



***Osher Lifelong Learning Institute, Fall 2023***  
**Contemporary Economic Policy**

University of New Hampshire  
Fall, 2023

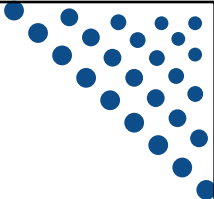
Jon Haveman, Ph.D.  
National Economic Education Delegation

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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, Bernanke

## • 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

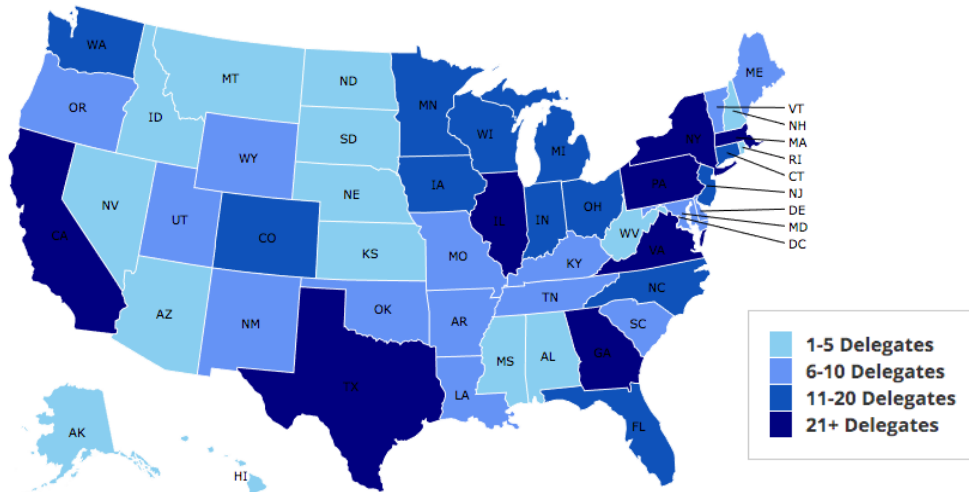
- Aid in slide deck development



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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
- US Social Policy



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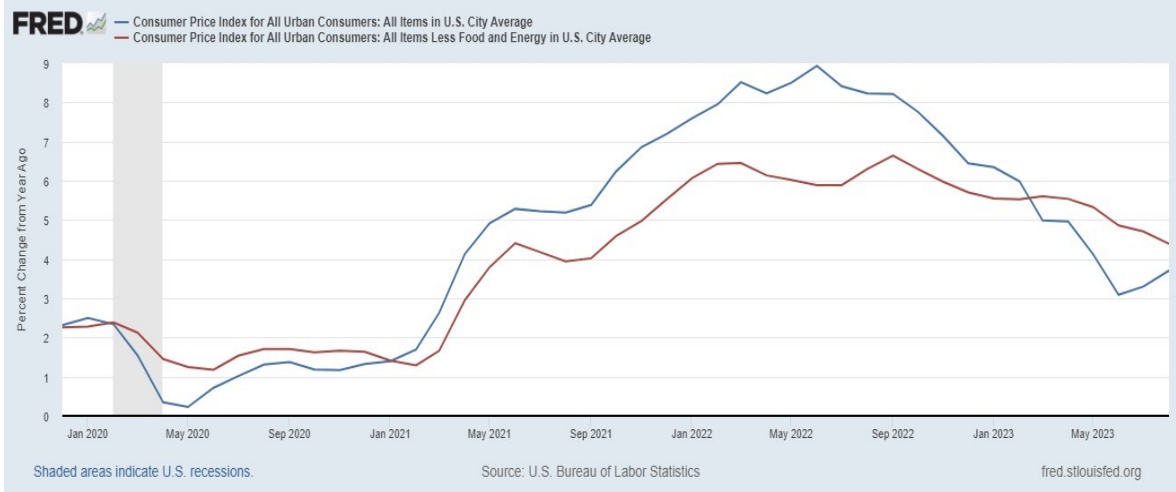
## Course Outline

- **Contemporary Economic Policy**
  - **Week 1 (10/24): Economic Inequality (Jon Haveman, NEED)**
  - Week 2 (10/31): Economic Update (Geoffrey Woglom, Amherst College)
  - Week 3 (11/7): Monetary Policy (Geoffrey Woglom)
  - Week 4 (11/14): Crypto Currencies (Joan Nix, CUNY)
  - Week 5 (11/21): International Institutions (Alan Deardorff, U of Michigan)
  - Week 6 (11/28): Federal Debt (Brian Peterson Lagrange College)



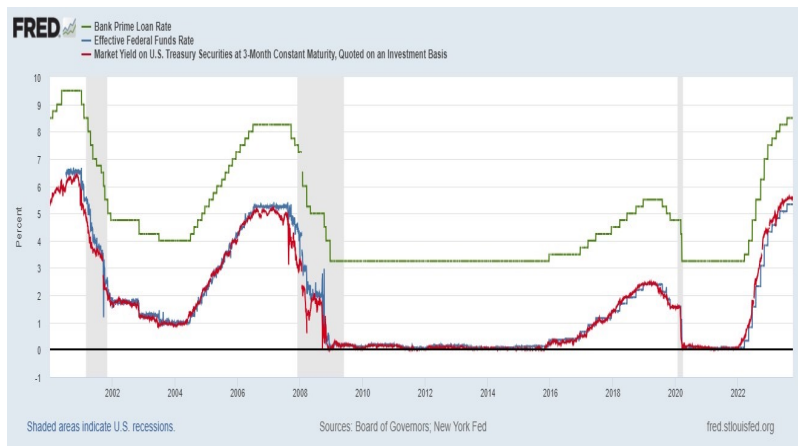
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# Inflation during the Recovery (CPI)



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# The Fed and Short-term Interest Rates



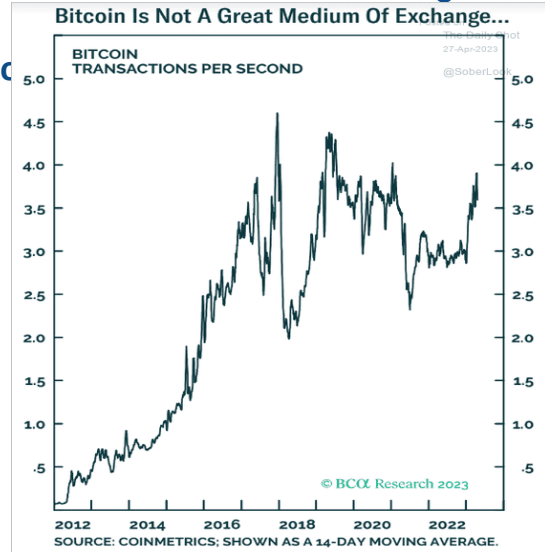
Blue is the fed funds rate.  
 Red is the rate on 3 month Treasuries.  
 Green is the prime bank lending rate

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# Question #1: Is Bitcoin serving an economic role

Bitcoin is not and cannot be widely used to transact transactions

- Scalability?
- Price Instability.
- Transactions costs
- And, the network is costly
  1. Resources used in mining
  2. Environmental Costs



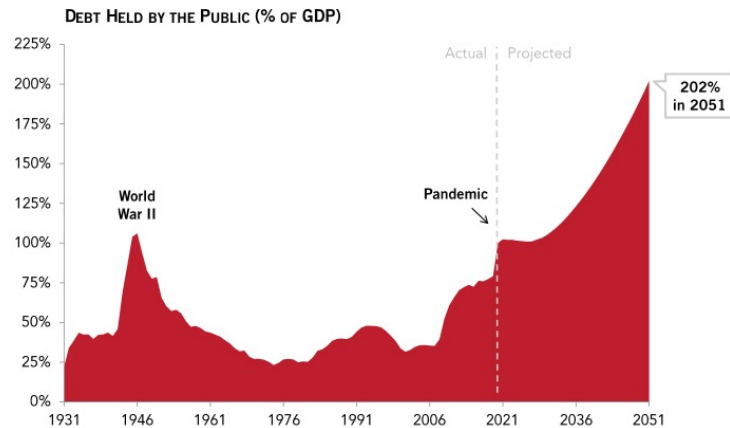
# International Institutions: Alan Deardorff



## The Federal Debt is Becoming A Problem



The national debt is on an unsustainable path



SOURCE: Congressional Budget Office, *The 2021 Long-Term Budget Outlook*, March 2021.  
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## Submitting Questions

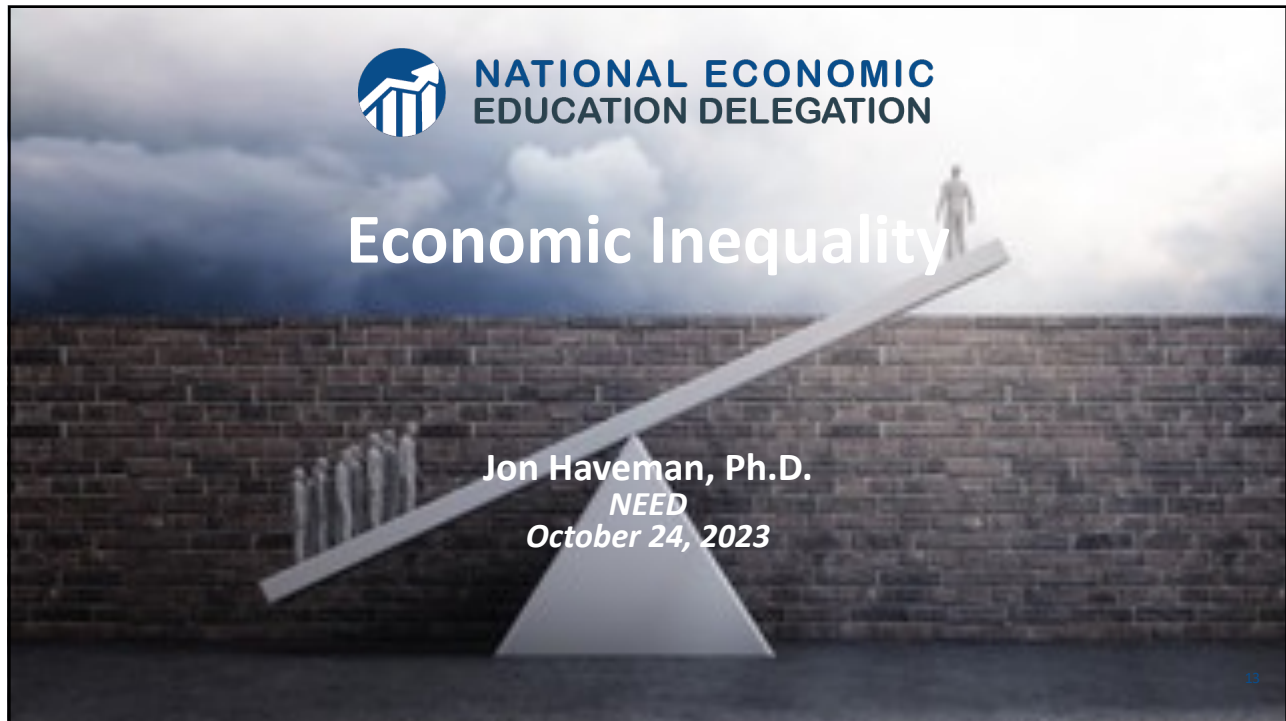
- **Please submit questions of clarification in the chat.**
  - I will try to handle them as they come up.
- **We will do a verbal Q&A once the material has been presented.**
- **Slides will be available from the NEED website shortly ([https://NEEDEcon.org/delivered\\_presentations.php](https://NEEDEcon.org/delivered_presentations.php))**



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- **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
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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**

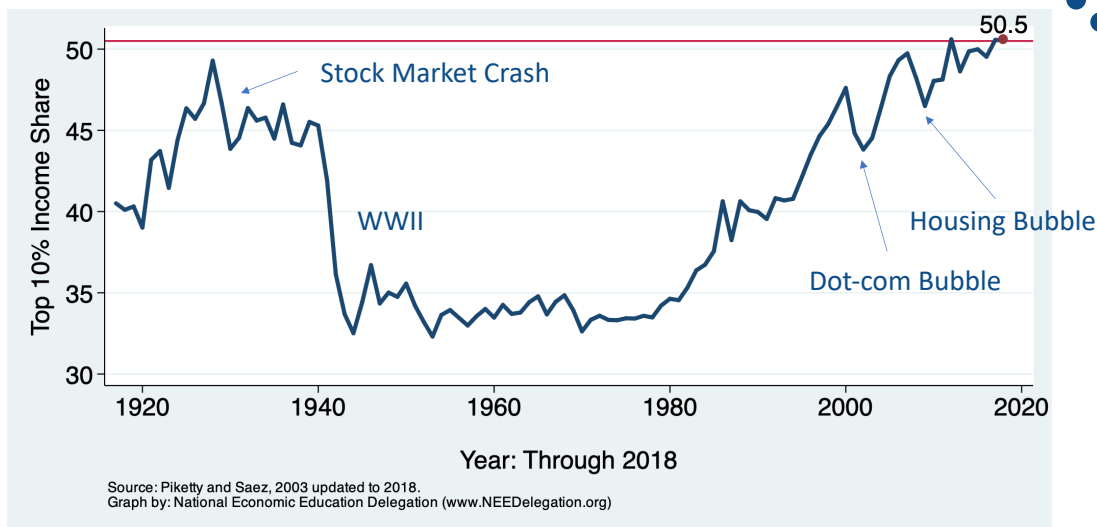
### How does wealth differ from income?

**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%



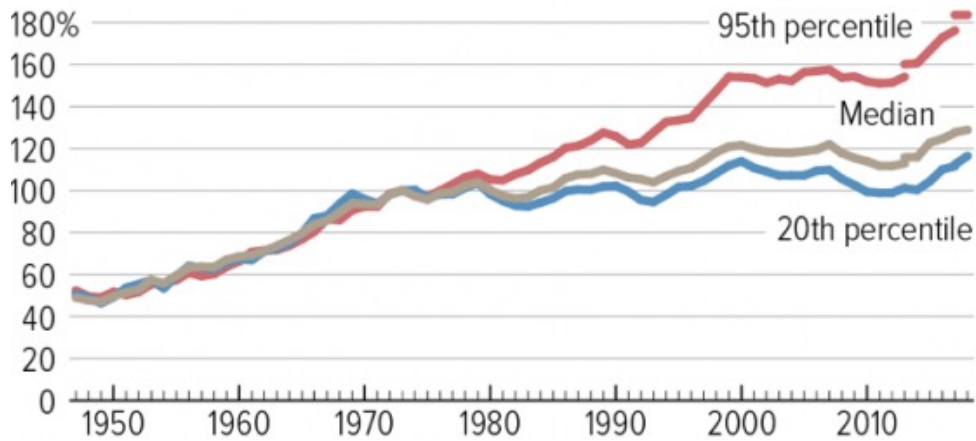
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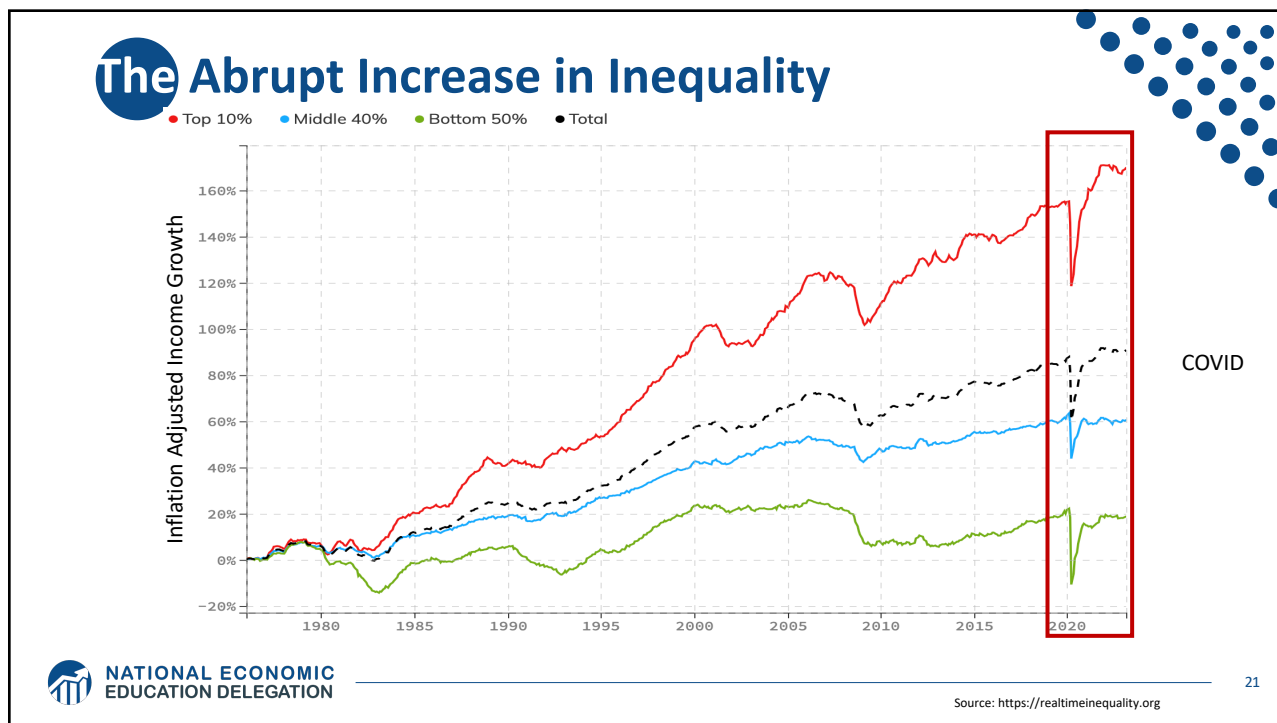
## Recent Facts on Income Inequality

- **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.

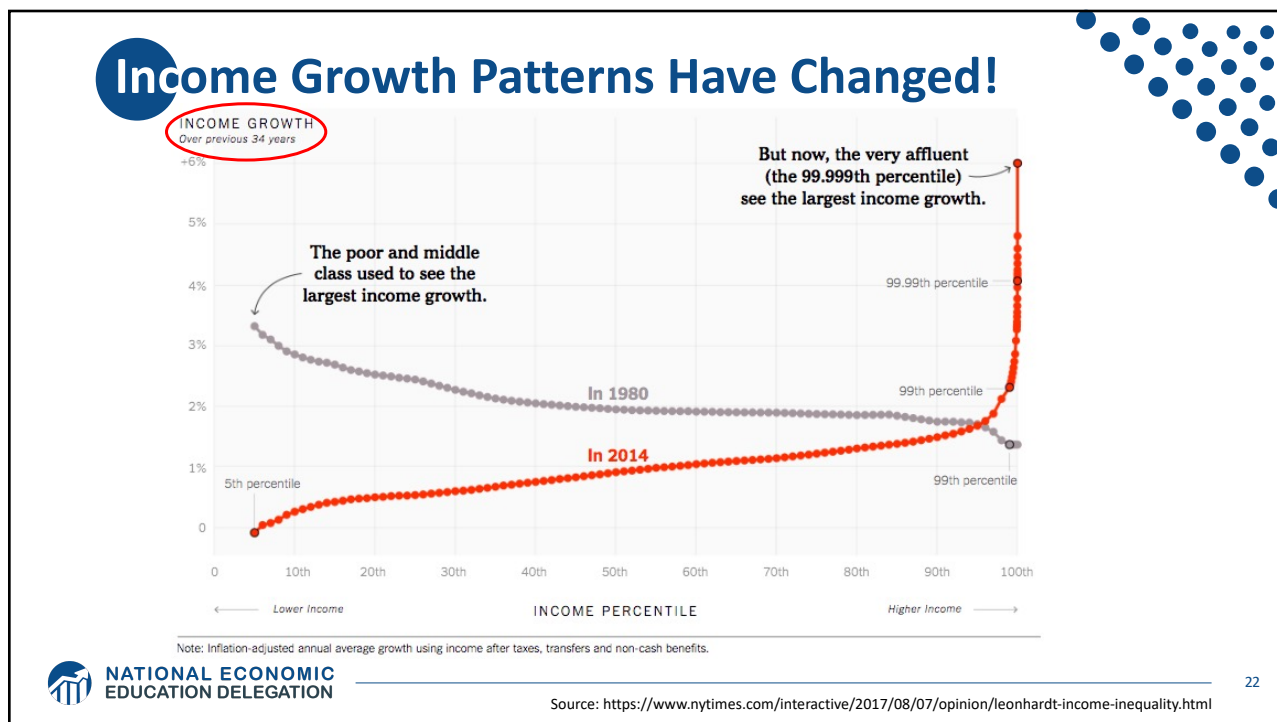
## The Abrupt Increase in Inequality

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



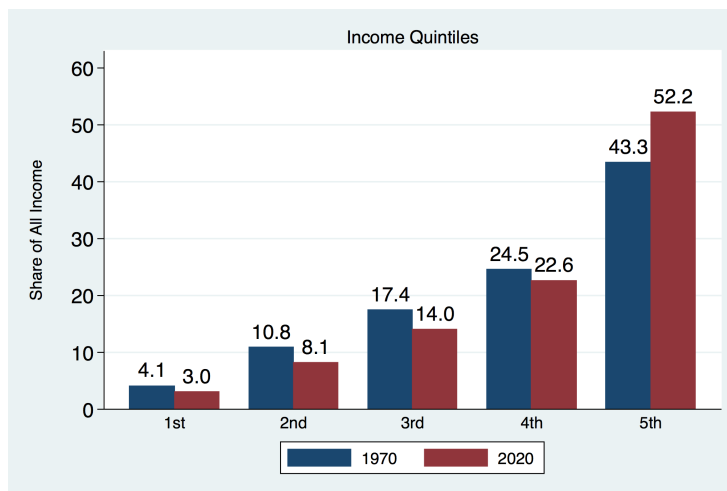


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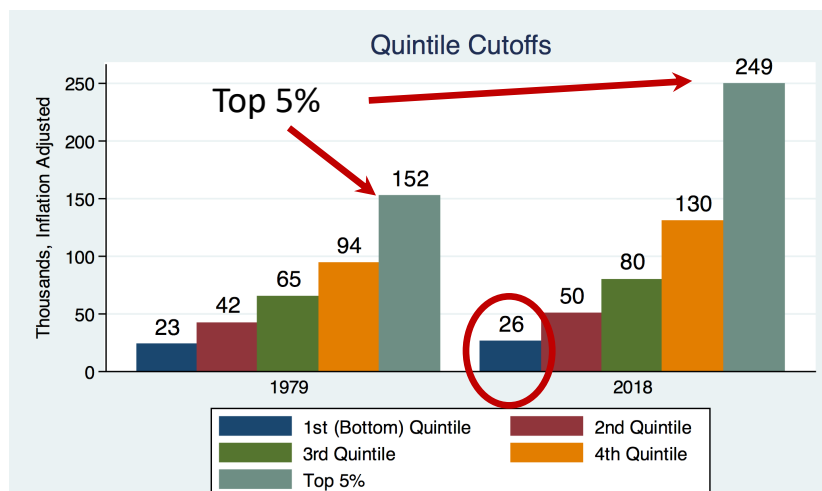
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## Income Share Changes Between 1970 and 2020



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## Quintile Income Cutoffs



Source: U.S. Census Bureau  
Produced by: National Economic Education Delegation ([www.NEEDelegation.org](http://www.NEEDelegation.org))

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## Income Changes from Growing Inequality

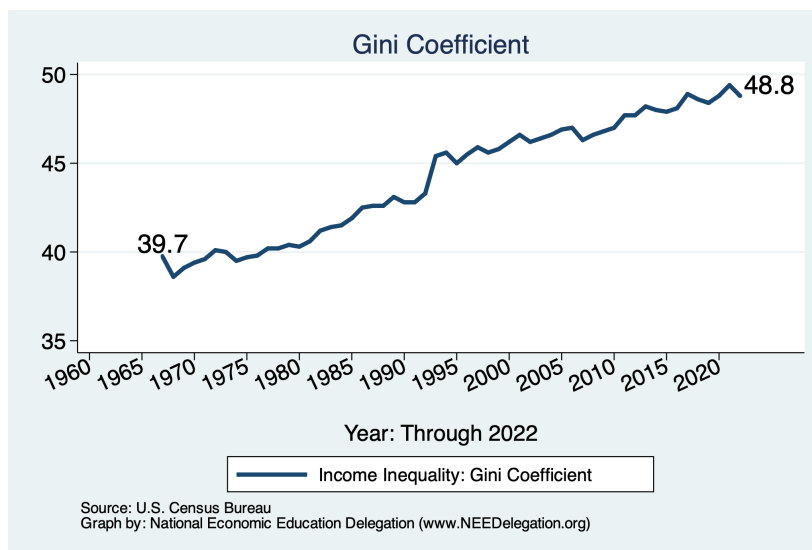
Bottom 90% of Households

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

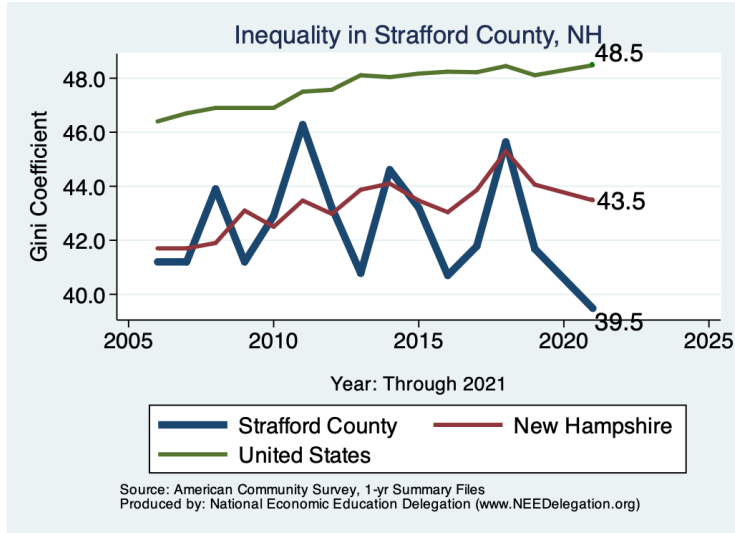
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## Income Inequality: Gini Coefficient Over Time



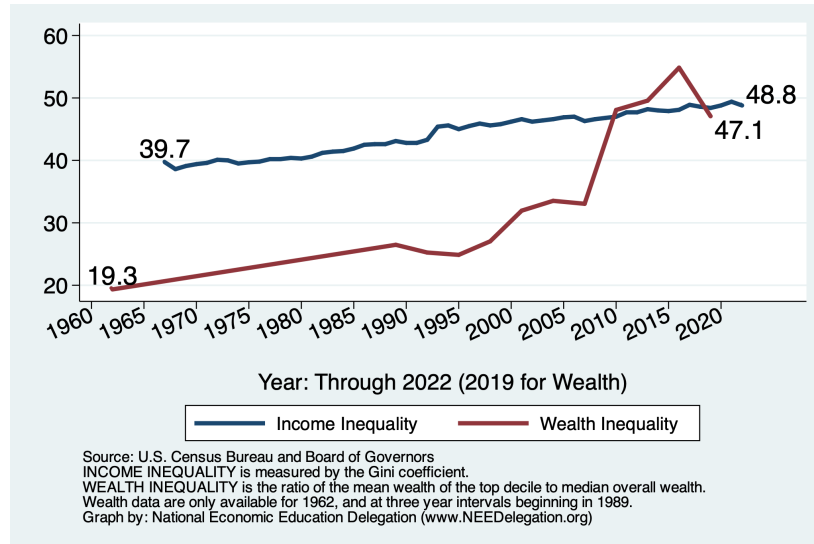
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## Your Local Inequality Trend



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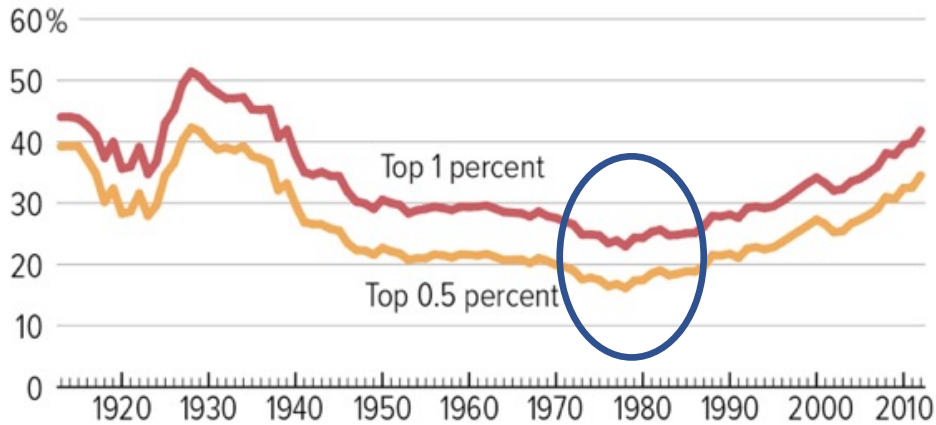
## Income and Wealth Inequality Measures



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## Wealth Concentration Has Been Rising

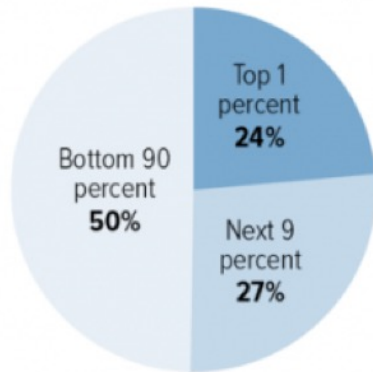
Share of total wealth held by the wealthiest families, 1913-2012



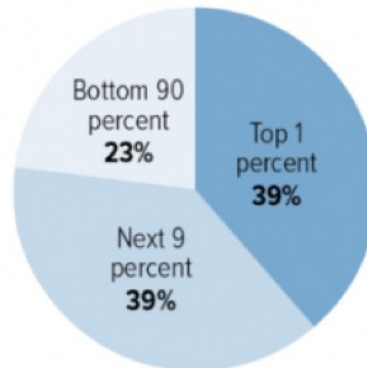
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## Wealth Inequality Exceeds Income Inequality

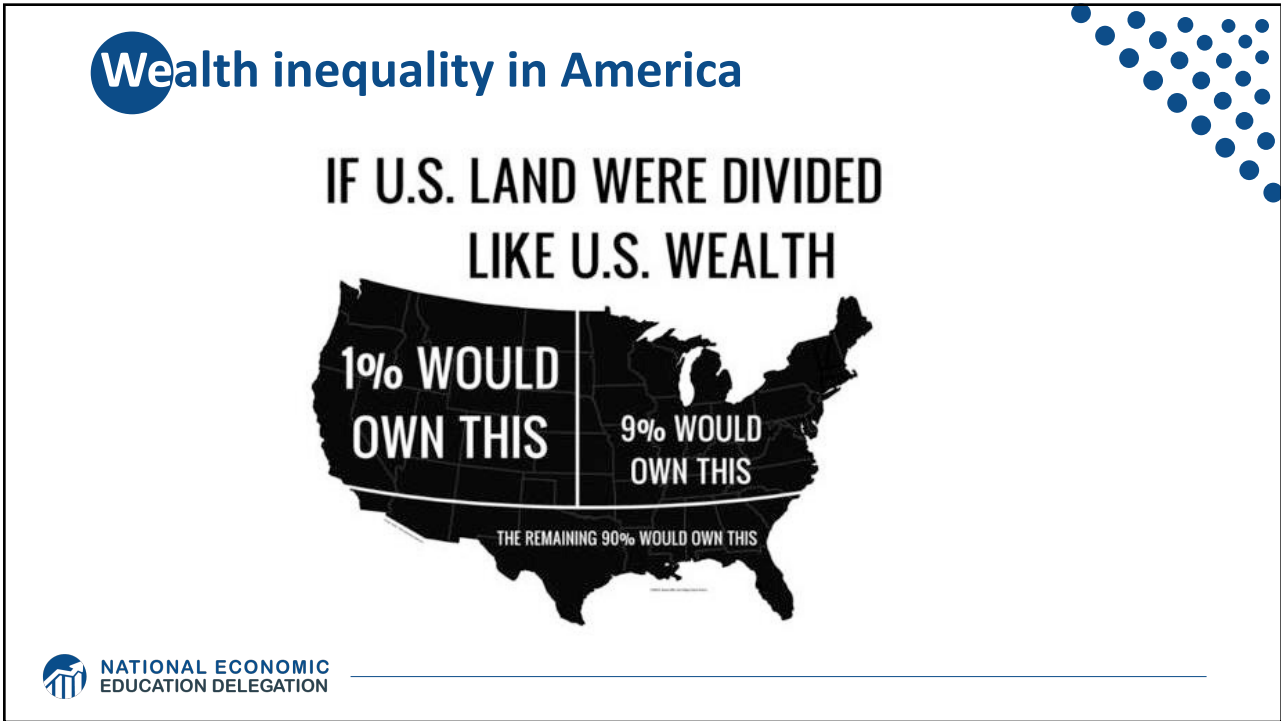
Distribution of before-tax income, 2016



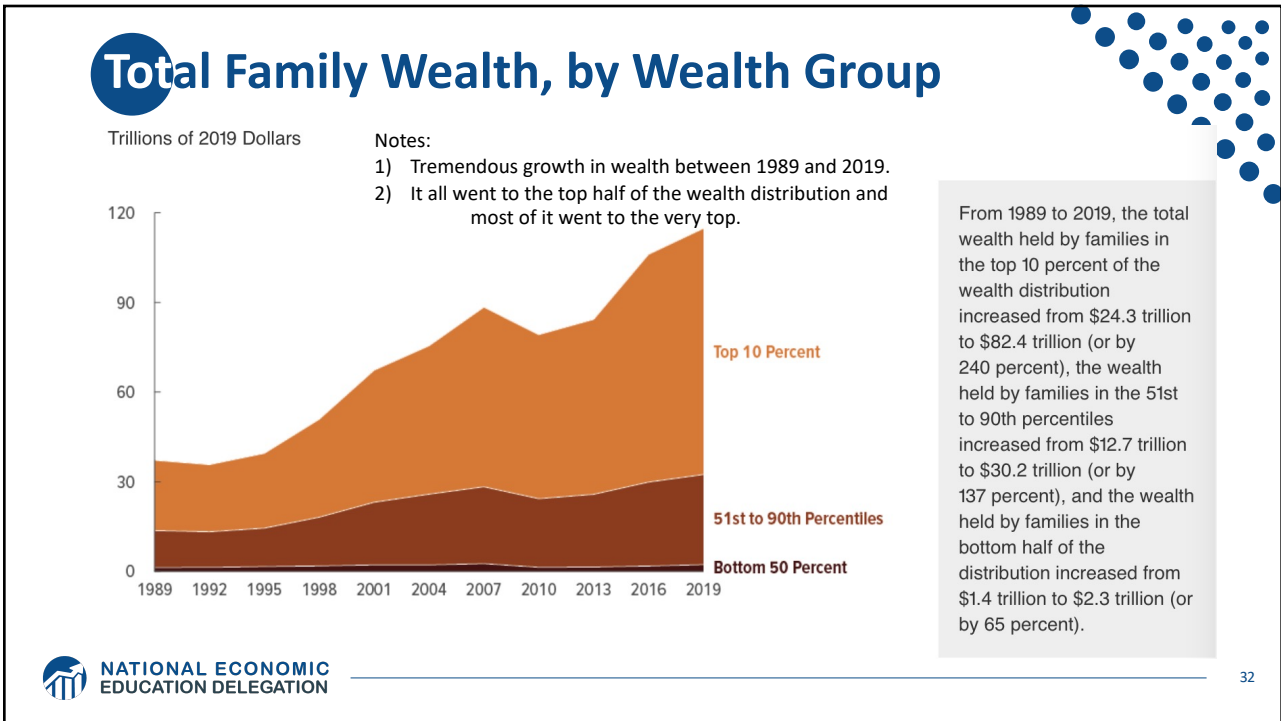
Distribution of wealth, 2016



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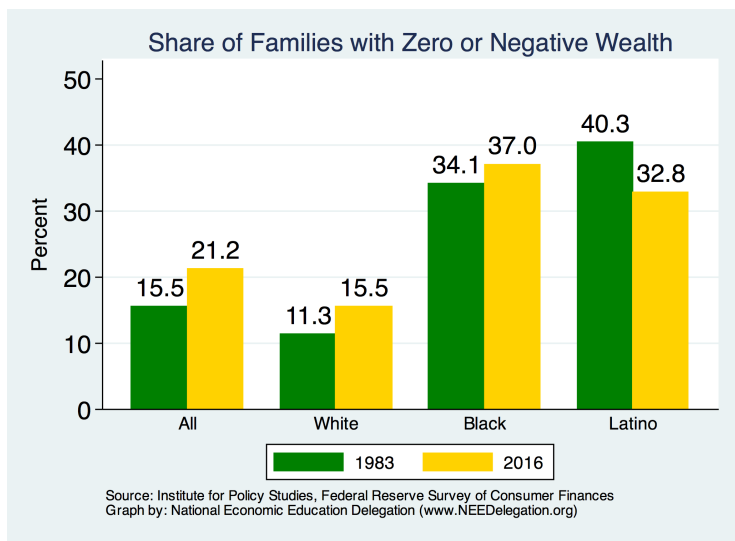
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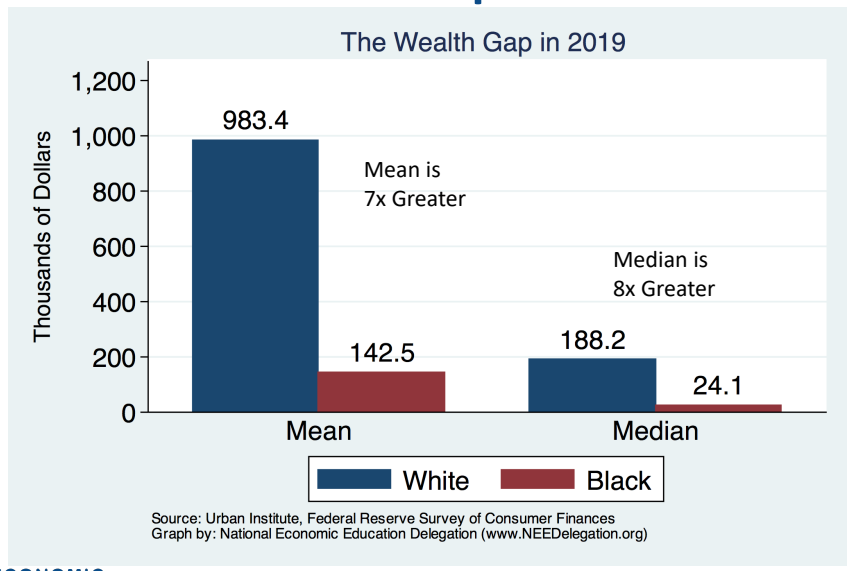


## Evidence of Disparities: Zero Wealth



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## The Black-White Wealth Gap



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## Where Does Income Inequality Come From?

### • Labor Characteristics

- Demographics
  - Age distribution
- Personal Choices
  - Educational attainment
  - Effort & Priorities
- 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
  - Access to education
- Effects on labor demand
  - Market regulation
    - Competition policy
  - Labor regulations
    - Minimum wage, overtime, health insurance, union regulations, etc.

### • RE-distribution

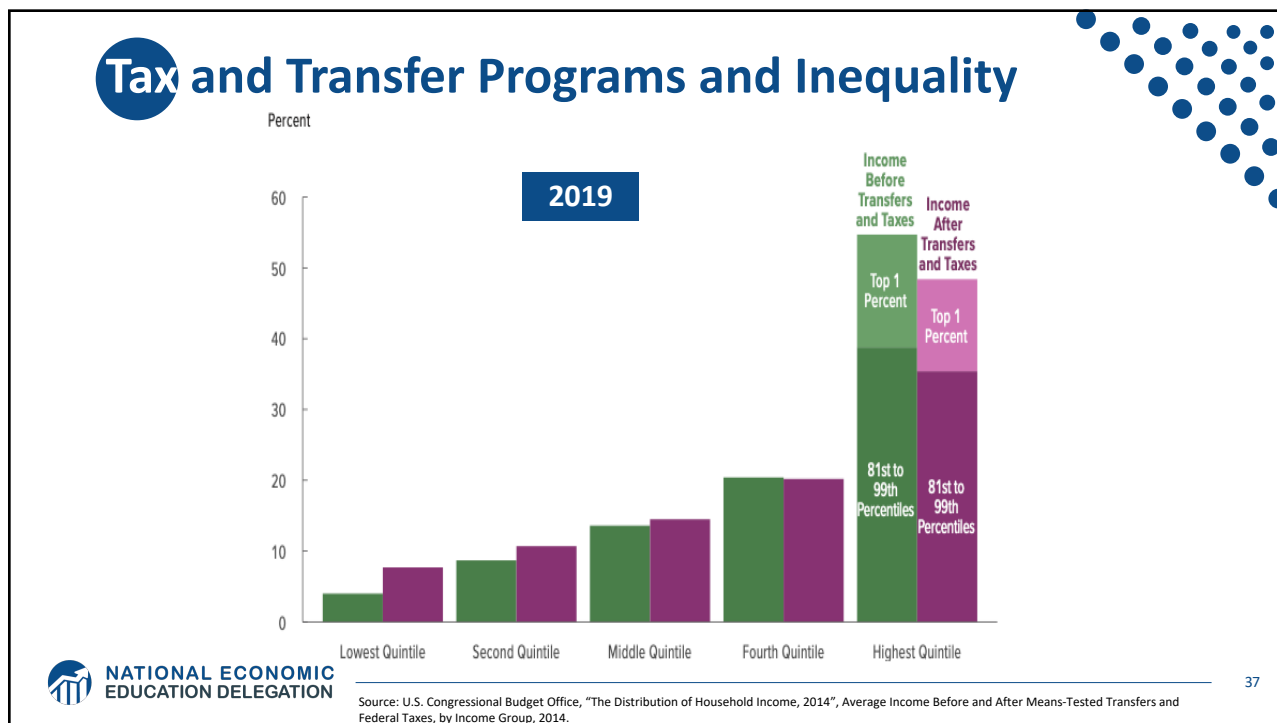
- Tax Rates
- Income support
  - Direct aid
  - Food stamps



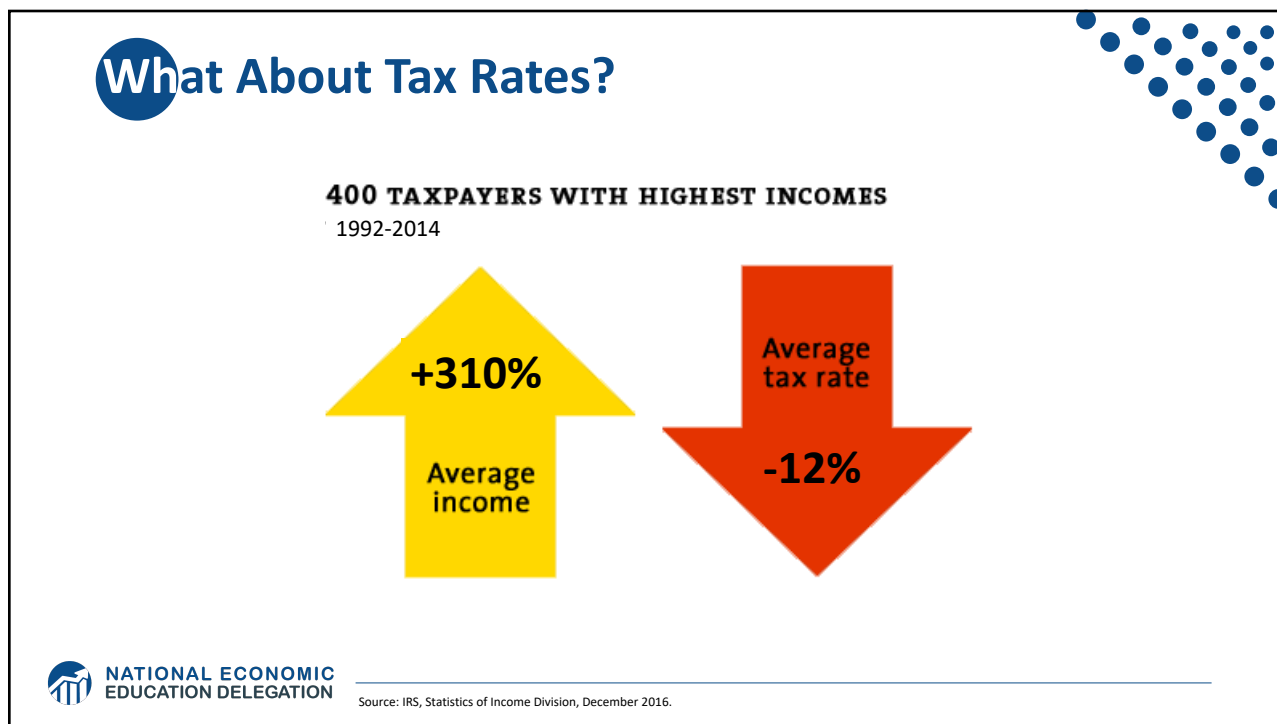
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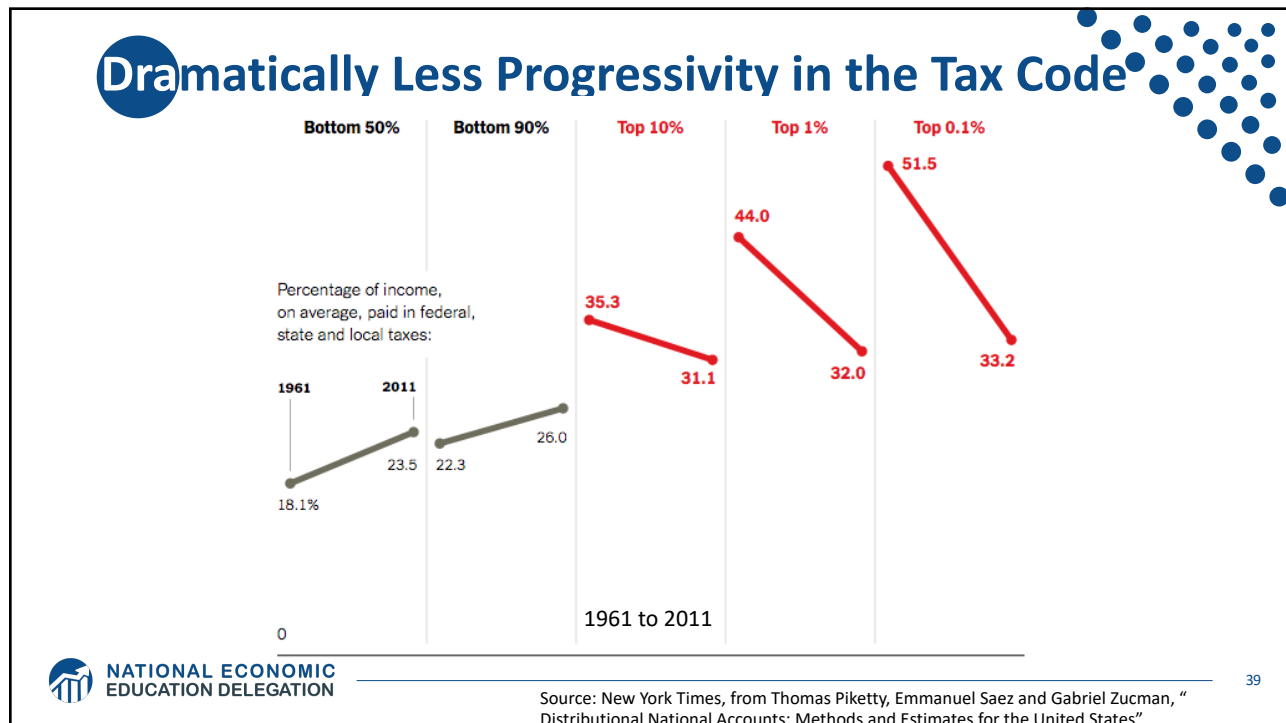
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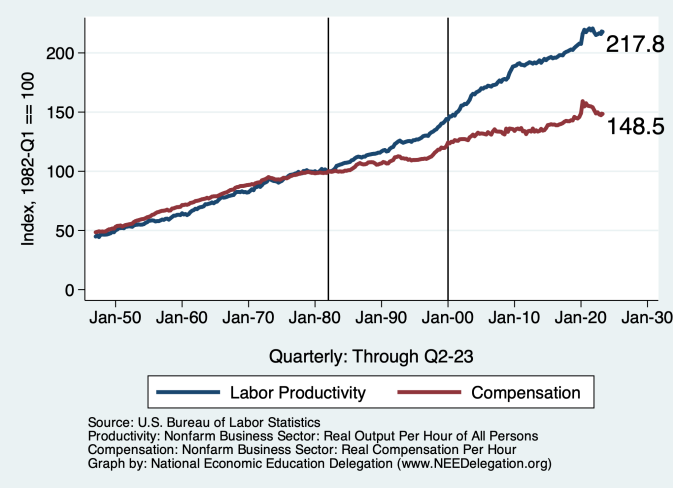
## Market Forces and Inequality

- **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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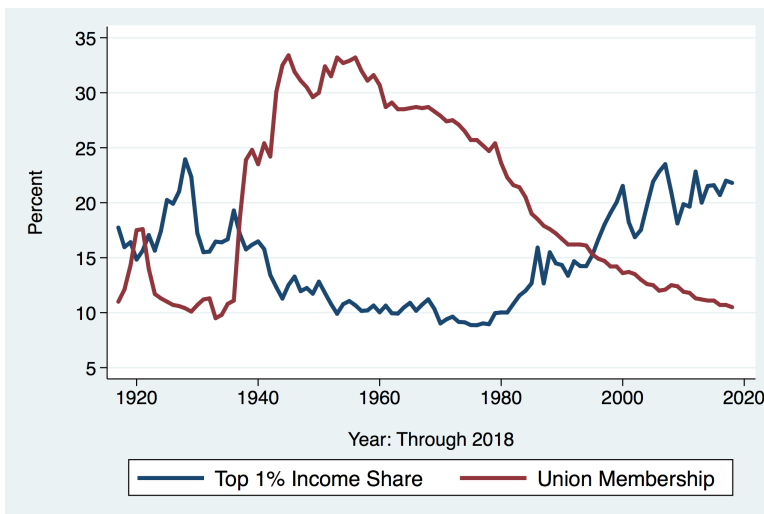
## Labor Income is Unhinged from Productivity



### Why? Some theories:

- Declining unionization
- Competition policy
- Technological change
- Globalization

## Declining Unionization



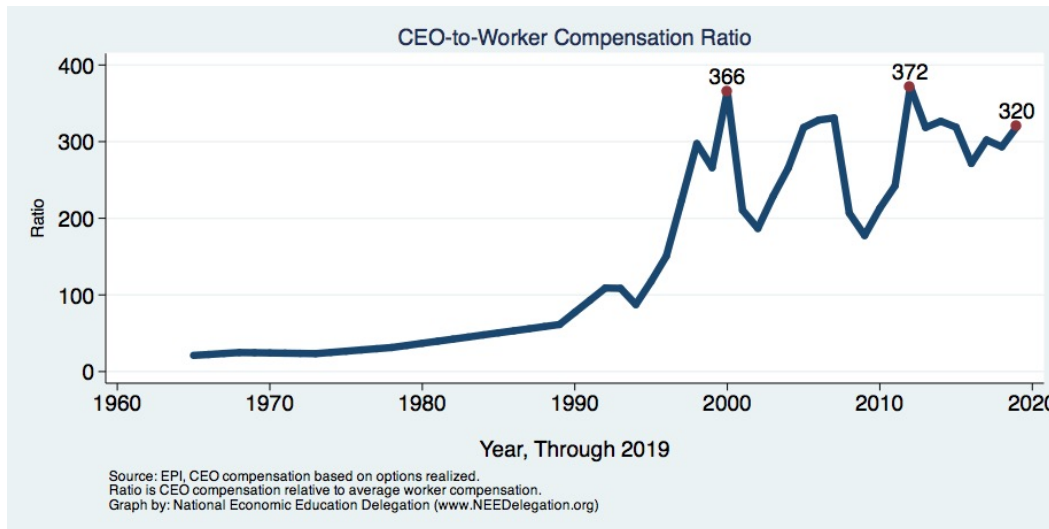
### Unionization Rates

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

### Unionization Rates

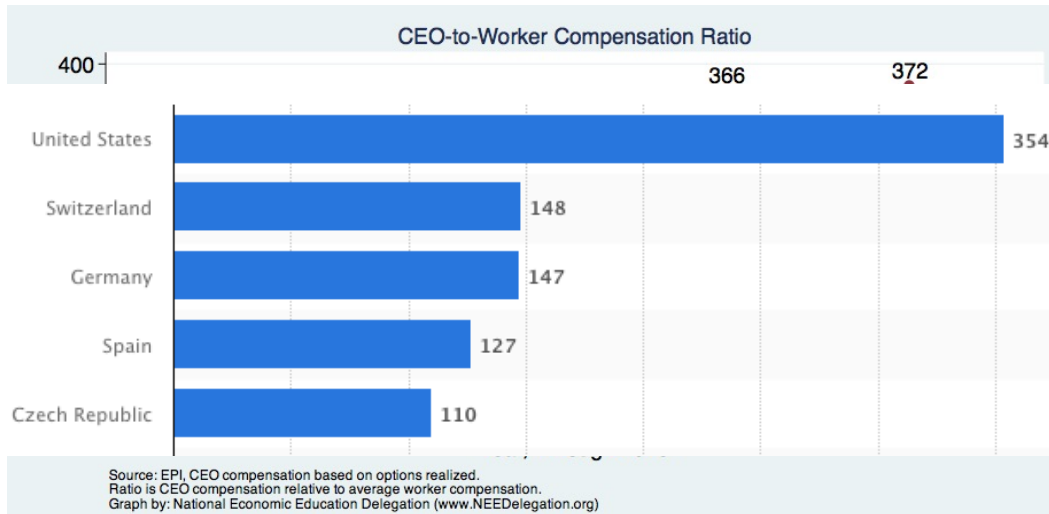
- **Public:** 33.1%
- **Private:** 6.0%

## CEO Pay Has Been Growing Rapidly



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## CEO Pay Has Been Growing Rapidly



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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.



## 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

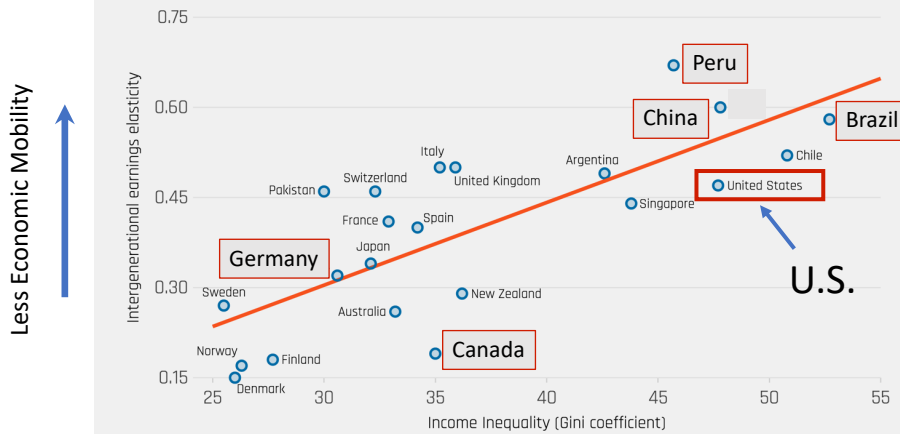
- **Too much inequality may also:**

- Divide society
- Distort political environment
- Reduce political participation
- Affect public goods spending and distribution
  - 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]

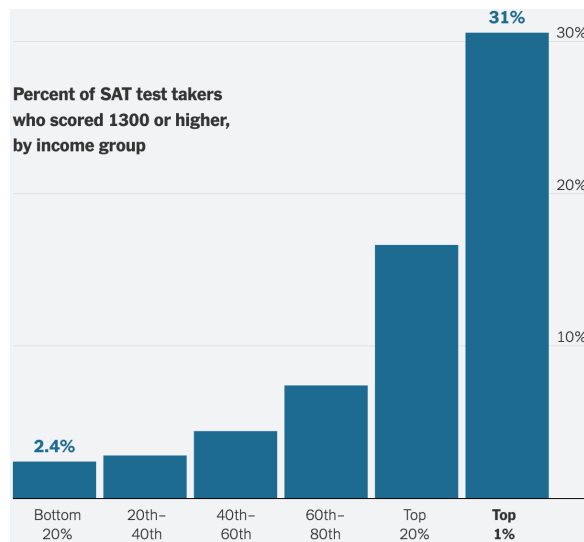


## Addressing Inequality: Long Term

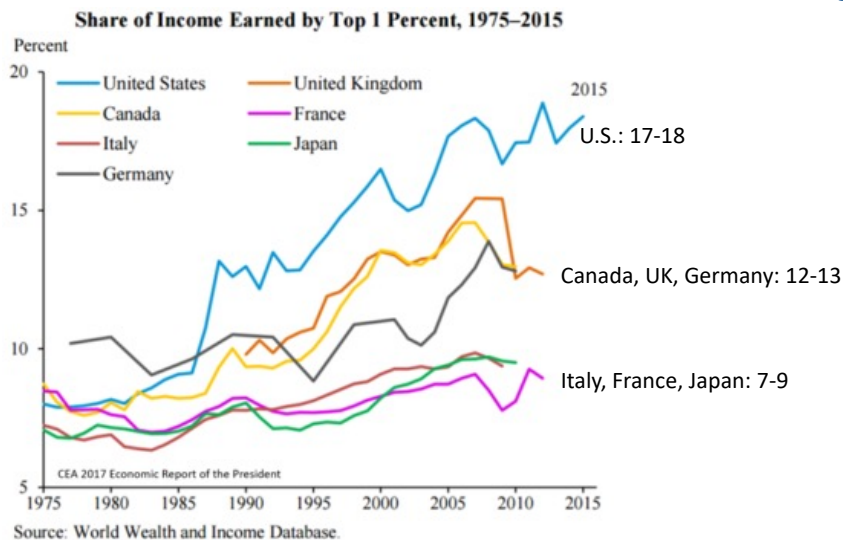
- **It’s all about access to resources:**
  - Improve public education and reduce quality disparities across schools.
  - Improve counseling - paths to higher ed and funding for low-income students.
  - Invest in early childhood education, not later (e.g. universal pre-k).
  - Promote opportunities for 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.



## To Emphasize the Access Issue



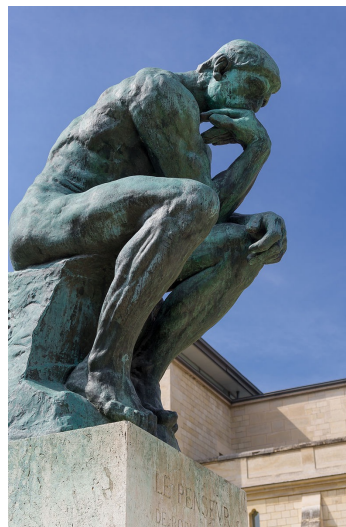
## An International Perspective: Comparables



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## What to do About Inequality?

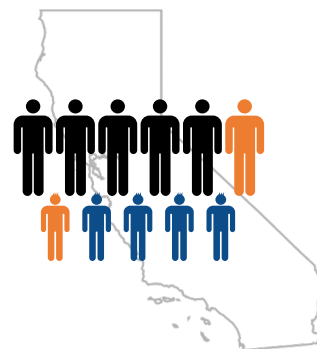
- Nothing?
- Redistribution?
- PRE-distribution?
- Access to resources?



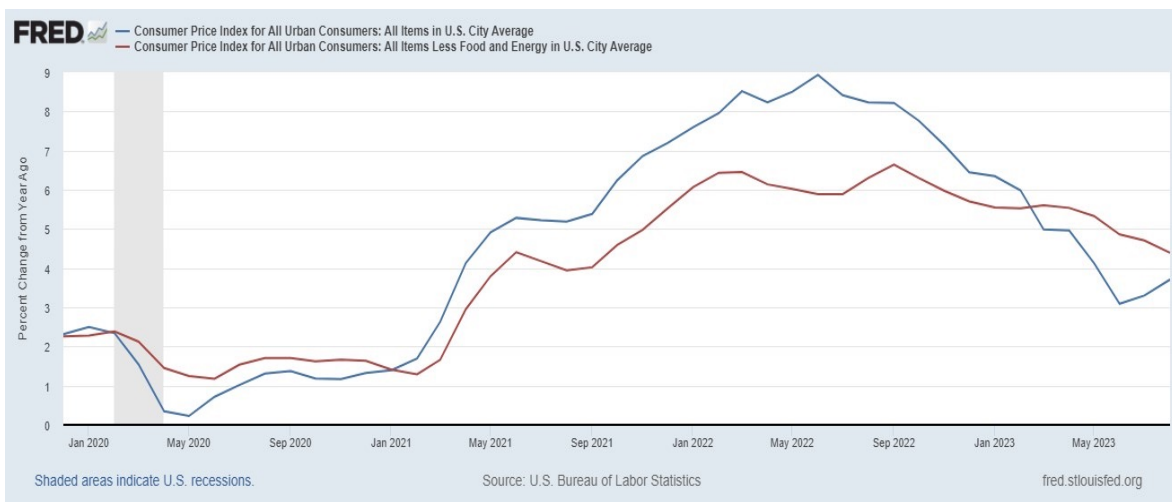
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## Summary

- **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.**



## Inflation during the Recovery (CPI)



**Thank you!**

## Any Questions?

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Jon Haveman, Ph.D.

Jon@NEEDecon.org

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