

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

University of South Dakota  
April-May, 2022

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



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## **Available** NEED Topics Include:

- **Coronavirus 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**
- **US Social Policy**



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## Course Outline

- **Contemporary Economic Policy**


- Week 1 (4/19): Trade and Globalization (Alan Deardorff, University of Michigan)
- **Week 2 (4/26): Economic Inequality (Kyle Montanio, Univ. Colorado-Denver)**
- Week 3 (5/3): Climate Change (Sarah Jacobson, Williams College)



## Submitting Questions

- **Please submit questions in the chat.**
  - I will try to handle them as they come up, but may take them in a bunch at the end as time permits.
- **We will do a verbal Q&A once the material has been presented.**
  - And the questions in the chat have been addressed.
- **OLLI allowing, we can stay beyond the end of class to have further discussion.**





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# Economic Inequality


Kyle Montanio, Ph.D.  
*University of Colorado, Denver*  
April 26, 2022

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- **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/wealth throughout the economy



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## Different Ways of Thinking About Inequality

**Inequality**

How evenly income/wealth is divided between 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).

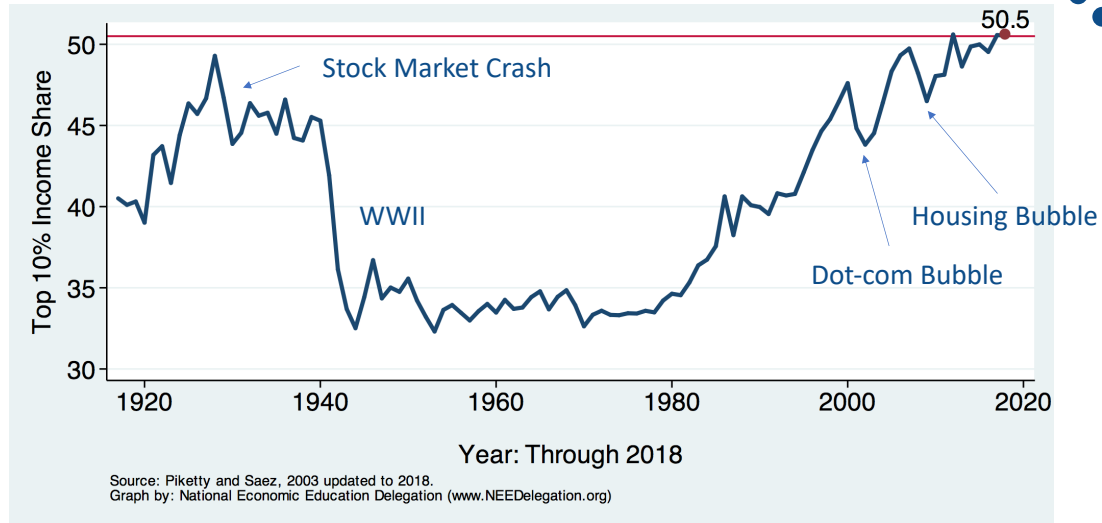


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## National Income Inequality: Share of Top 10%



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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

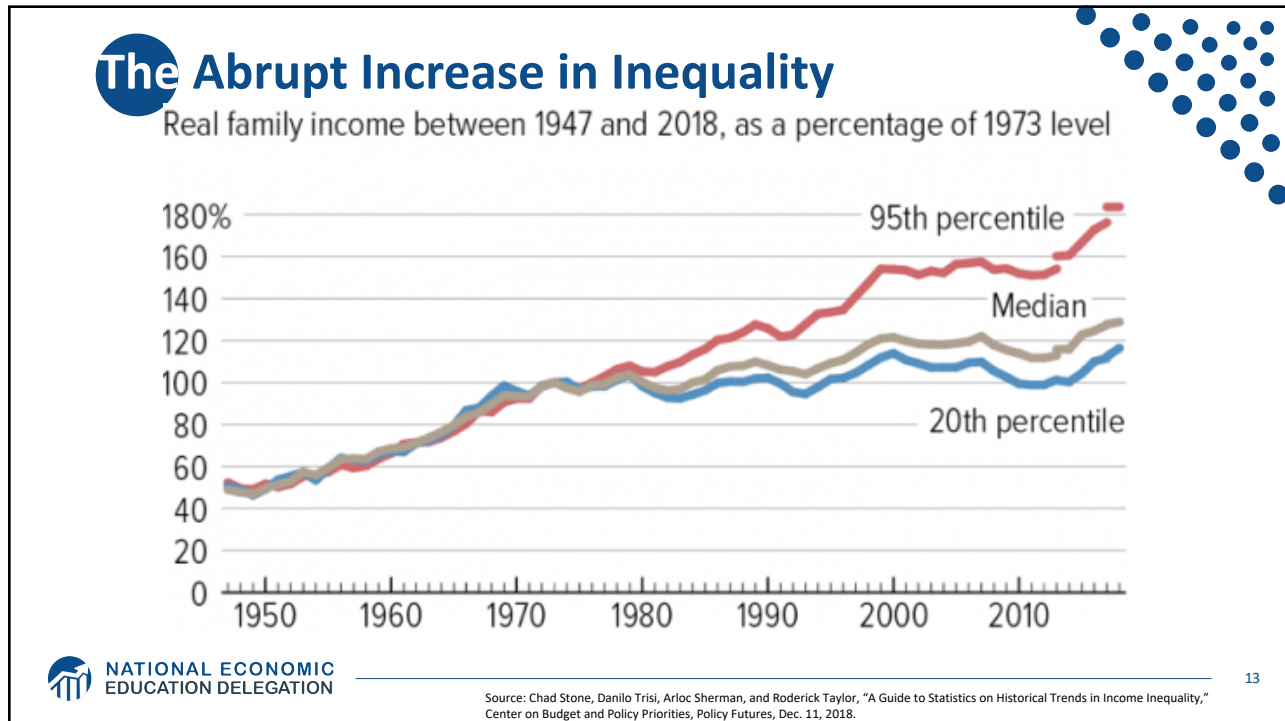


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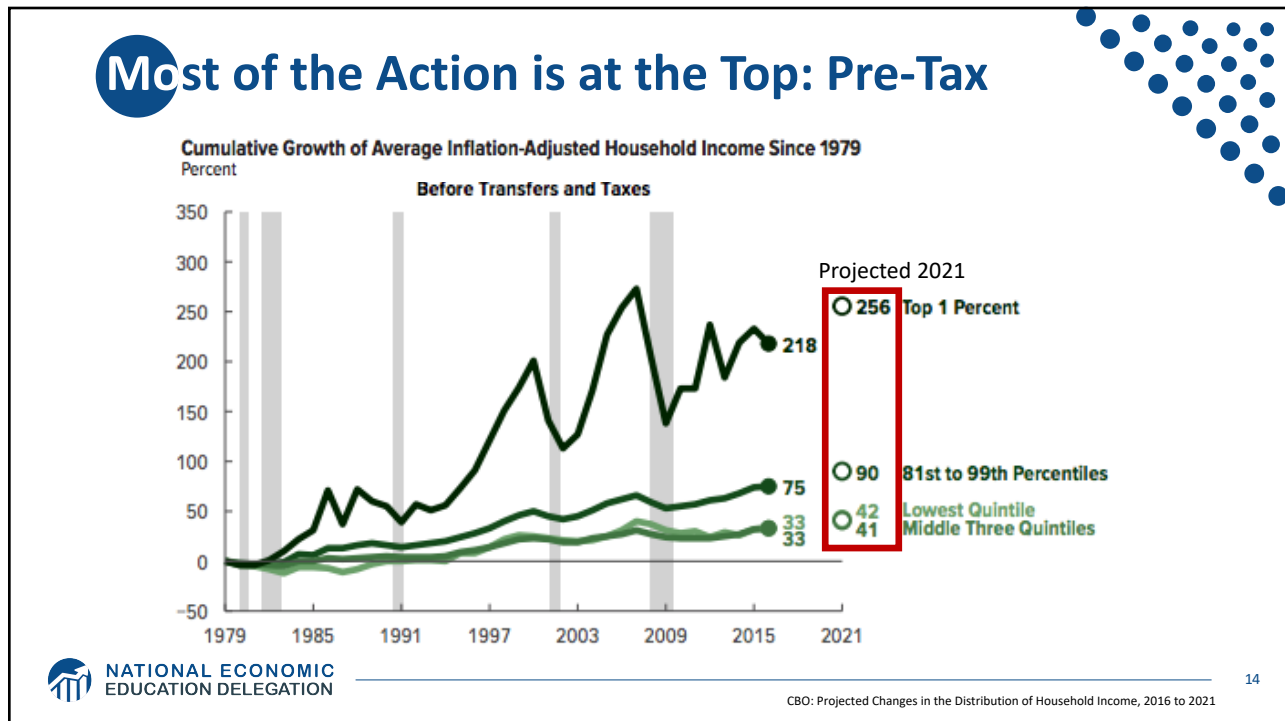
Source: Chad Stone, Danilo Trisi, Arloc Sherman, and Roderick Taylor, "A Guide to Statistics on Historical Trends in Income Inequality," Center on Budget and Policy Priorities, Policy Futures, May 15, 2018.

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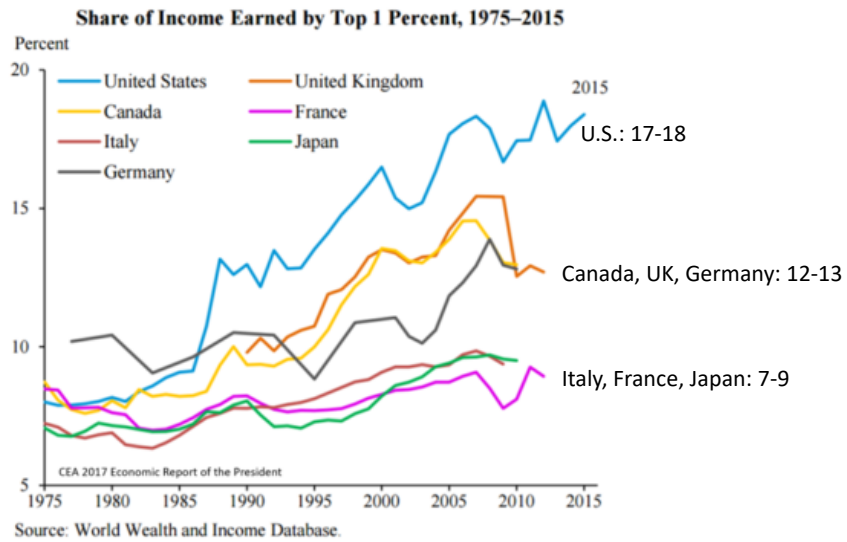


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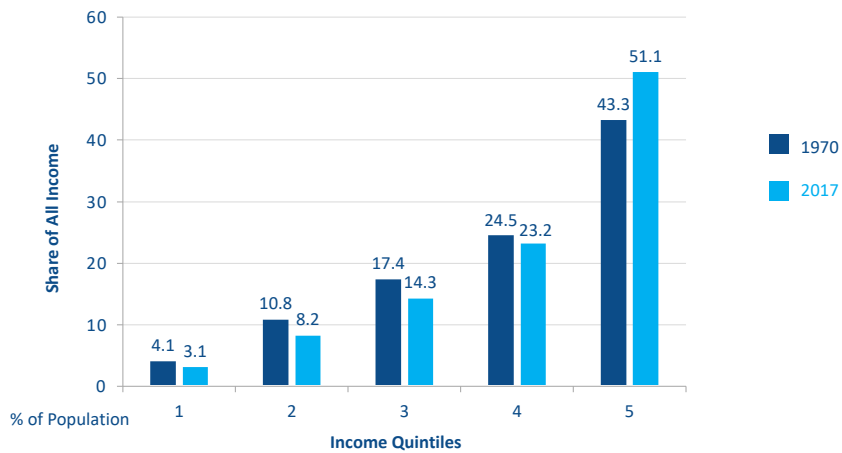
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## An International Perspective: Comparables



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## Income Share Changes Between 1970 and 2017



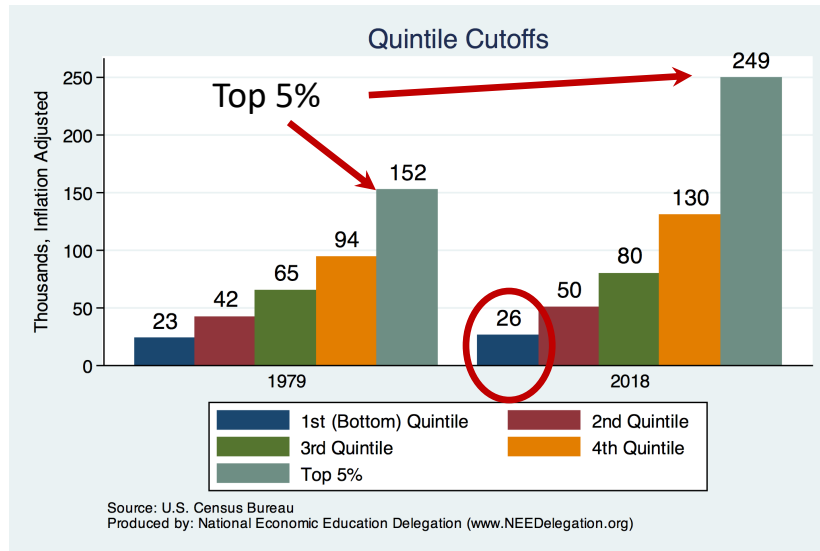
Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements.

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## Quintile Income Cutoffs



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## Income Changes from Growing Inequality

Bottom 90% of Households

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 Changes from Growing Inequality

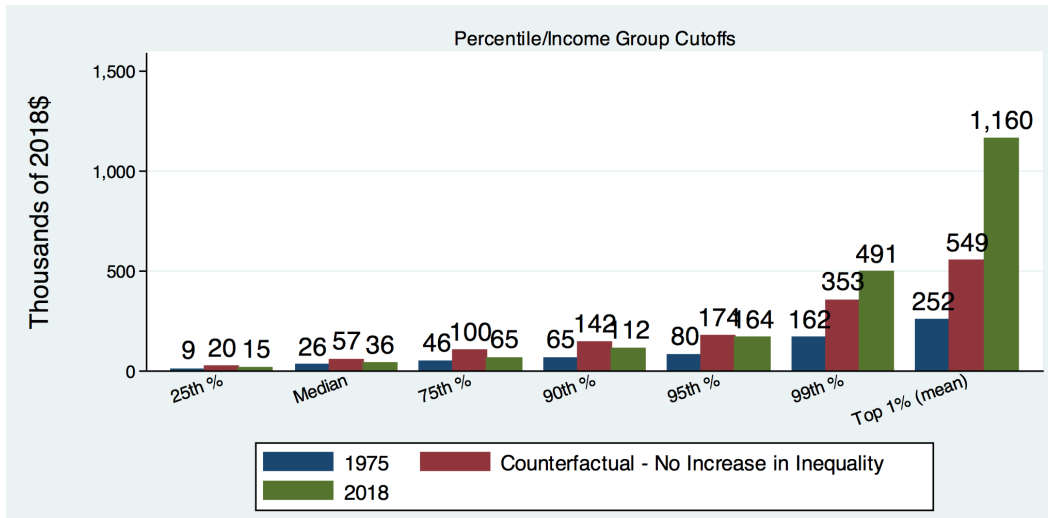
Middle class hit hardest

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
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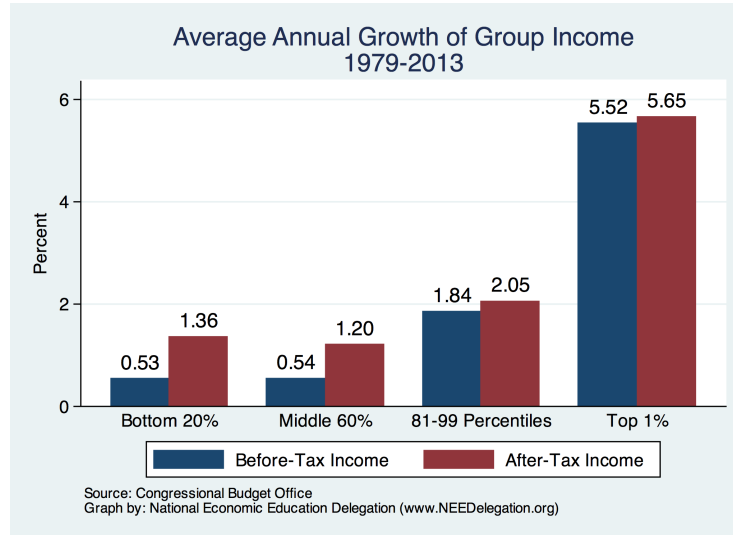
\* Compared to what incomes would have been had all income groups seen the same growth rate in 1979-2005 as they did during previous decades. Source: Jacob Hacker, Yale University; Paul Pierson, UC-Berkeley



# How Has Inequality Influenced Incomes?

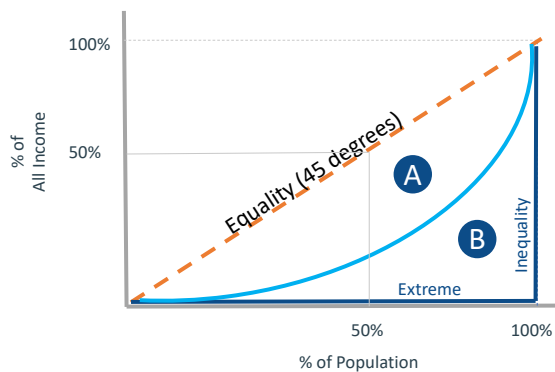


## Growth Has Been Primarily at the Very Top



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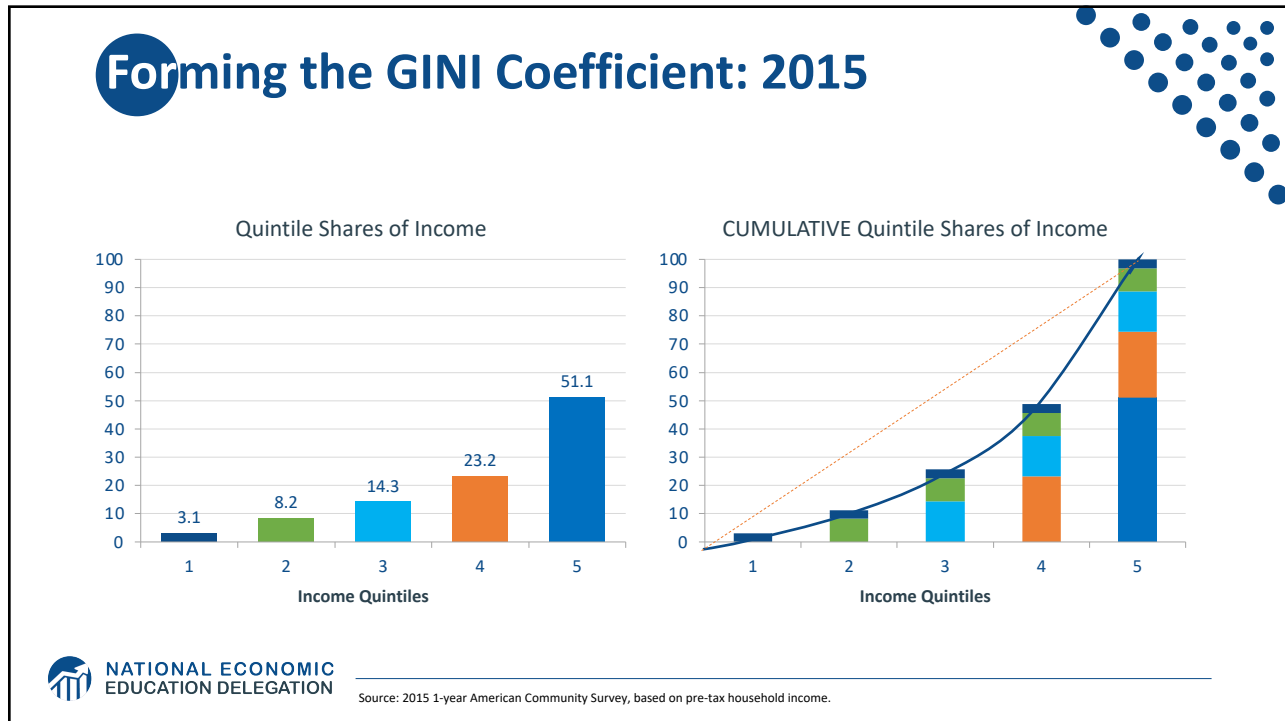
## The Gini Coefficient



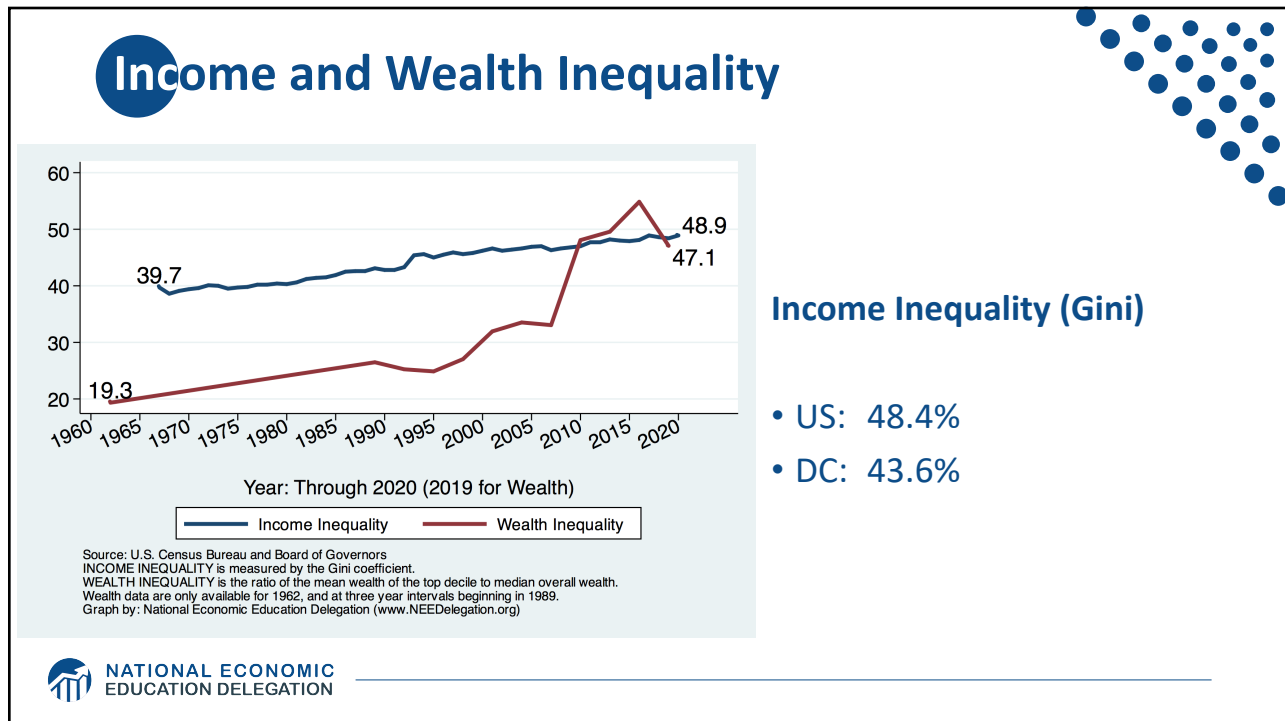
$$\text{Gini} = \frac{A}{A + B} \times 100$$

Bigger A: More inequality  
Smaller A: Less inequality

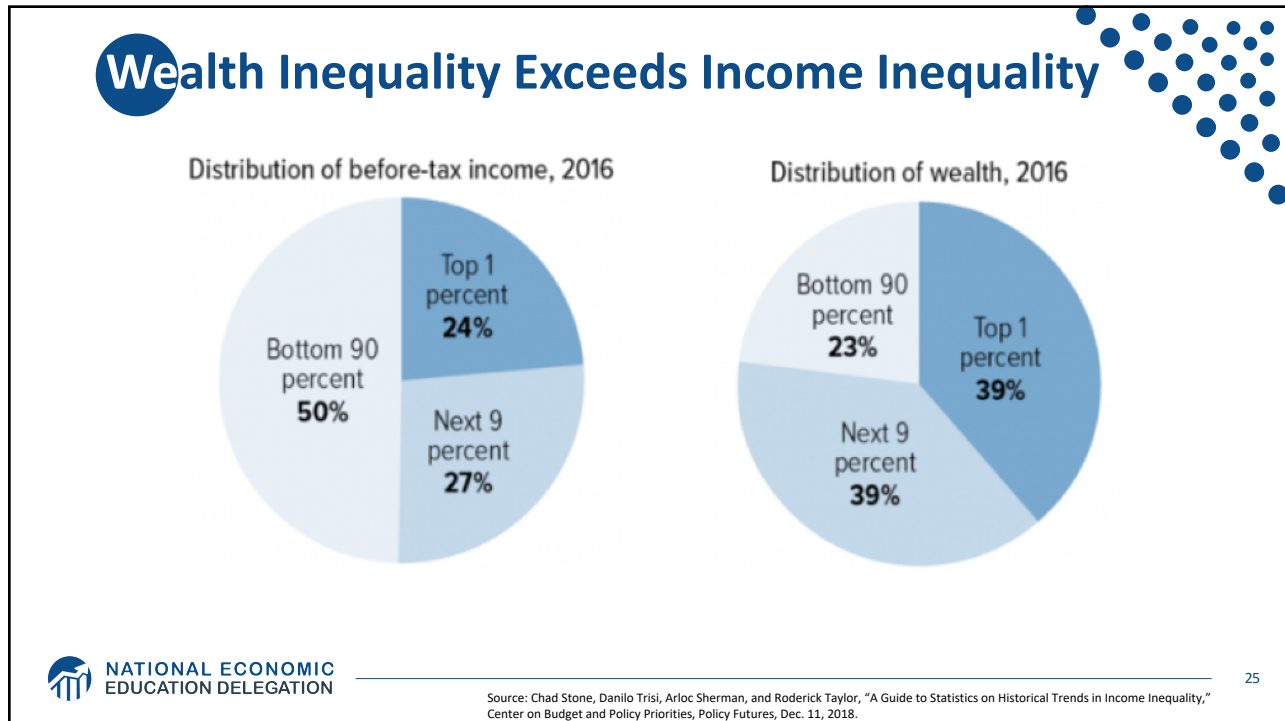
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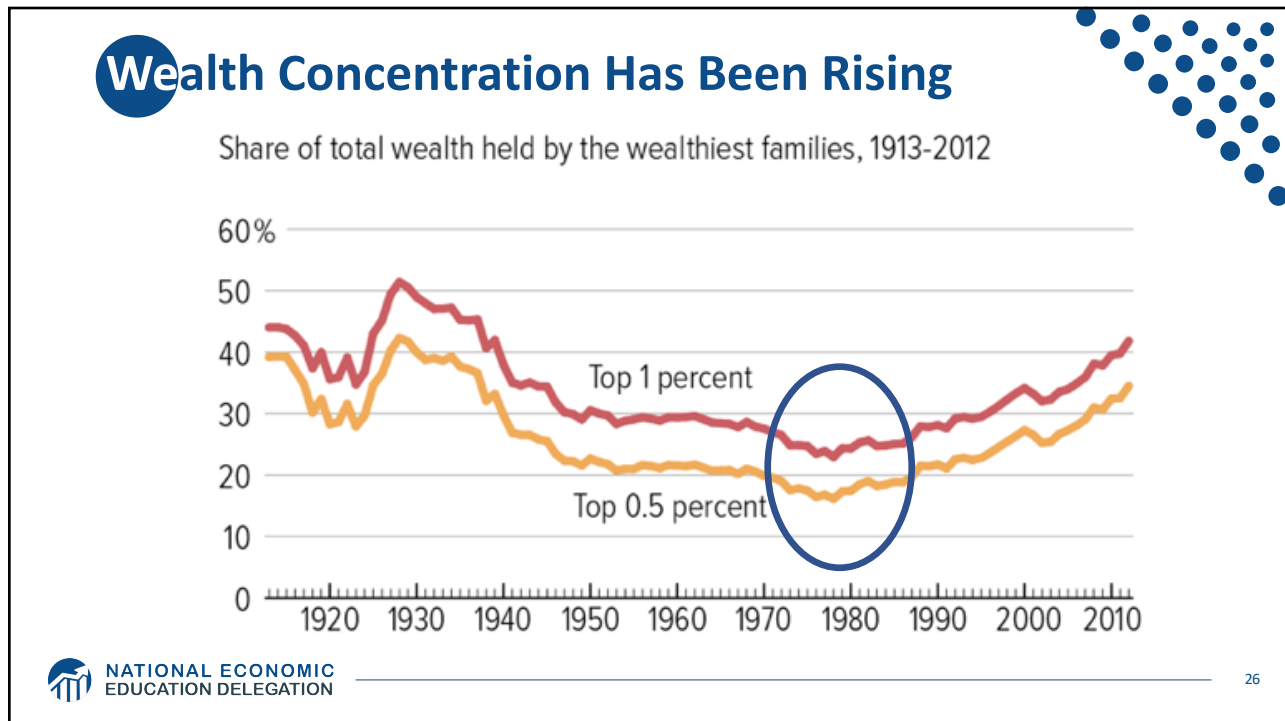
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# Where Does Inequality Come From?

- **Labor Characteristics**

- Demographics
  - o Age distribution
- Personal Choices
  - o Educational attainment
  - o Effort
  - o Priorities
- Immigration

- **Market Forces**

- Technology
- Changing demand patterns
- Competition for labor

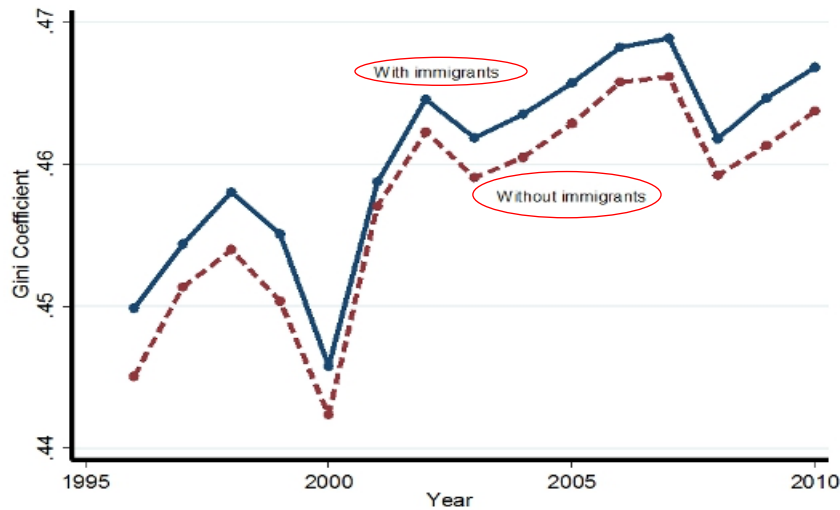
- **Government Policy**

- Market influence
- Redistribution



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# Immigration and Inequality



Source: Ping Xu, James C. Garand, and Ling Zhu, "How immigration makes income inequality worse in the U.S.", October, 2015, Figure 1.

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# Government Policy and Inequality

- **Market Influence: PRE-distribution**

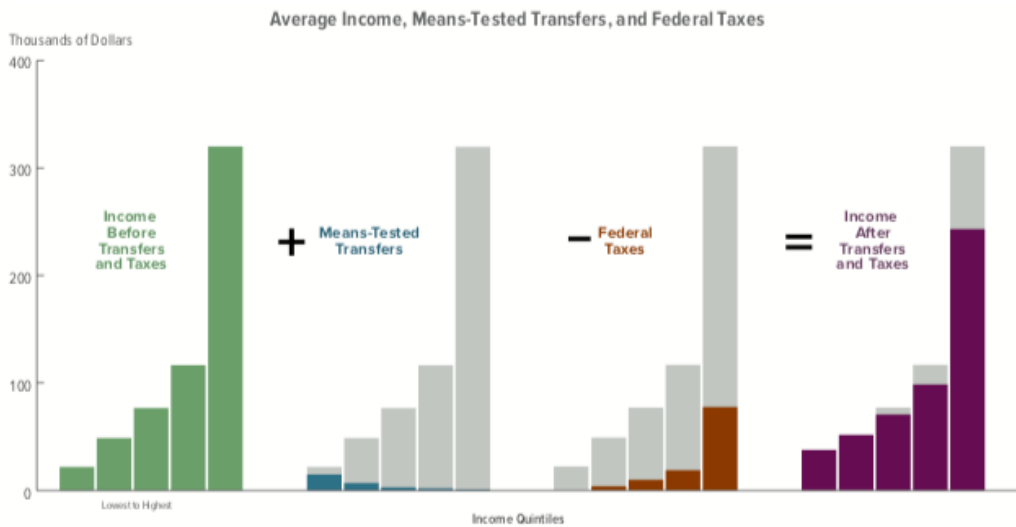
- Characteristics of labor
  - o Access to education
- Effects on labor demand
  - o Market regulation
    - Competition policy
  - o Labor regulations
    - Minimum wage, overtime, health insurance, etc.

- **RE-distribution**

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

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# Taxes, Transfers, and Income: 2018

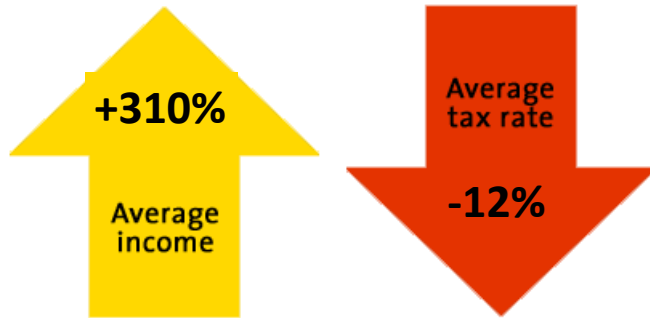


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# What About Tax Rates?

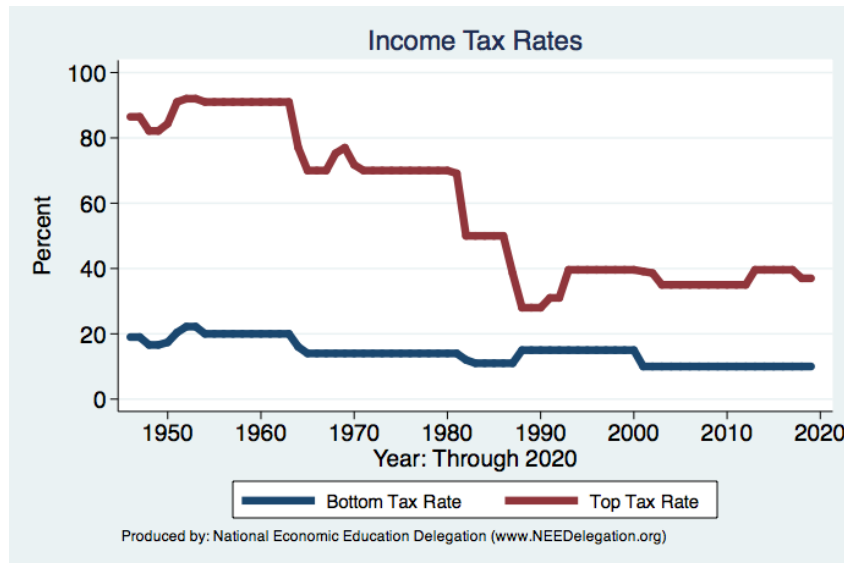
Tax and inheritance laws (reduced rates on high income groups)

**400 TAXPAYERS WITH HIGHEST INCOMES**  
1992-2014

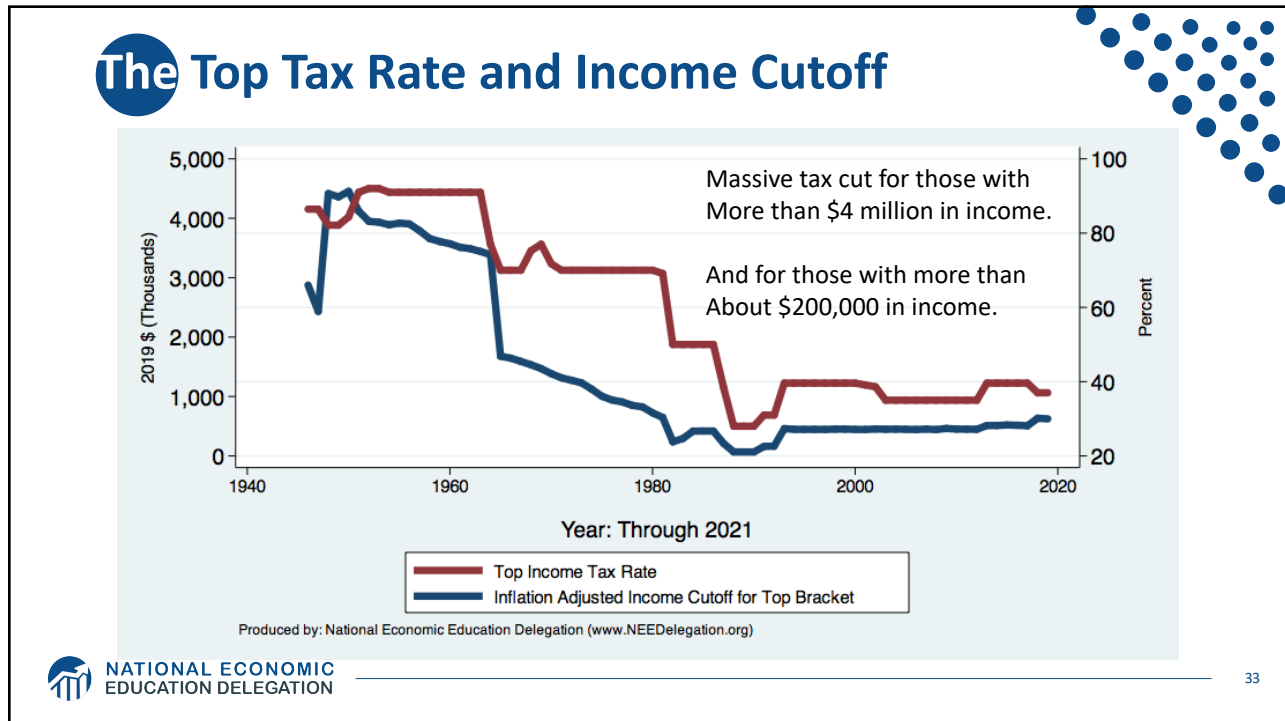


Source: IRS, Statistics of Income Division, December 2016.

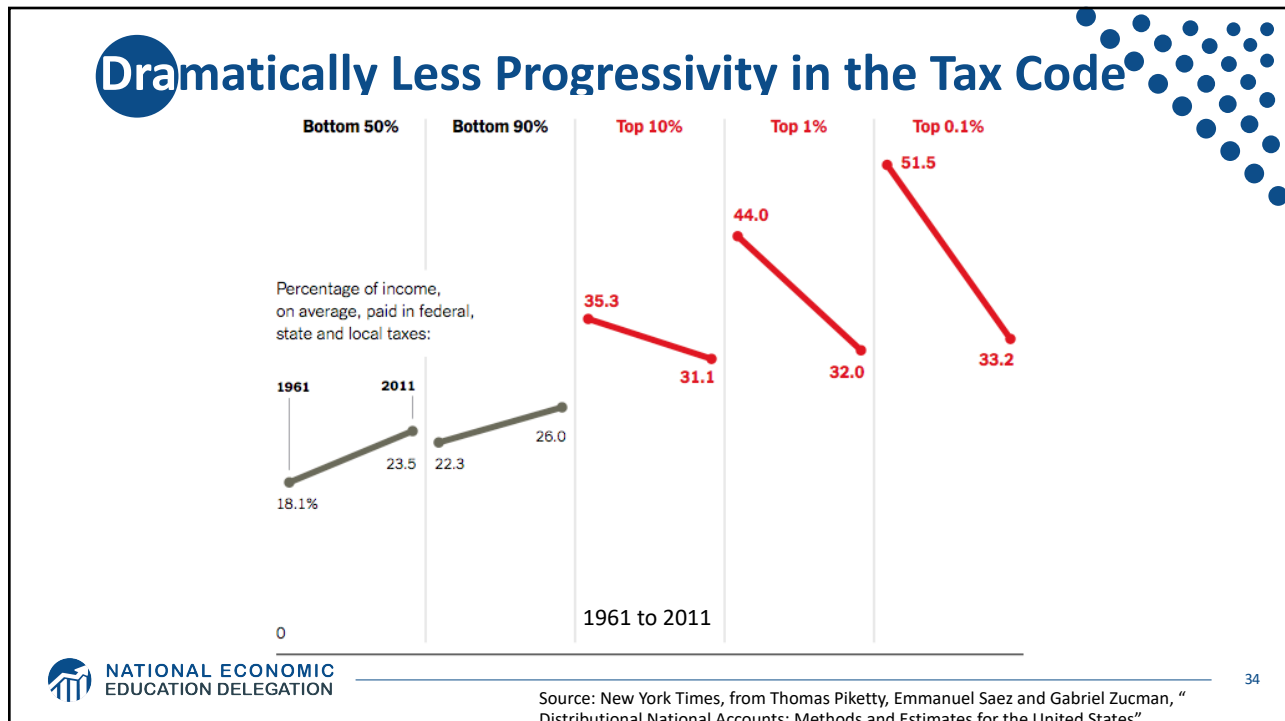
# Tax Rates Over Time







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## Market Forces and Inequality

- **Changing demand patterns**
  - Technology
  - 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

Quarterly: Through Q4-21

Source: U.S. Bureau of Labor Statistics  
 Productivity: Nonfarm Business Sector: Real Output Per Hour of All Persons  
 Compensation: Nonfarm Business Sector: Real Compensation Per Hour  
 Graph by: National Economic Education Delegation (www.NEEDelegation.org)

### Why?

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

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## Declining Unionization

Year: Through 2018

### Unionization Rates

- **1983:** 20.1%
- **2021:** 10.3%

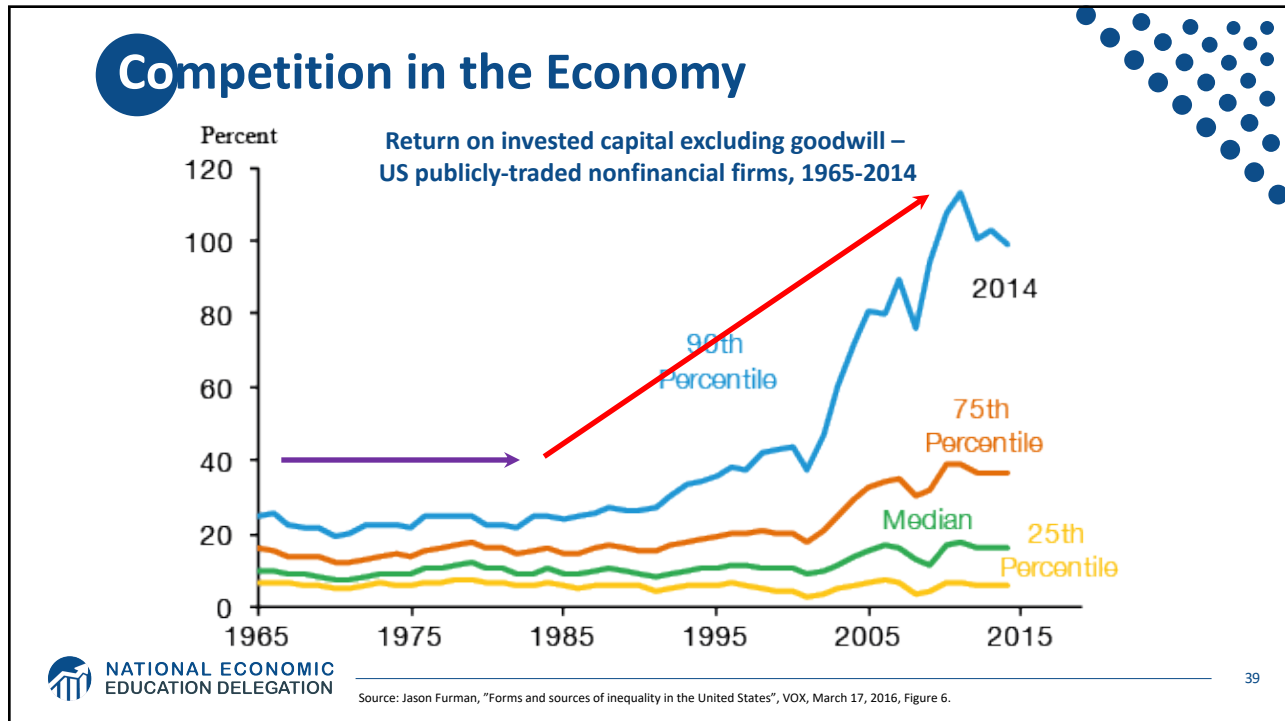
### Unionization Rates

- **Public:** 33.9%
- **Private:** 6.1%

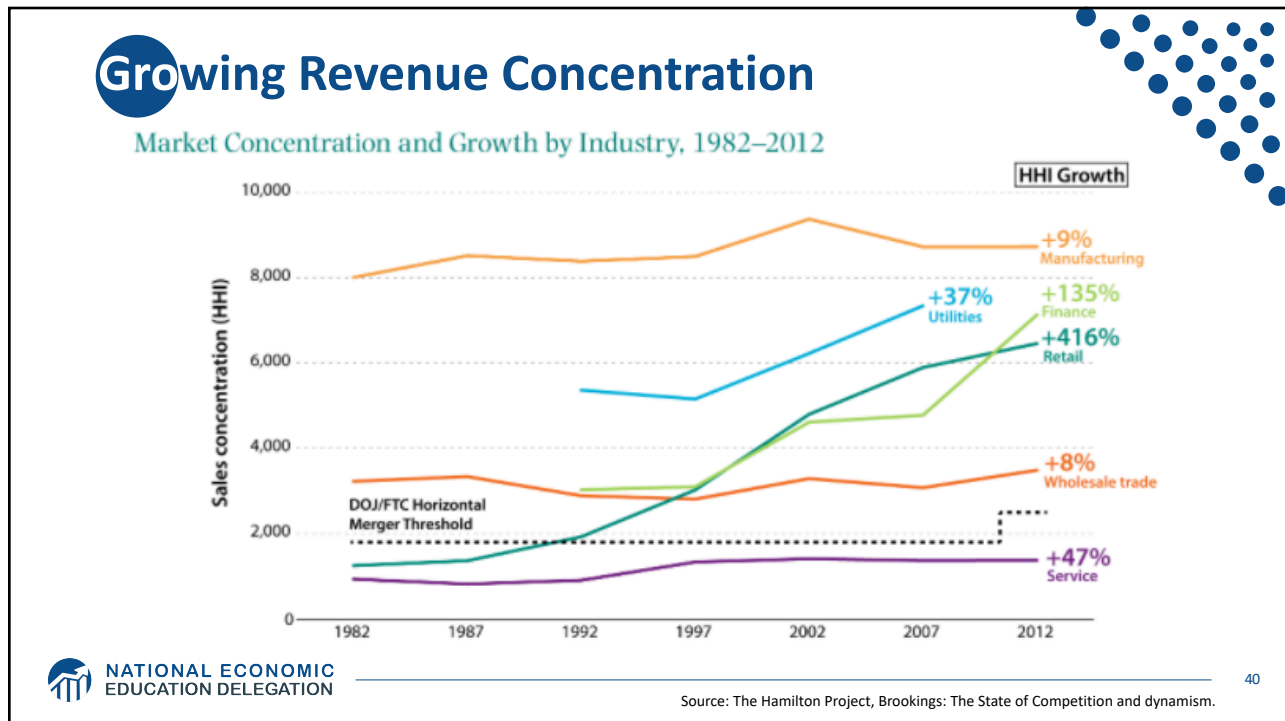
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Source: <https://inequality.org/facts/income-inequality/>, Bureau of Labor Statistics and Emmanuel Saez, University of California, Berkeley

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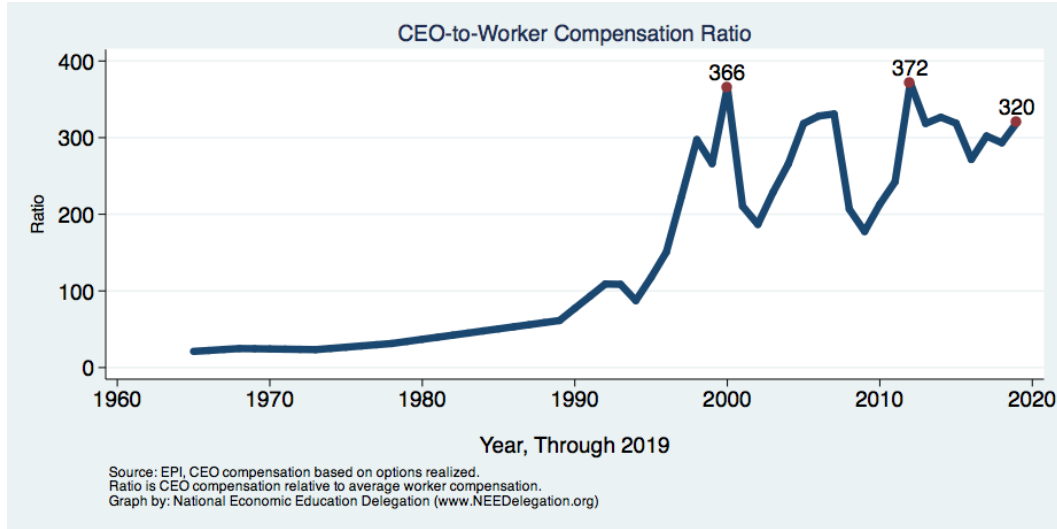


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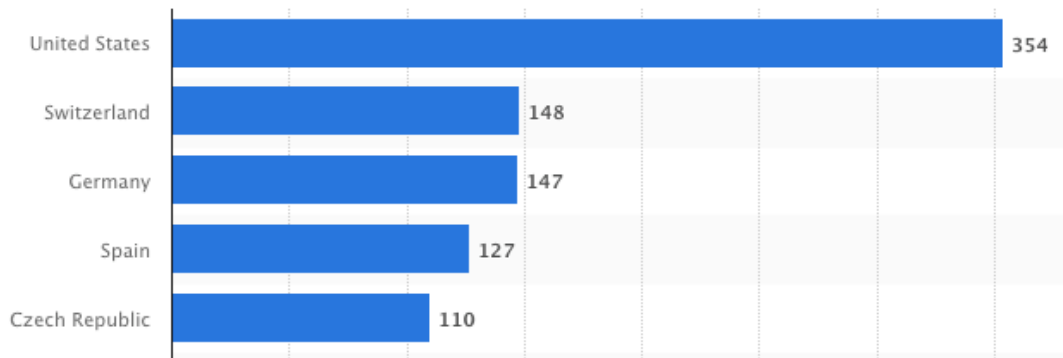


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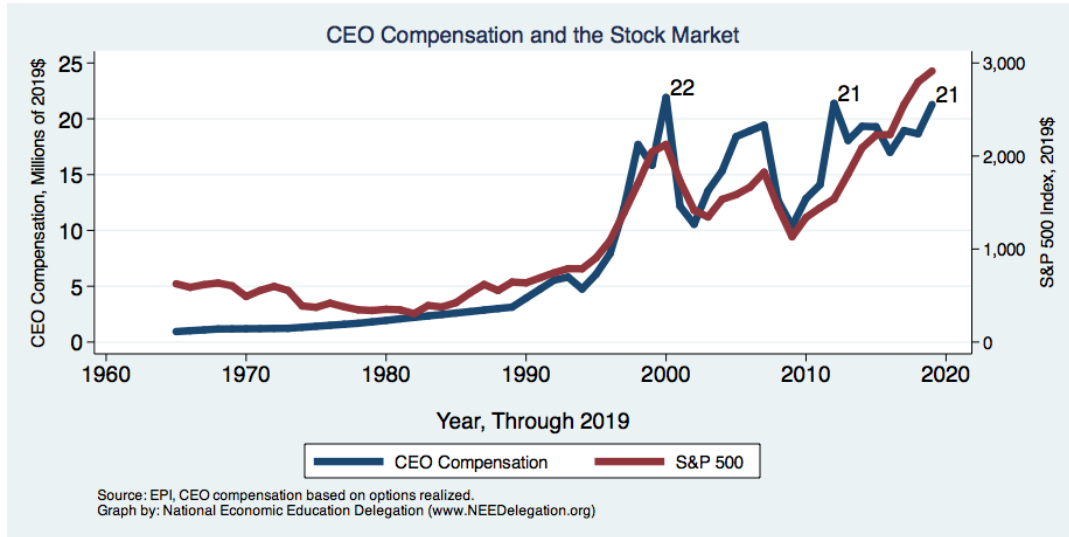
## CEO Pay Has Been Growing Rapidly



## CEO Pay Has Been Growing Rapidly



## CEO Compensation – Tied to Stock Prices



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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 likely favors a small group of individuals.
- **Both aspects increase inequality by increasing the rewards to:**
  - Those with significant labor market skills.
  - Owners over workers

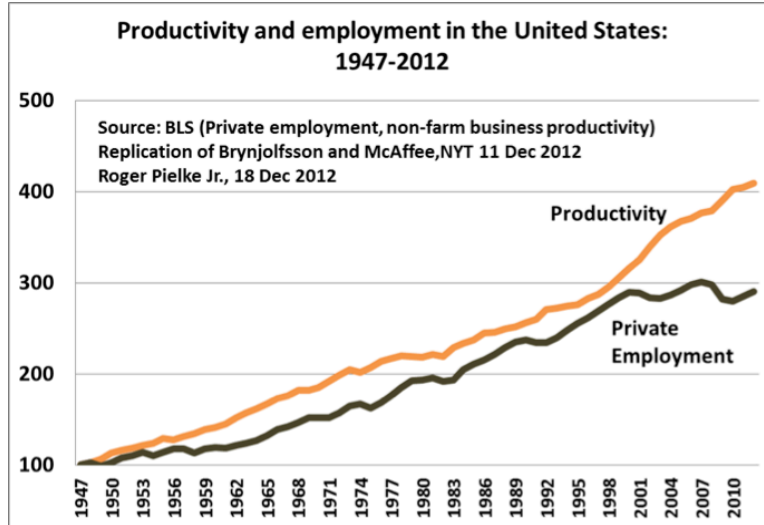


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# Technology Benefits Ownership over Labor



# Technology can Hurt Low Income Workers



Early on, technology was good to low income workers



Until it was bad for them....

## A Modern Example: Uber & Lyft

- **Technology:**

- Facilitates market power for owners.
- Reduces bargaining power for labor.
- Shifts costs of doing business onto labor.

- **Modern day Robber Barons?**

- Ruthlessly absorbing as much income as they can.
- Lack of regard for labor.



## 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





## Mechanisms for the Effects of Globalization

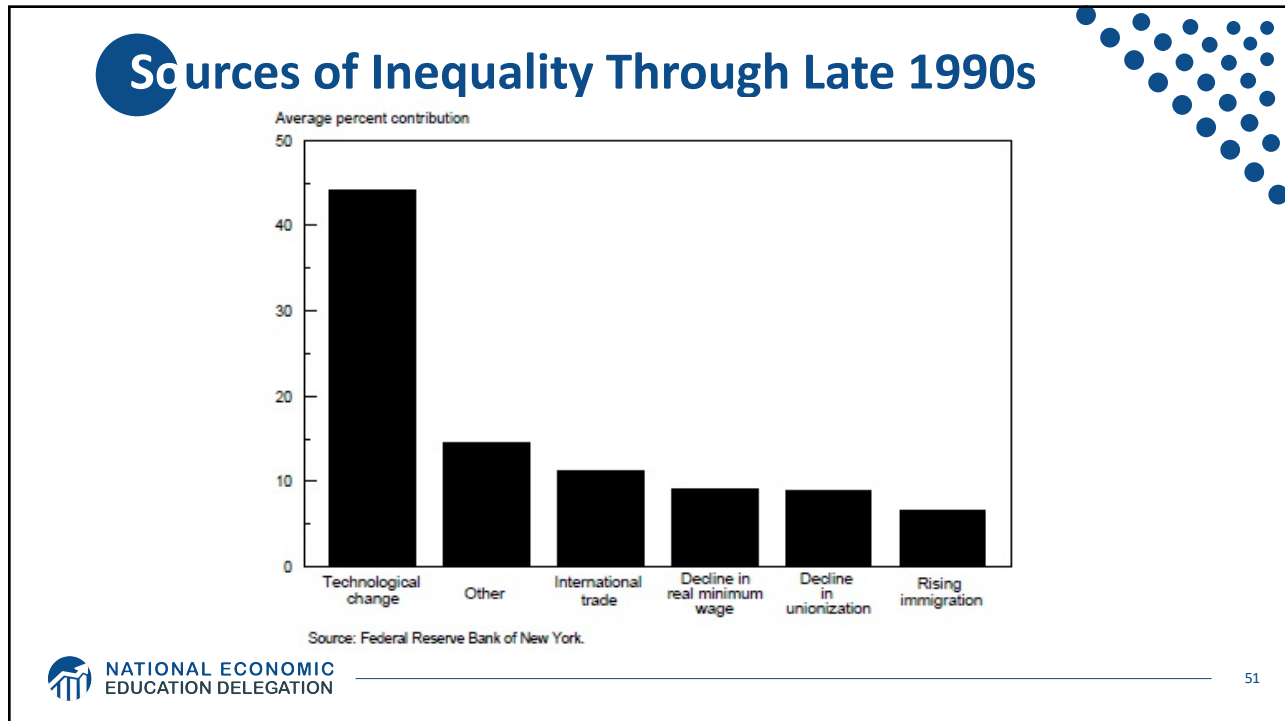
- **Merchandise trade**
  - Importing goods that are made with low-skilled workers and exporting goods that are made with high-skilled workers
    - Lowers the wages of unskilled relative to skilled
      - making the distribution of income **less equal**
- **Outsourcing**
  - Similar channel as with 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.**



## 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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## Why Does Inequality Matter?

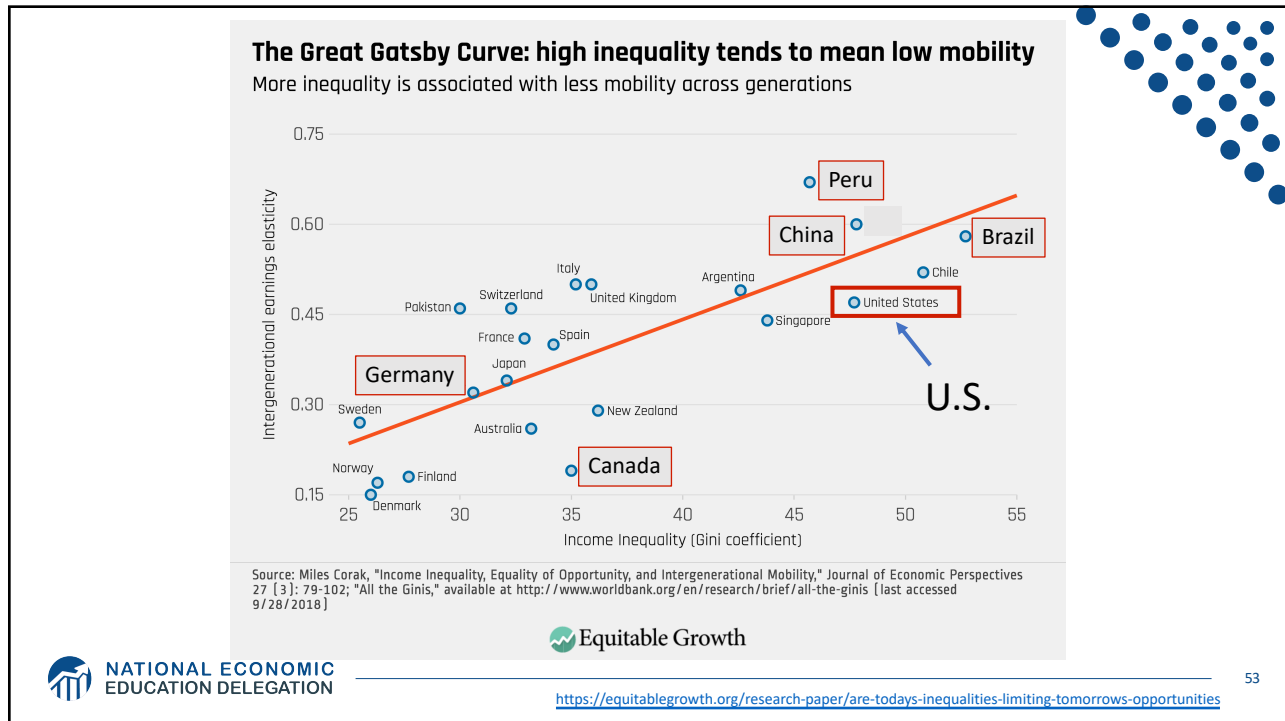
- **Too little inequality can:**
  - Reduce individual motivation
  - Slow economic growth
- **Too much inequality can:**
  - Reduce individual motivation
  - Slow economic growth

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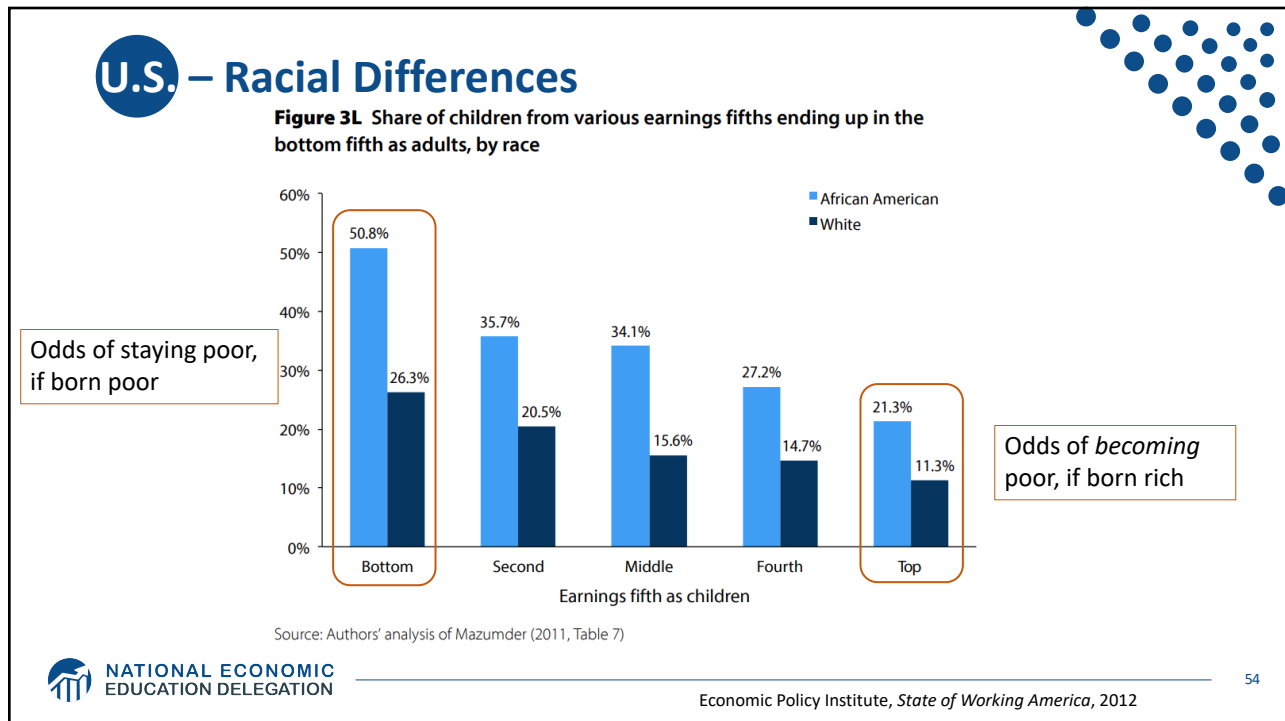
- **Too much inequality may also:**
  - Divide society
  - Distort political environment
  - Reduce political participation
- **Reduce investments in public goods**
  - Education
  - Environmental protections

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## Government Policy and Racial Inequality

- Product of a long historical process of discrimination with at least two reinforcing sets of policies.
  - Policies that govern the spatial distribution of the black population.
    - Restrictive covenants, redlining, and general housing and lending discrimination
  - Policies that have a disparate impact on black individuals because of their locations.
    - The original version of Michigan Senate Bill 897 exempted individuals from this work requirement conditional on residing in a county with an unemployment rate above 8.5 percent. The higher unemployment rates in rural counties would disproportionately exempt white Medicaid recipients from the work requirement within the bill.



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## Addressing Inequality: Is It A Problem?

- **Why it might be a problem.**
  - Economic issues (*Efficiency*)
    - There is evidence that at some level, increased inequality slows economic growth.
    - Or, inequality concentrates resources among investors.
  - Noneconomic issues (*Equity*)
    - Values, ethics and morals will drive individual evaluations of the level of 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?**



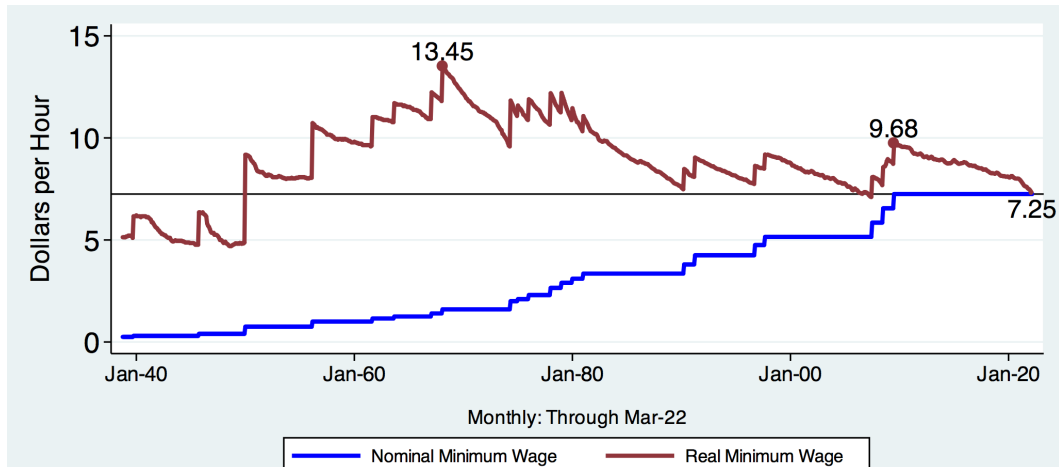
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# Addressing Inequality: Immediately Available Policy Solutions (1/2)

- **RE-distribution**
  - Tax and transfer programs
  
- **PRE-distribution**
  - Strengthen labor unions
  - Collective bargaining
  - Other policies that favor labor over business owners
  - Minimum wages



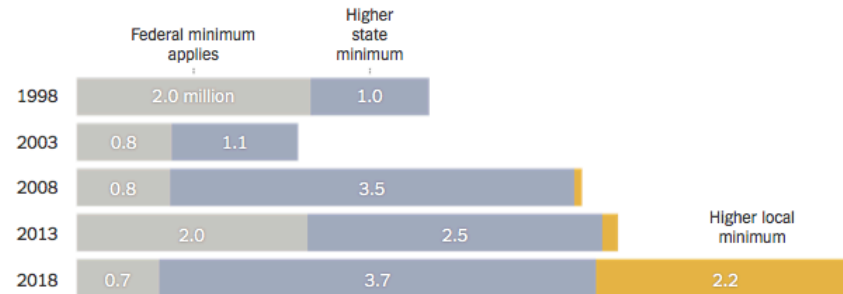
# History of the Federal Minimum Wage



Source: U.S. Dept. of Labor  
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

## Most Minimum Wage Workers Aren't Bound by the Federal Minimum Anymore

Millions of workers:



Includes farm workers and tipped incomes

Source: Author's analysis of Current Population Survey; data from the Berkeley Center for Labor Research and Education, as well as Kavya Vaghul and Ben Zipperer (2016).



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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
  - o Uber, Lyft, etc.



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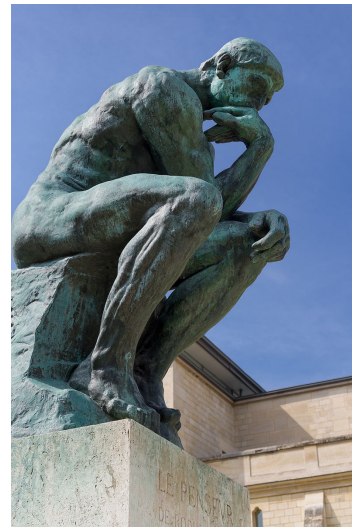
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## Addressing Inequality: Long Term

- **It's all about access to resources (*equality of opportunity*):**
  - 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.

## What to do About Inequality?

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



## Tension in Policy Solutions

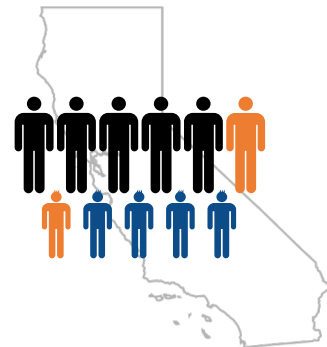
### Is it possible to increase growth and reduce inequality?

- 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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**Thank you!**

## Any Questions?

[www.NEEDelegation.org](http://www.NEEDelegation.org)

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