Bachelor's Degree or Higher by Sex: 1947-2021

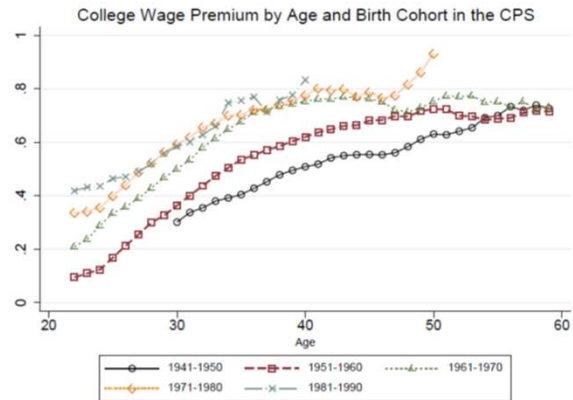


Sources: U.S. Census Bureau, 1947, 1952-2002 March Current Population Survey, 2003-2020 Annual Social and Economic Supplement to the Current Population Survey; 1948-1950 Census of Population. For more information on confidentiality protection, sampling error, nonsampling error, and definitions, see <https://www2.census.gov/brings/onsurvey/tables/tech/cps/cps2021.pdf>.

United States
Census
Bureau



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David Deming, "Why Do Wages Grow Faster for Educated Workers," NBER Working Paper 31373, 6/23 ³⁹

Is it Still a "Meritocracy?"

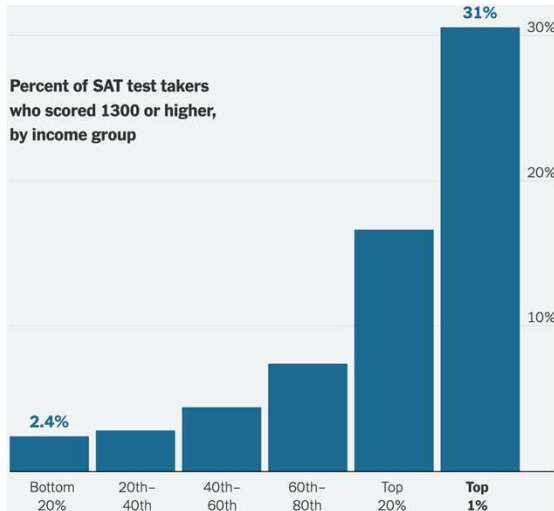
- The key question is whether there is equal opportunity for a college education.
- Without equal access, the meritocracy based on educational attainment becomes an aristocracy.



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To Emphasize Educational Access Issue



What do these numbers reflect?

It gets worse. With “All Students” instead of “test takers” in the bottom 20% scoring above 1300 falls to 0.6%

And worse(er?)...

Elite schools twice as likely to admit student from a high income family as a low to middle income family

Higher admission rates for the high income is due to: 1) “Legacies; 2) higher “non-academic” rankings; 3) Athletic recruitment



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<https://www.nytimes.com/interactive/2023/10/23/upshot/sat-inequality.html>

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Our Imperfect Meritocracy Hurts Rich and Poor

- Poor are hurt because there is less equality of opportunity
- Poor are hurt because in a meritocracy your lack of success is due your failings.
- Rich are hurt because they have to work harder to confirm their status.
- Rich are hurt because they make their children compete at an earlier age (Tiger Moms, SAT prep courses).
- We are all hurt because of the growing segregation between the rich and poor and increasing polarization



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What to do About Inequality?

- **Government policies to reduce material inequality:**

1. Greater Progressivity of Tax/Transfer System.
2. Fix Social Security and Medicare Funding, but **NOT** by raising age of eligibility.
3. Encourage re-unionization of industry. (?)
4. Put limits on low-skilled immigration. (?)
5. Raise Minimum Wage (?)
6. Industrial policies to provide meaningful work for non-BAs. (?)

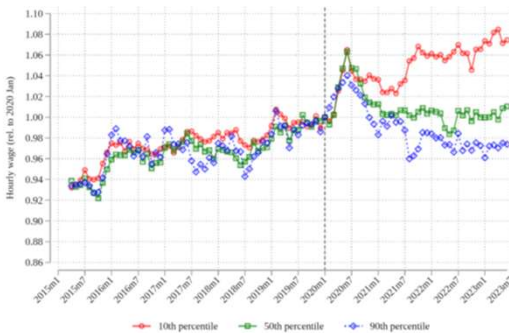
What To Do about the “New Inequality”

1. Research shows that high-quality birth-to-five programs for disadvantaged children can deliver a 13% return on the investment. (James Heckman)
2. Somehow improve public schools.
3. Encourage students from low-income families to apply to quality colleges (Carolyn Hoxby)
4. Encourage colleges to practice affirmative action based on socioeconomic status (William Bowen).
5. Reinstitute National Service to lessen socioeconomic and racial segregation. (?)

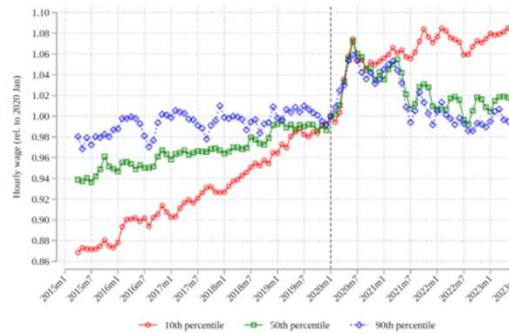
An Encouraging Recent Trend: Full Employment Helps

Real Hourly Wages by Quantile, Relative to January 2020

B. Federal or no minimum wage



A. State minimum wage above federal level 30 States



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D. Autor, A. Dube and A. McGrew, "The Unexpected Compression: Competition at Work in the Low wage Labor Market", www.nber.org/papers/w31010

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Readings on the New Inequality

- Roge Kama, "The Meritocracy Trap' Explained," <https://www.vox.com/policy-and-politics/2019/10/24/20919030/meritocracy-book-daniel-markovits-inequality-rich>
- David Brooks, "What if We're the Bad Guys," <https://www.nytimes.com/2023/08/02/opinion/trump-meritocracy-educated.html>
- Mathew Stewart, "The Birth of the New American Aristocracy," *The Atlantic*, June 2018
- Michael Sandel, "The Dark Side of Meritocracy," <https://www.noemamag.com/the-dark-side-of-meritocracy/>



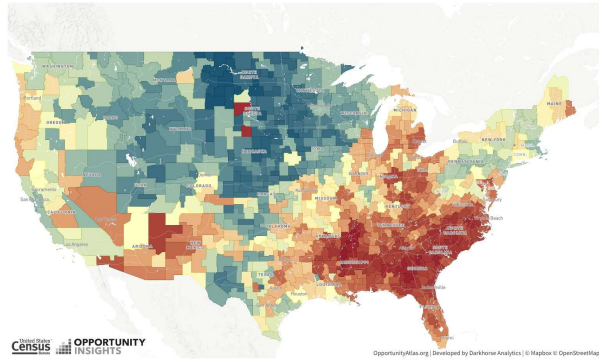
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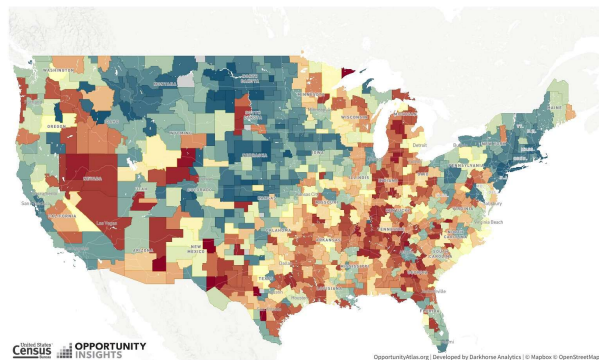
More Research on the Causes and Cures

Raj Chetty "Big Data" and Opportunity Insights

Household Income at Age 35 for Children of Low Income Parents



College Graduation Rate for Children of Low Income Parents



Census OPPORTUNITY INSIGHTS

OpportunityAtlas.org | Developed by Darkhorse Analytics | © Mapbox © OpenStreetMap

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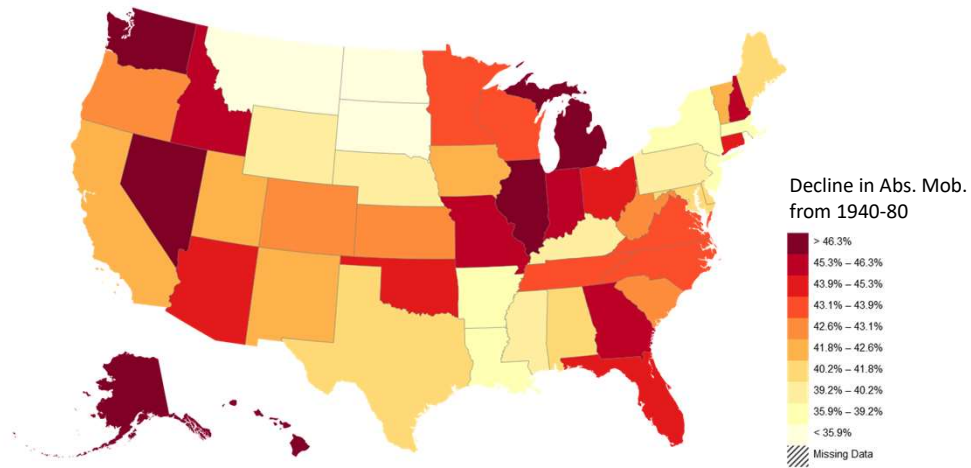
<https://www.opportunityatlas.org/>

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II. Empirical Patterns of Economic Mobility

American Dream: Geography Matters

Trends in Absolute Mobility by State: Change from 1940-1980



<https://opportunityinsights.org/paper/the-fading-american-dream/>

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Let's Hear from You!

Geoffrey Woglom
grwoglom@amherst.edu

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