



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

West Virginia University  
Winter, 2023

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

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1

1



**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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2

2

## Course Outline

### • Contemporary Economic Policy

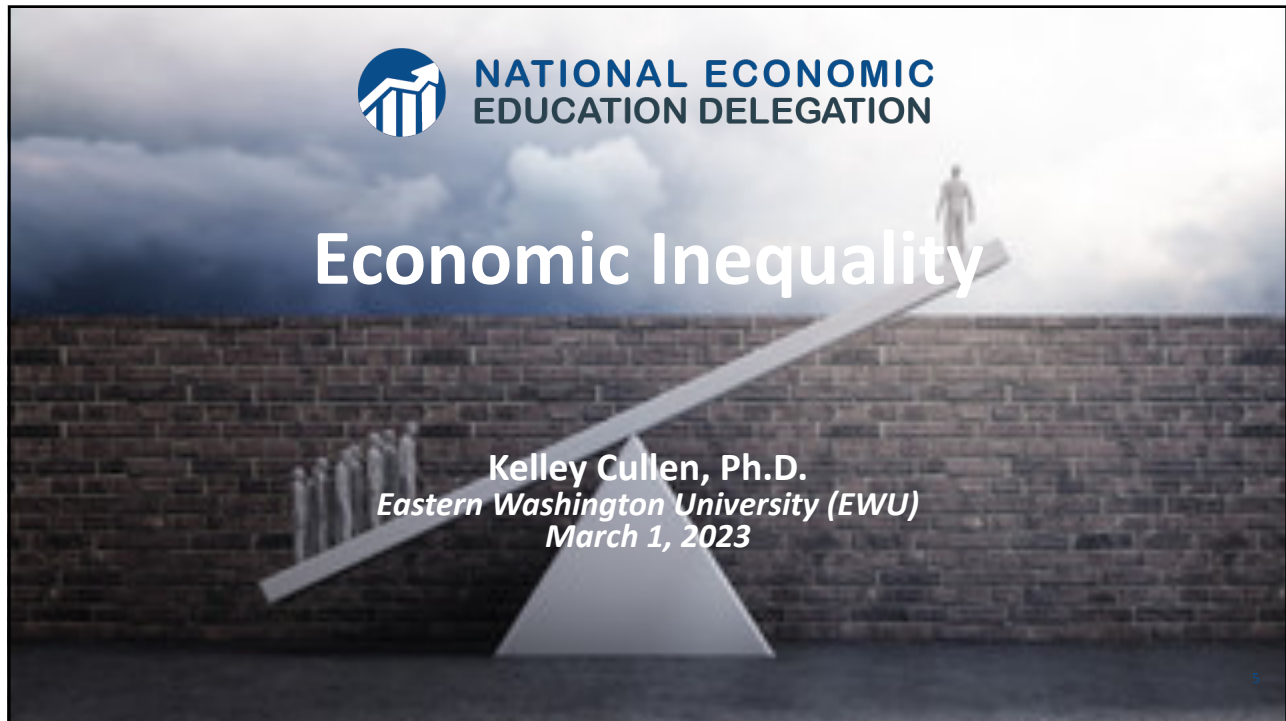
- Week 1 (1/25): Trade and Globalization (Alan Deardorff, Univ. of Michigan)
- Week 2 (2/1): US Economic Update (Jon Haveman, NEED)
- Week 3 (2/8): Trade Deficits and Exchange Rates (Alan Deardorff)
- Week 4 (2/15): Climate Change Economics (Sarah Jacobson, Williams College)
- **Week 5 (2/22): Economic Inequality (Kelley Cullen, NEED)**
- Week 6 (3/1): Monetary Policy (Geoffrey Woglom, Amherst College)

3

## 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.**
- **OLLI allowing, we can stay beyond the end of class to have further discussion.**
- **Slides will be available from the NEED website tomorrow ([https://needelegation.org/delivered\\_presentations.php](https://needelegation.org/delivered_presentations.php))**


4



5

## Credits and Disclaimer

- **This slide deck was authored by:**
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- **This slide deck was reviewed by:**
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  - Robert Wright, Augustana University
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6

6

## Outline

- Definition
- Measurement
- How does it happen?
- Does it matter?
- Is it a problem?
- What to do about it



7

## Economic Inequality: Income

- **Definition:**
  - The extent to which the distribution of income deviates from complete equality
  - The dispersion of income throughout the economy



8

# 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



9

9


# 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.

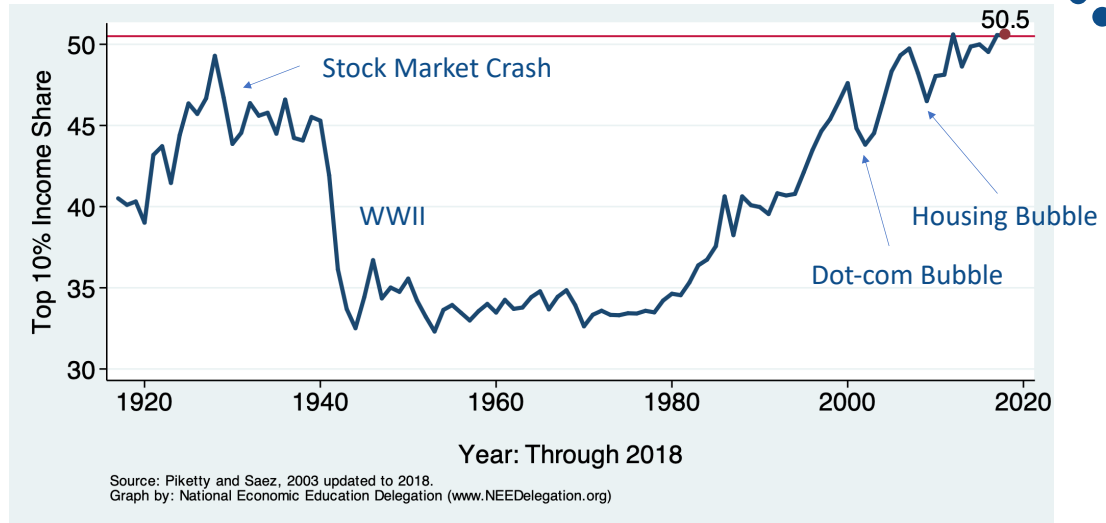
**Wealth** is one's accumulated savings, including physical and financial assets (net worth).



10

10

## National Income Inequality: Share of Top 10%



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11

11

## 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.

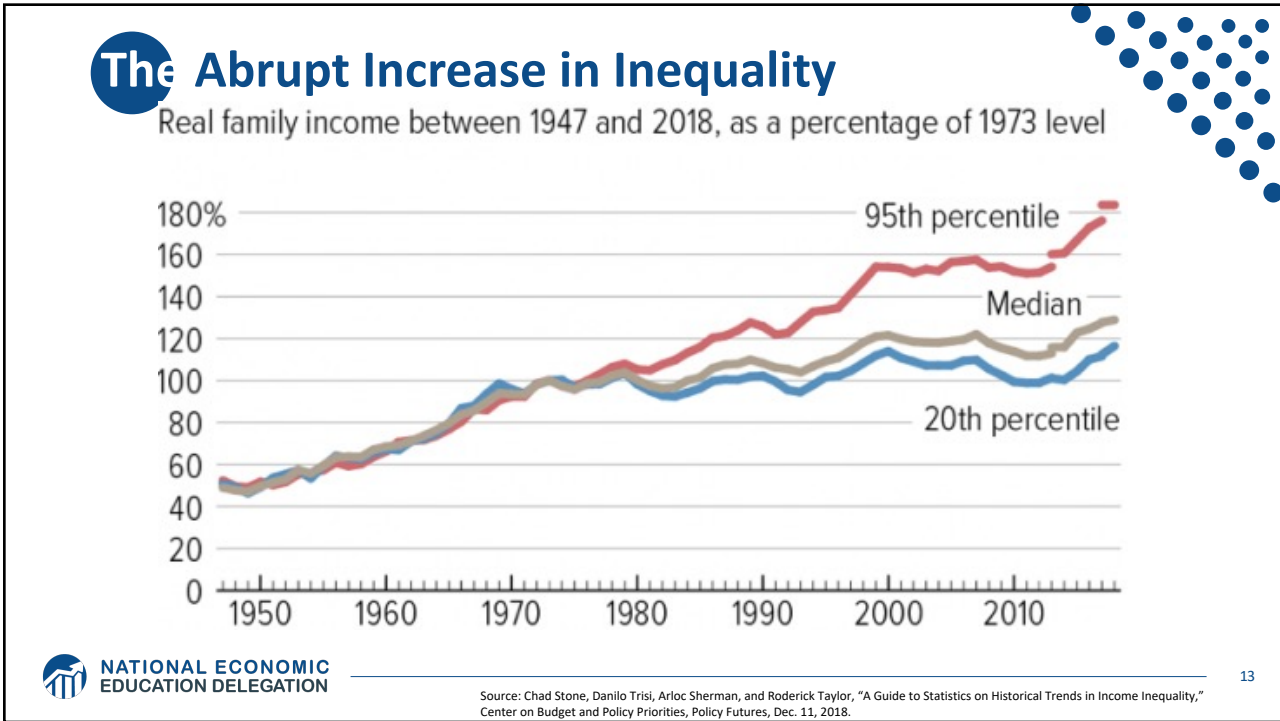


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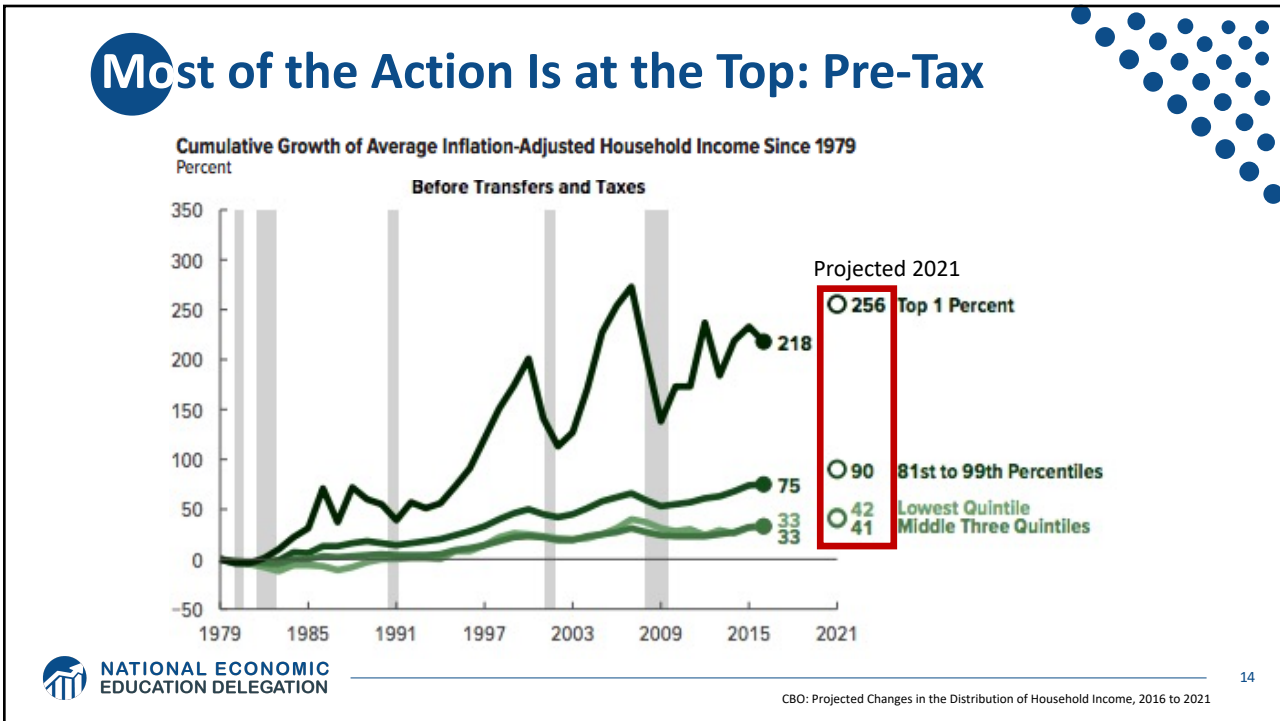
Source: Chad Stone, Danilo Trisi, Arloc Sherman, and Roderick Taylor, "A Guide to Statistics on Historical Trends in Income Inequality," Center on Budget and Policy Priorities, Policy Futures, May 15, 2018.

12

12



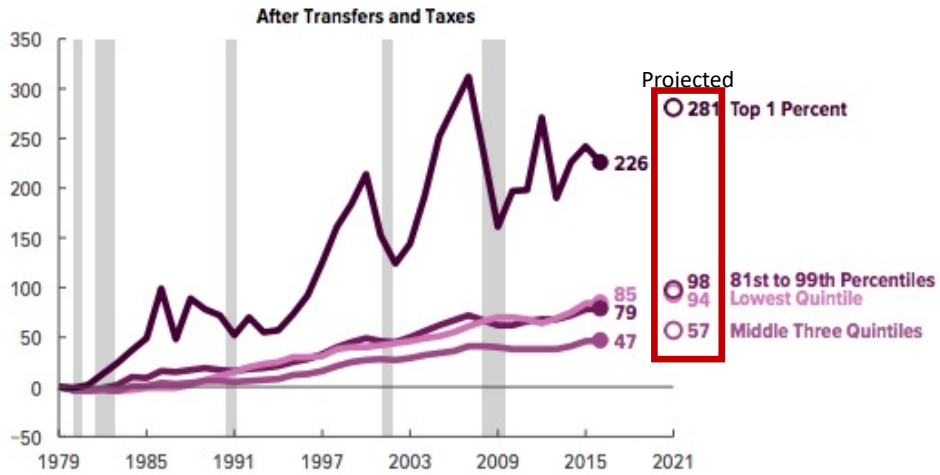
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14

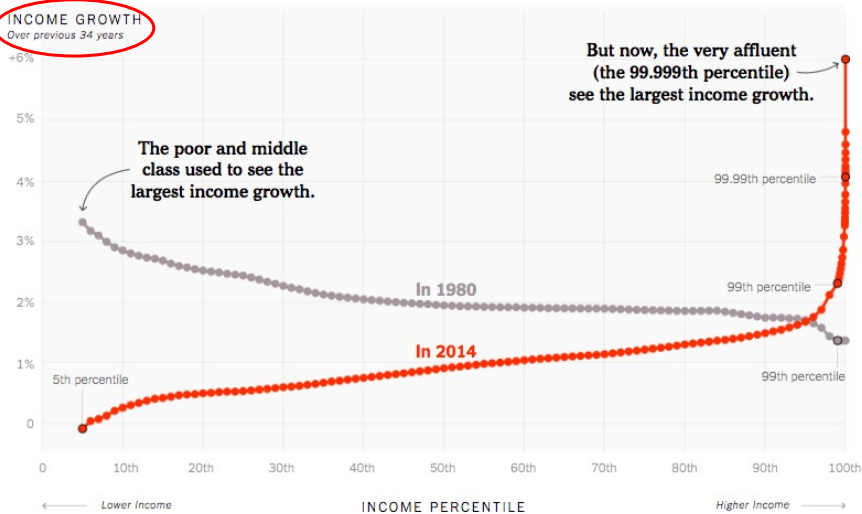
# Most of the Action Is at the Top: Post-Tax

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



15

# Wage Growth Patterns Have Changed!



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

16



## Gini Coefficient

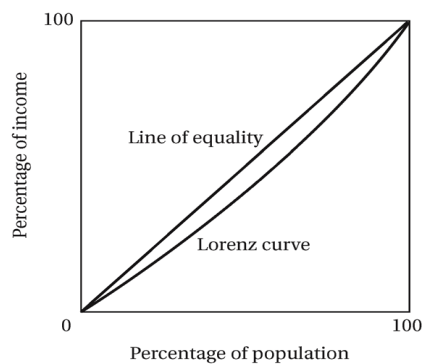
- **Gini coefficient – a numerical measure that summarizes the overall dispersion of income**
  - Ranges from 0 – 1
    - 0 = perfect equality – everyone has the same income
    - 1 = perfect inequality – one person has all the income
  - In practice:
    - 0.5 – 0.7 – highly unequal
    - 0.2 – 0.35 – relatively equal



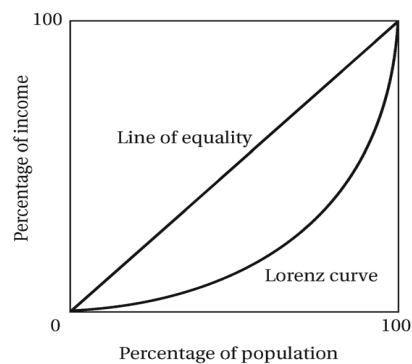
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17

## Lorenz Curve of Income Distribution



(a) A relatively equal distribution



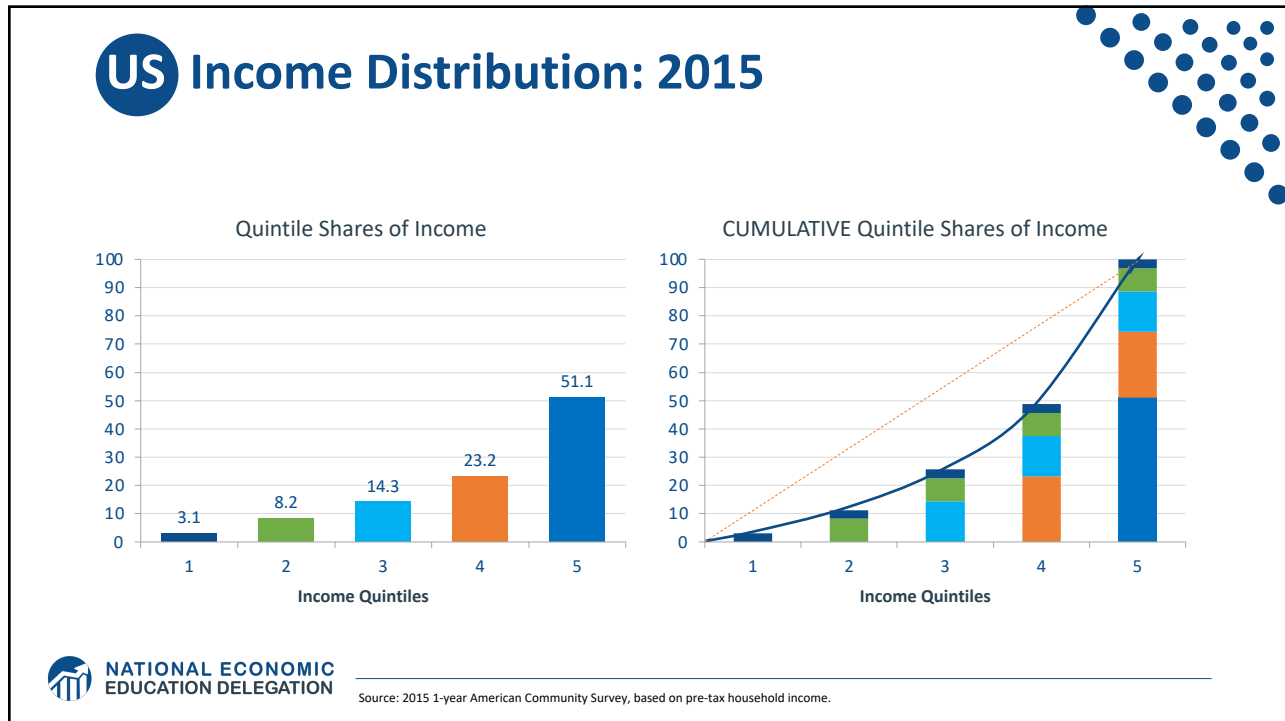
(b) A relatively unequal distribution

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

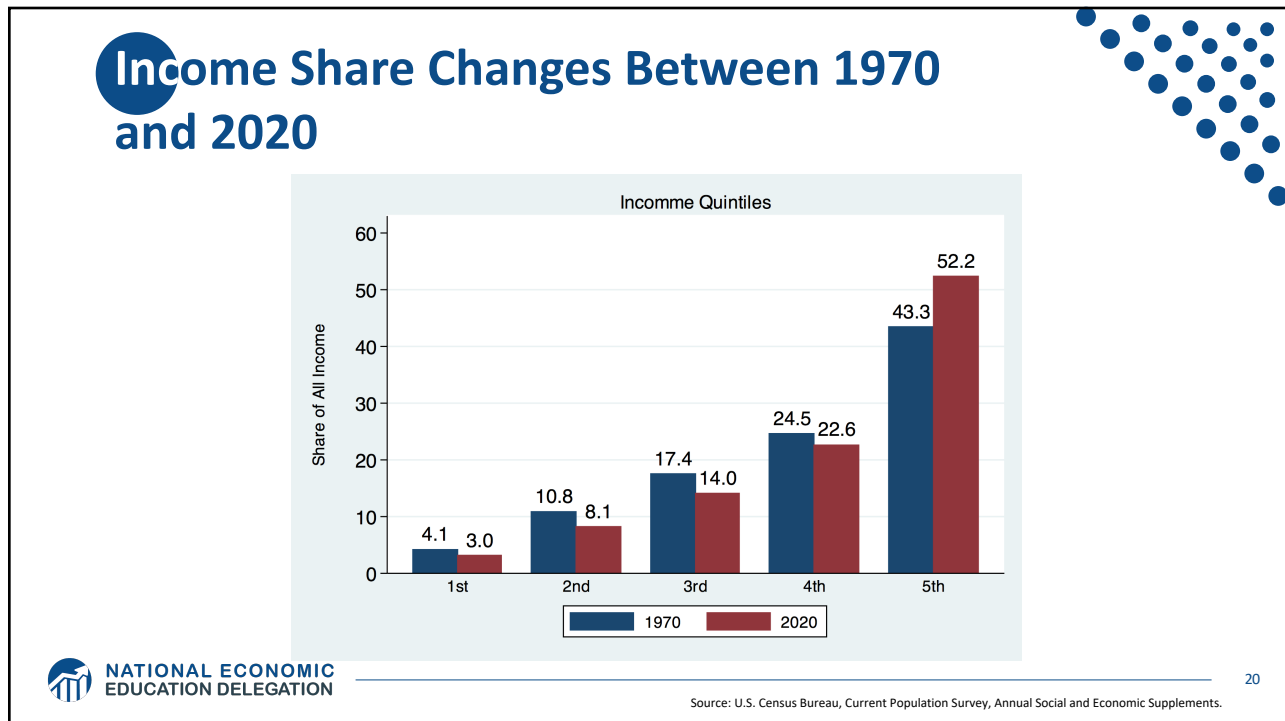


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18

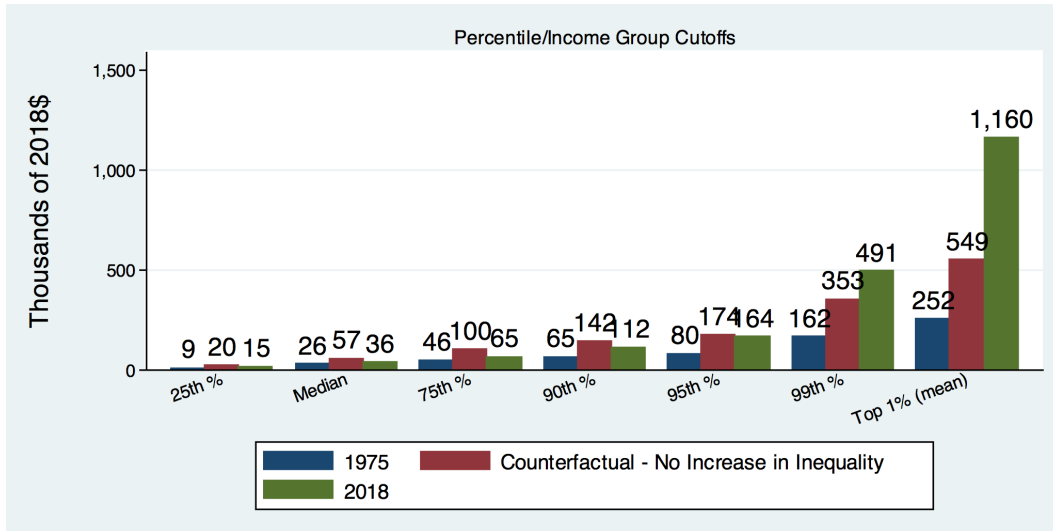


19



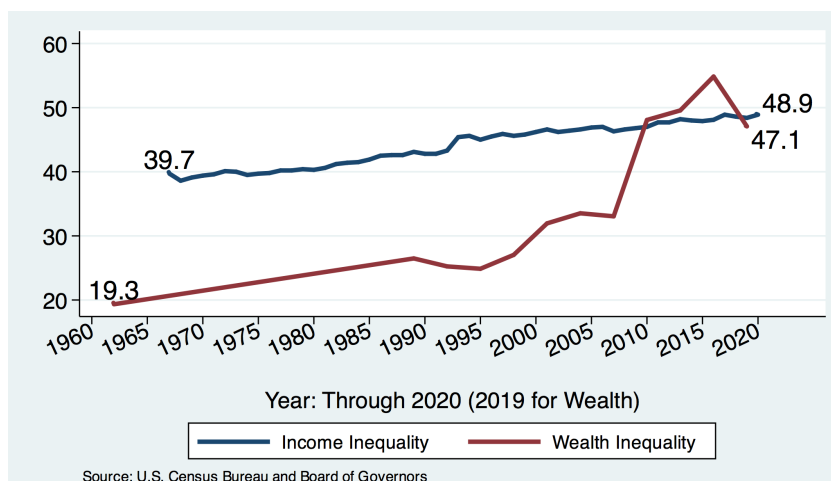
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## How Has Inequality Influenced Incomes?



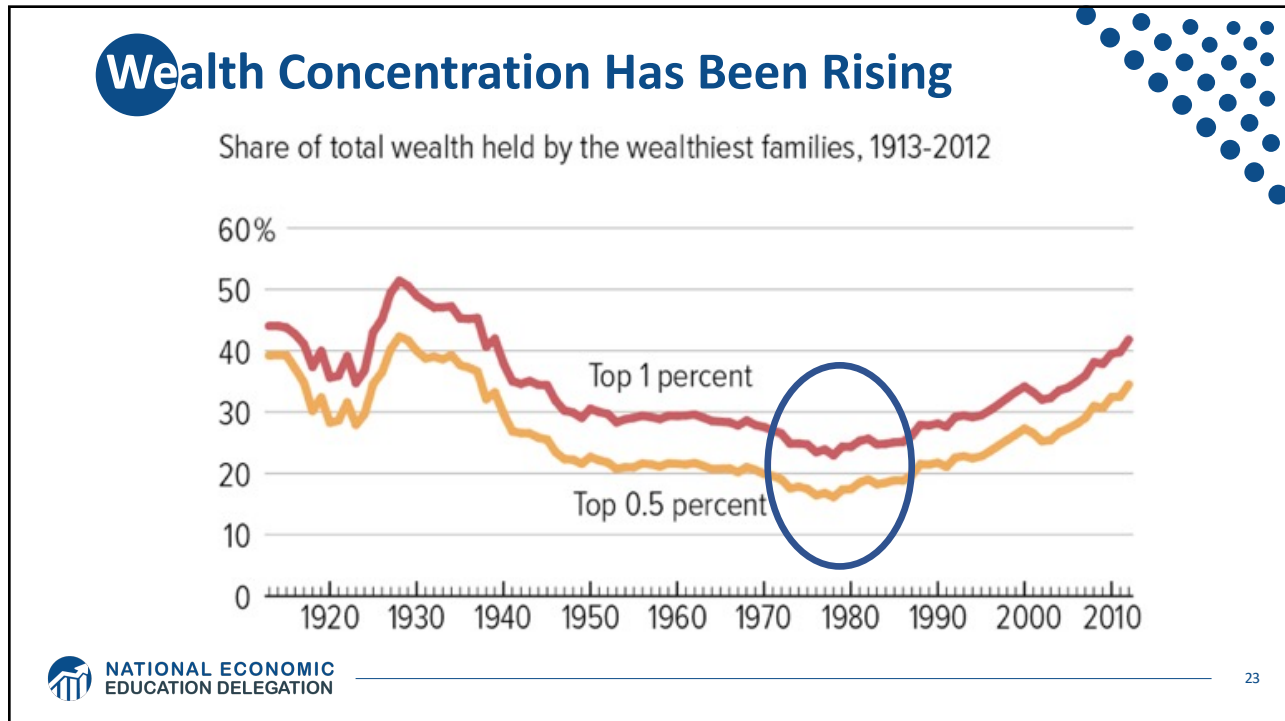
21

## Income and Wealth Gini Coefficients

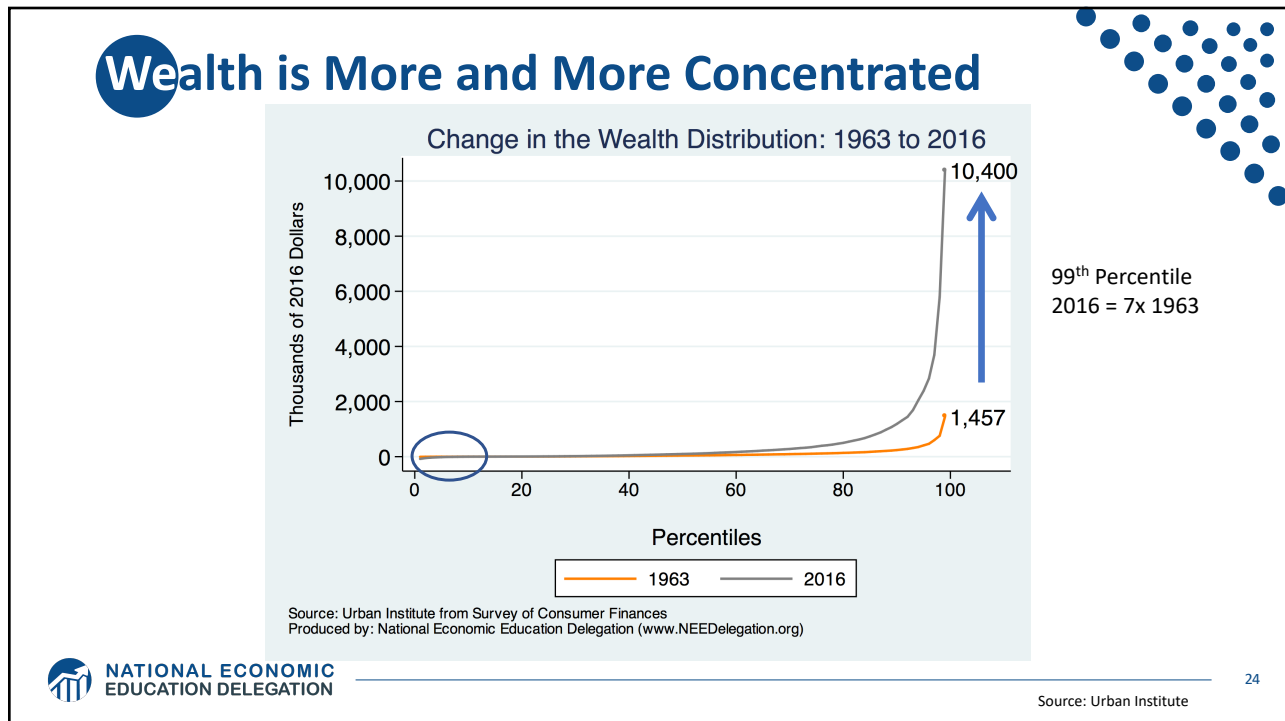


Source: U.S. Census Bureau and Board of Governors

22



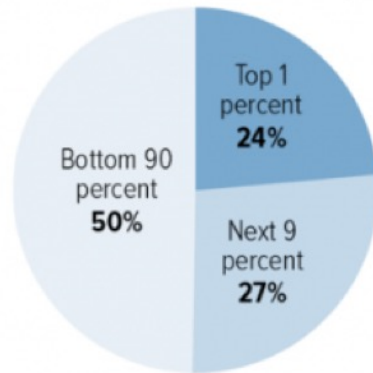
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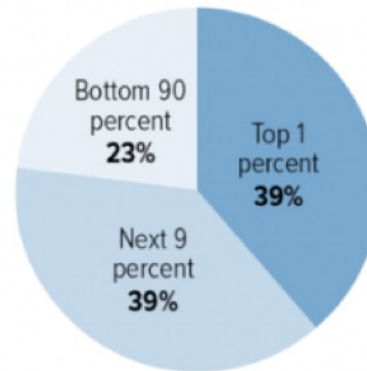
24

## Wealth Inequality Exceeds Income Inequality

Distribution of before-tax income, 2016



Distribution of wealth, 2016



25

## 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

26

# Government Policy and Inequality

- **Market Influence: PRE-distribution**

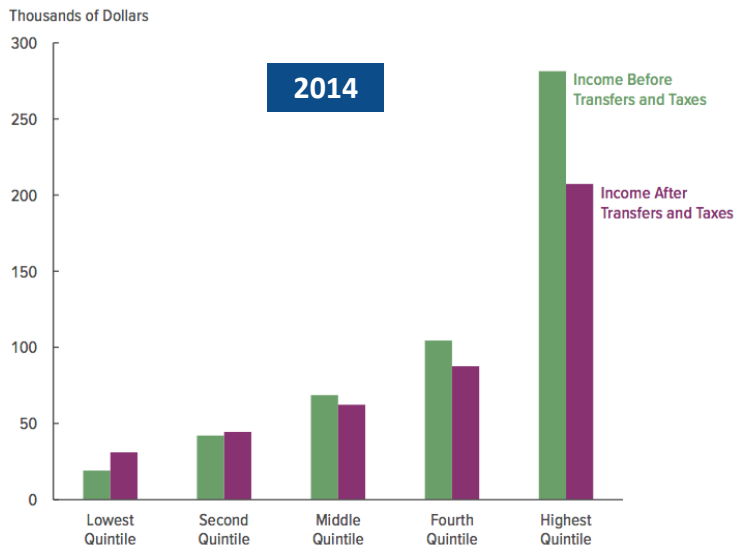
- Characteristics of labor
  - o Access to education
- Effects on labor demand
  - o Market regulation
    - Competition policy
  - o Labor regulations
    - Minimum wage, overtime, health insurance, union regulations, etc.

- **RE-distribution**

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

27

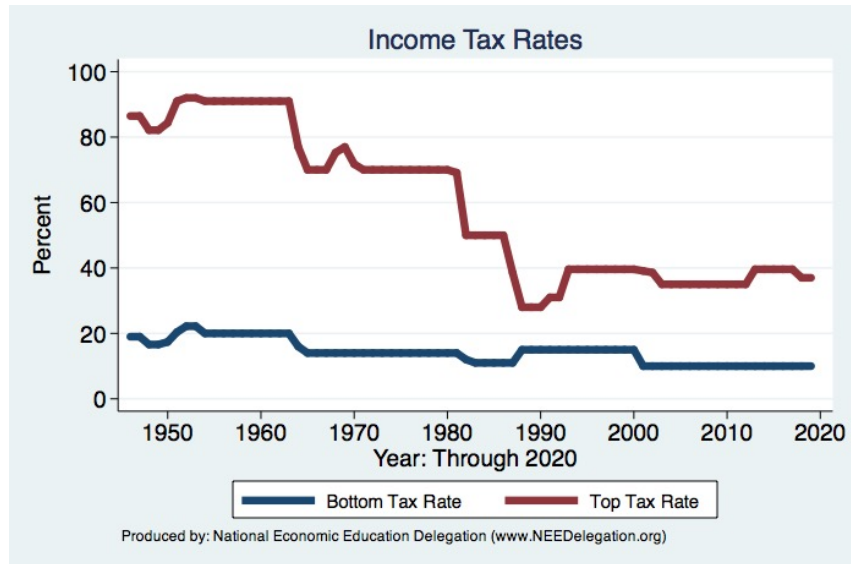
# Tax and Transfer Programs and Inequality



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.

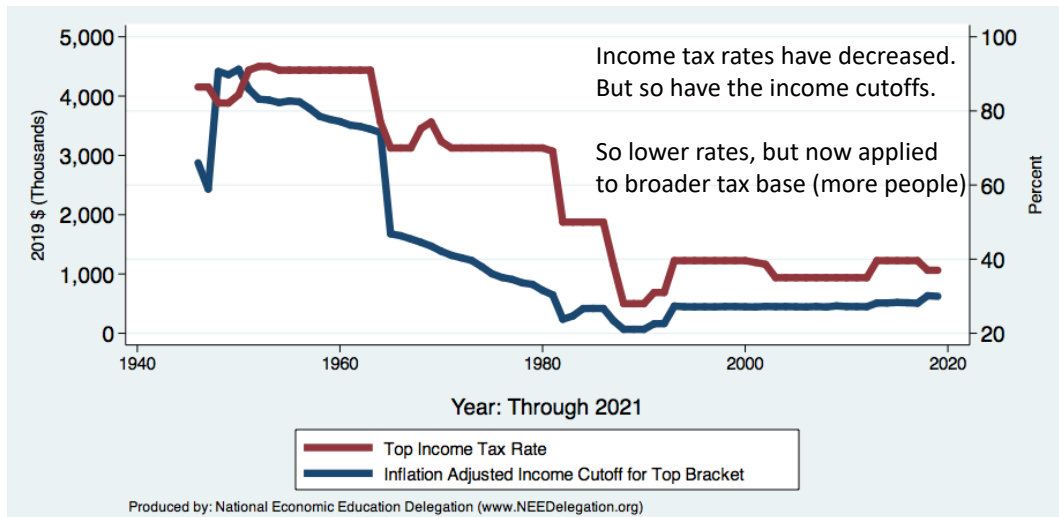
28

## Tax Rates Over Time

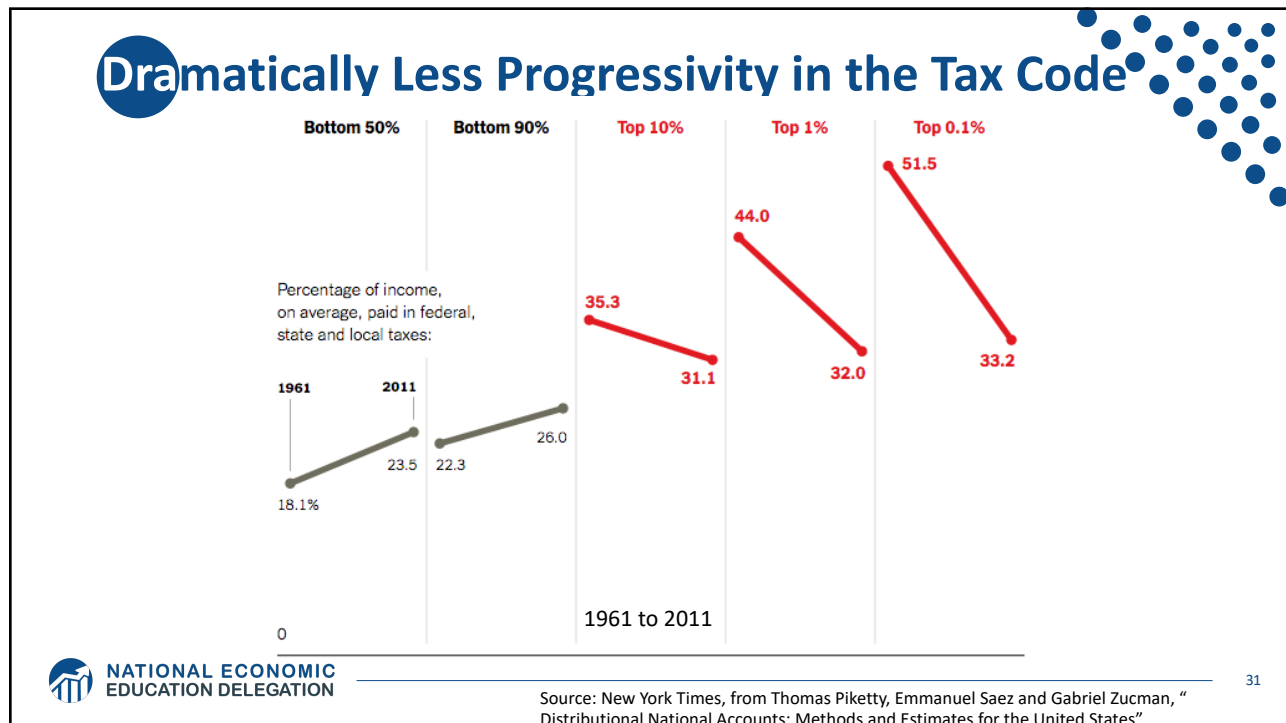


29

## The Top Tax Rate and Income Cutoff



30



31

## Market Forces and Inequality

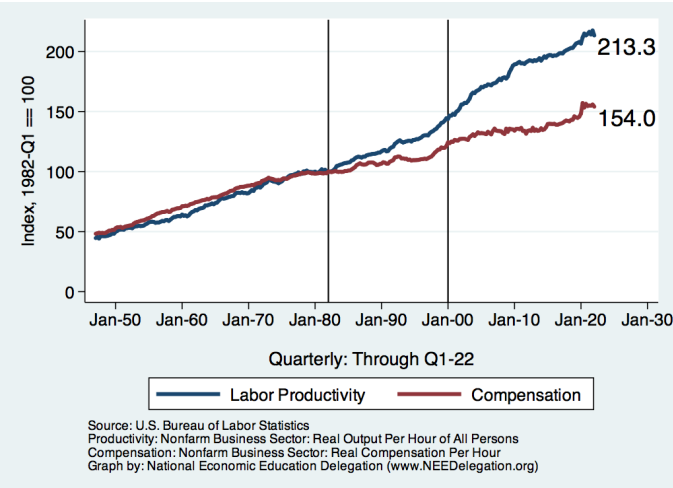
- **Changing demand patterns**
  - Technology and "skill-biased technological change"
  - Increased Trade and Globalization
  - Industry composition
    - PCs instead of typewriters
    - Services instead of goods
    - Professional services instead of personal services
- **Competition in labor markets**
  - Unionization
  - Market concentration

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32



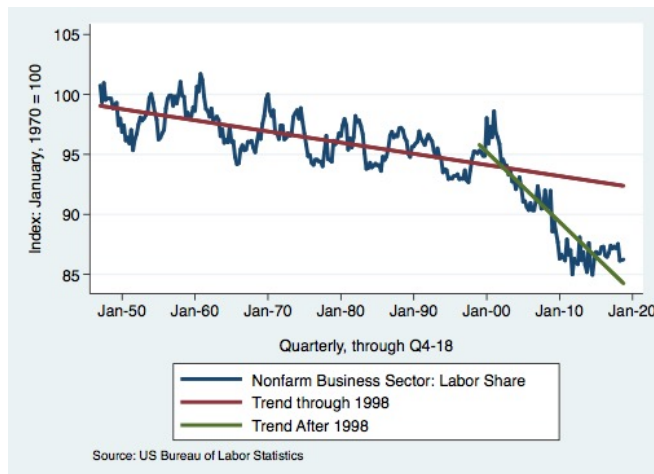
# Labor Income is Unhinged from Productivity



## Why? Some theories:

- Declining unionization
- Competition policy
- More “superstar” firms/workers
- Immigration
- Technological change
- Globalization

# Effects of the Unhinging?

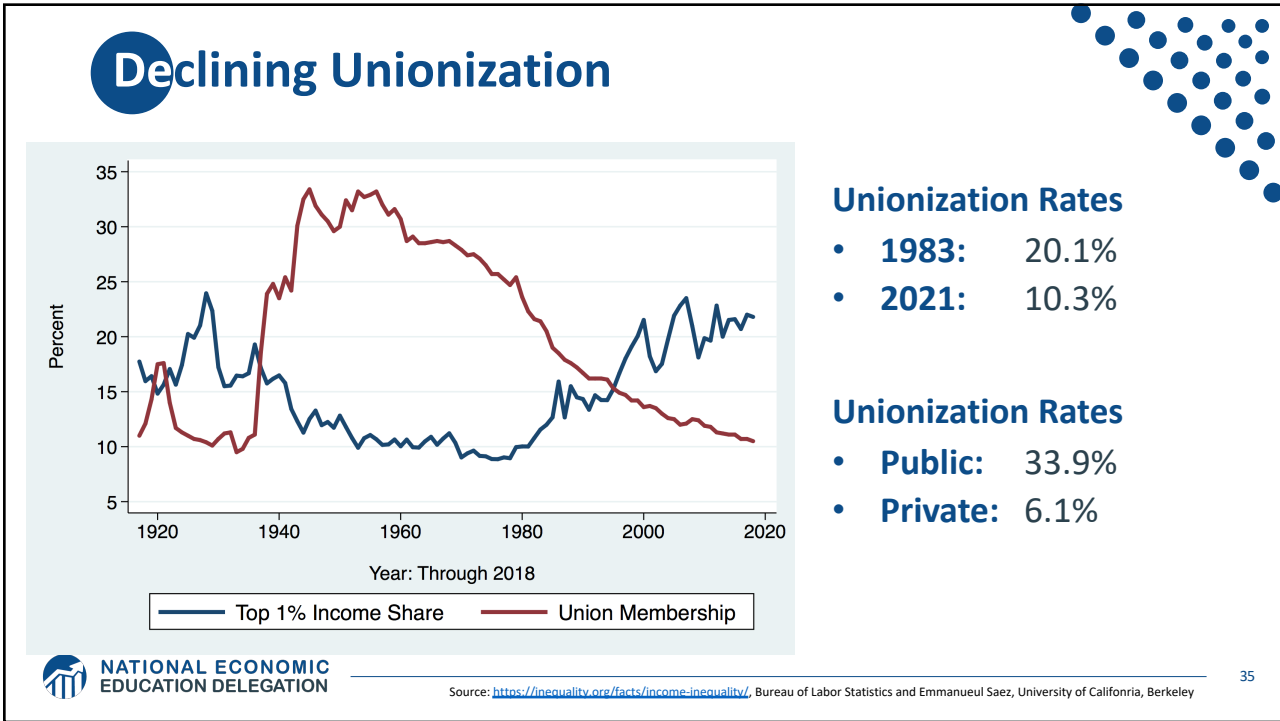


## Labor’s Share of Income

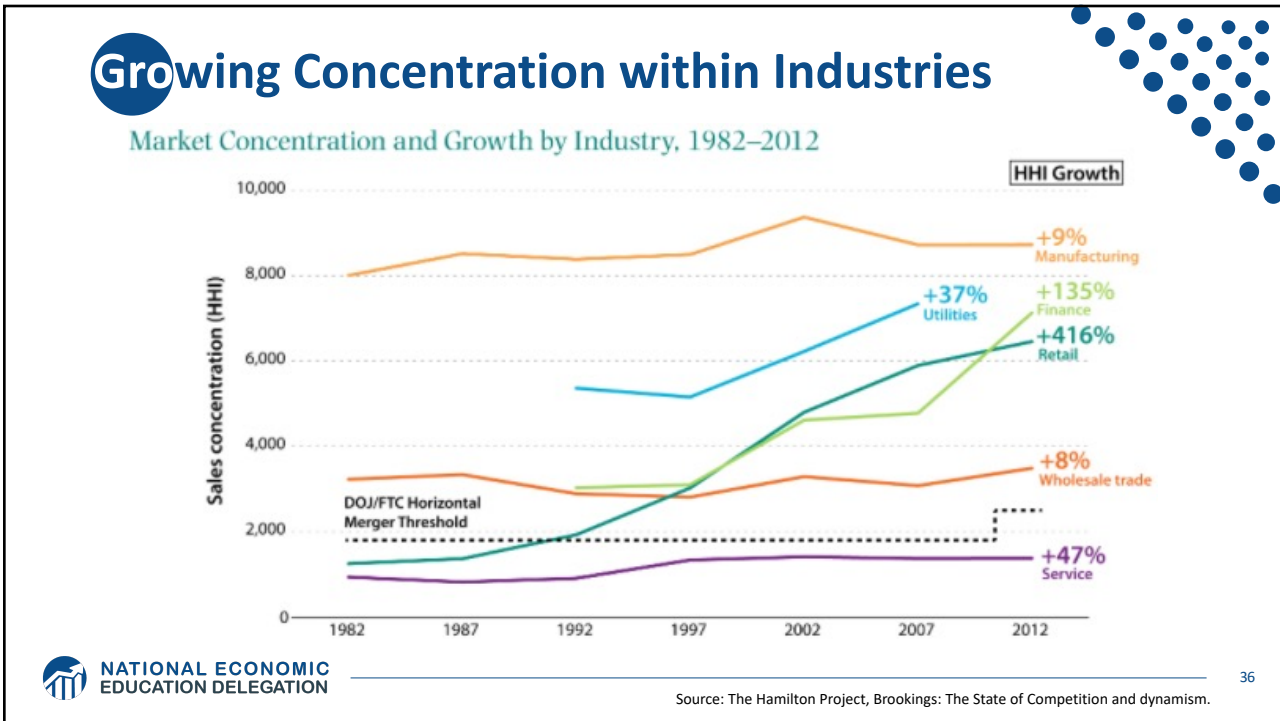
1960: 66%

2011: 56%

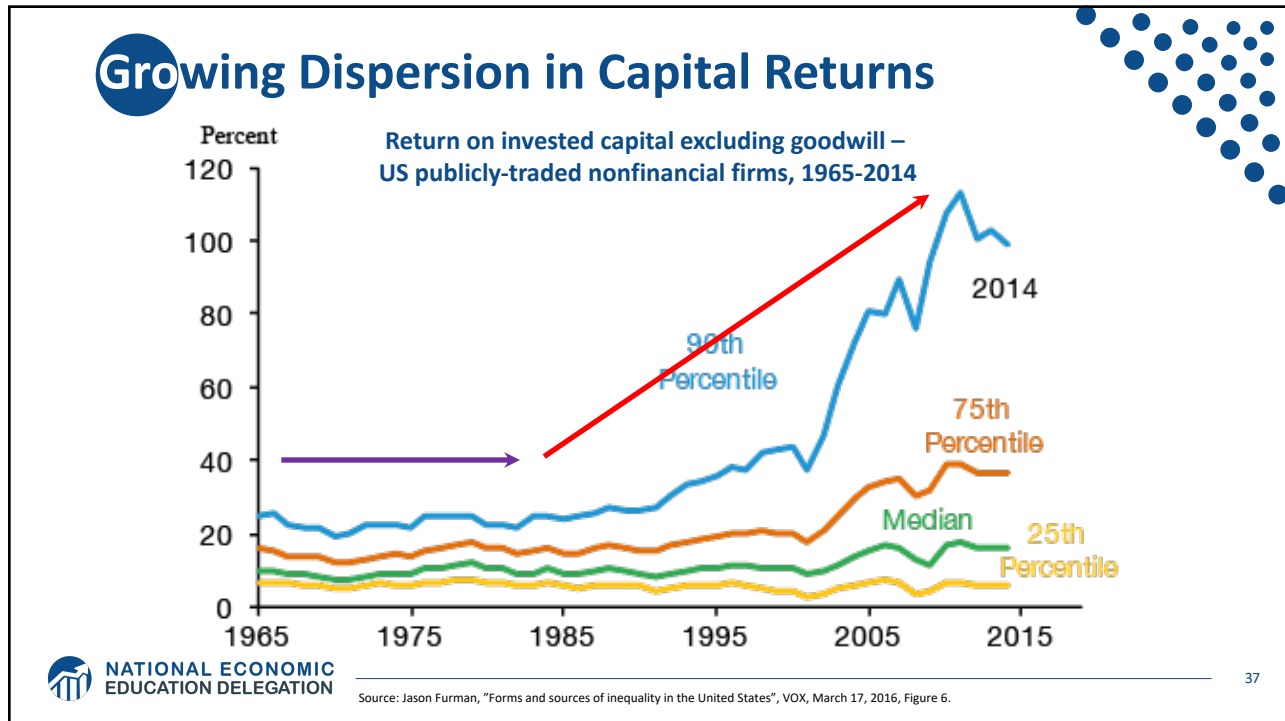
2016: 58%



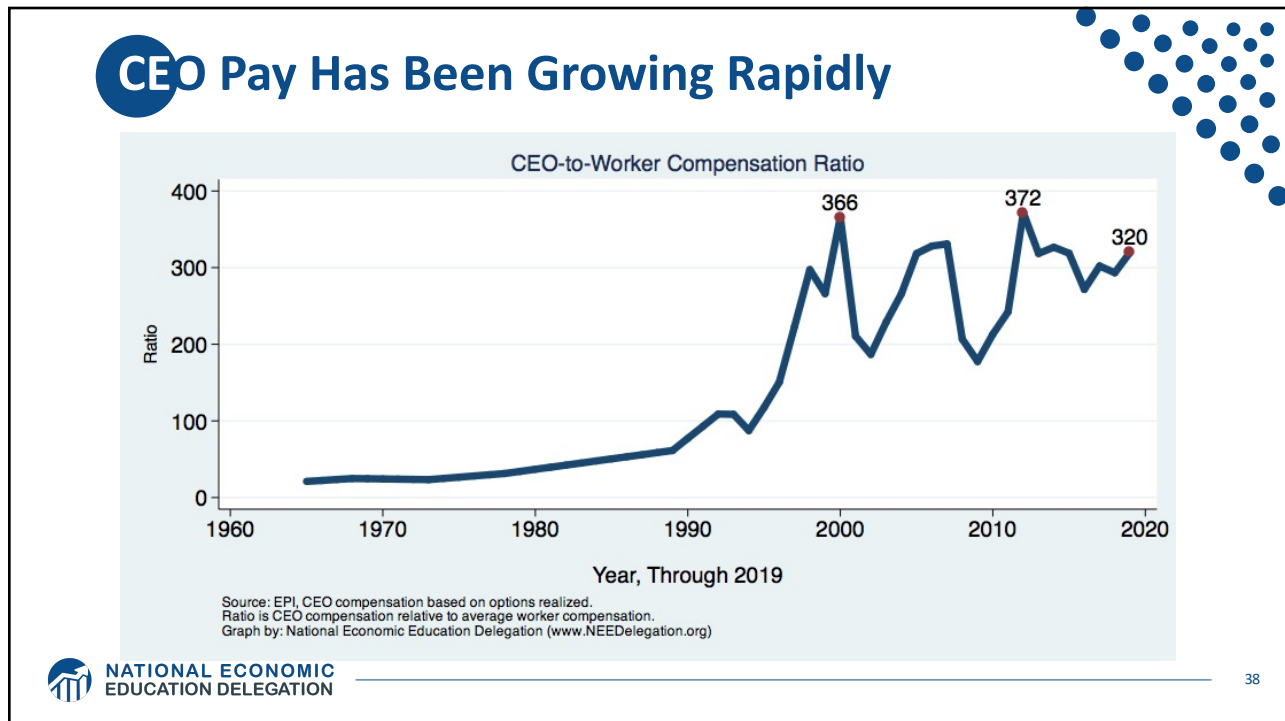
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36

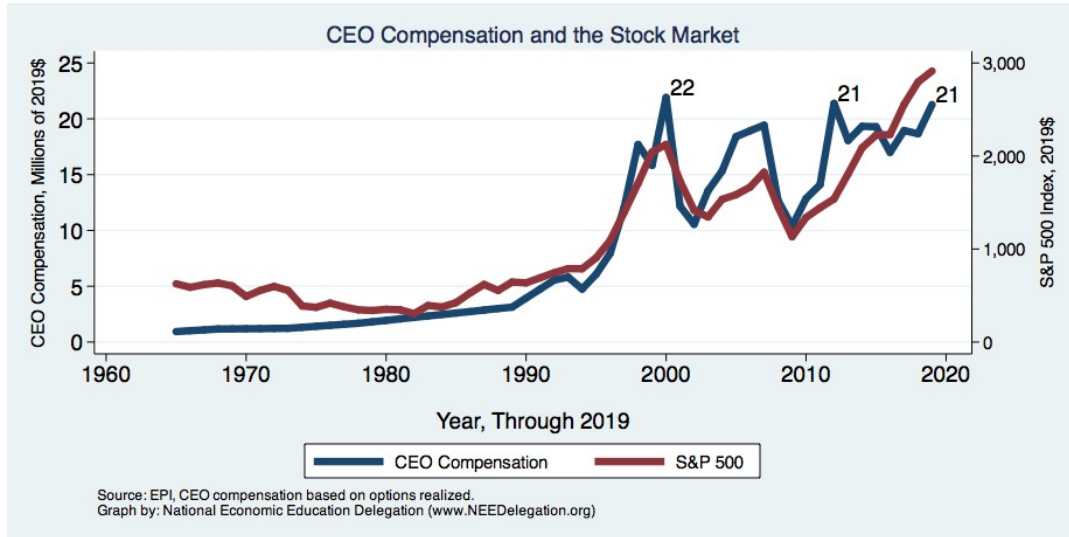


37



38

## CEO Compensation – Tied to Stock Prices



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39

39

## Immigration and Inequality

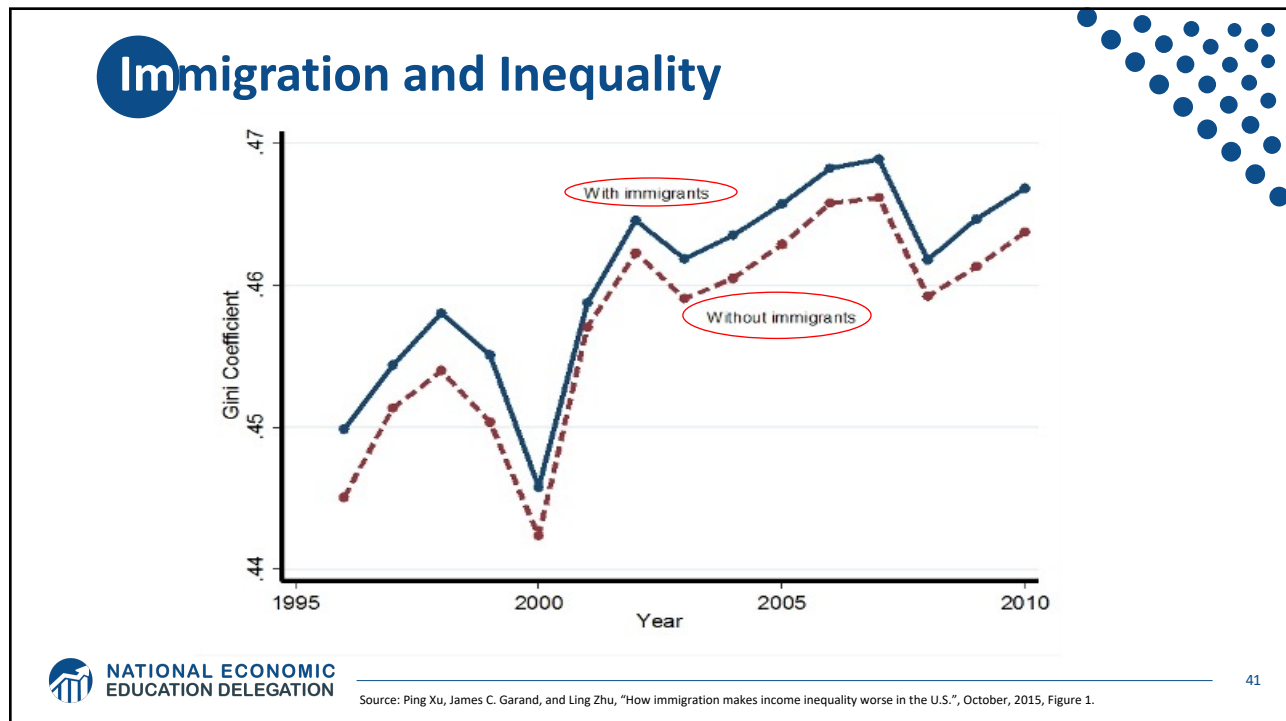
- **Beginning in about 1970, the immigrant share of the U.S. Population increased dramatically.**
  - 5% in 1970 and 14% in 2016
- **Immigration tends to happen most often among:**
  - Low-skilled low-wage workers
  - High-skilled high-wage workers
- **Immigration has likely increased income inequality.**
- **Its effect has likely been small.**
  - ~5% between 1980 and 2000
  - No reason to think it has been bigger since



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40

40



41

## 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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42

## Technology Effects on Low Income Workers



Technology can improve worker productivity and create jobs



But technology can also displace jobs



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43

43

## 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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44

44

## 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



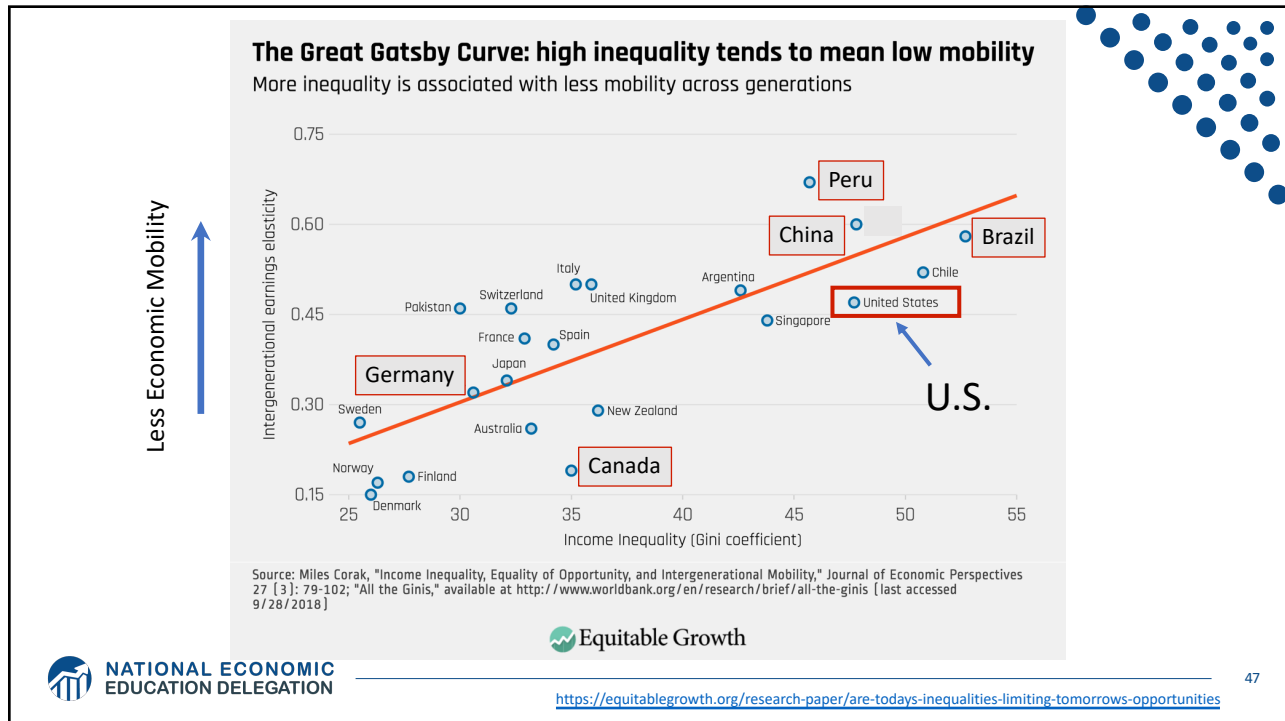
45

## Why Does Inequality Matter?

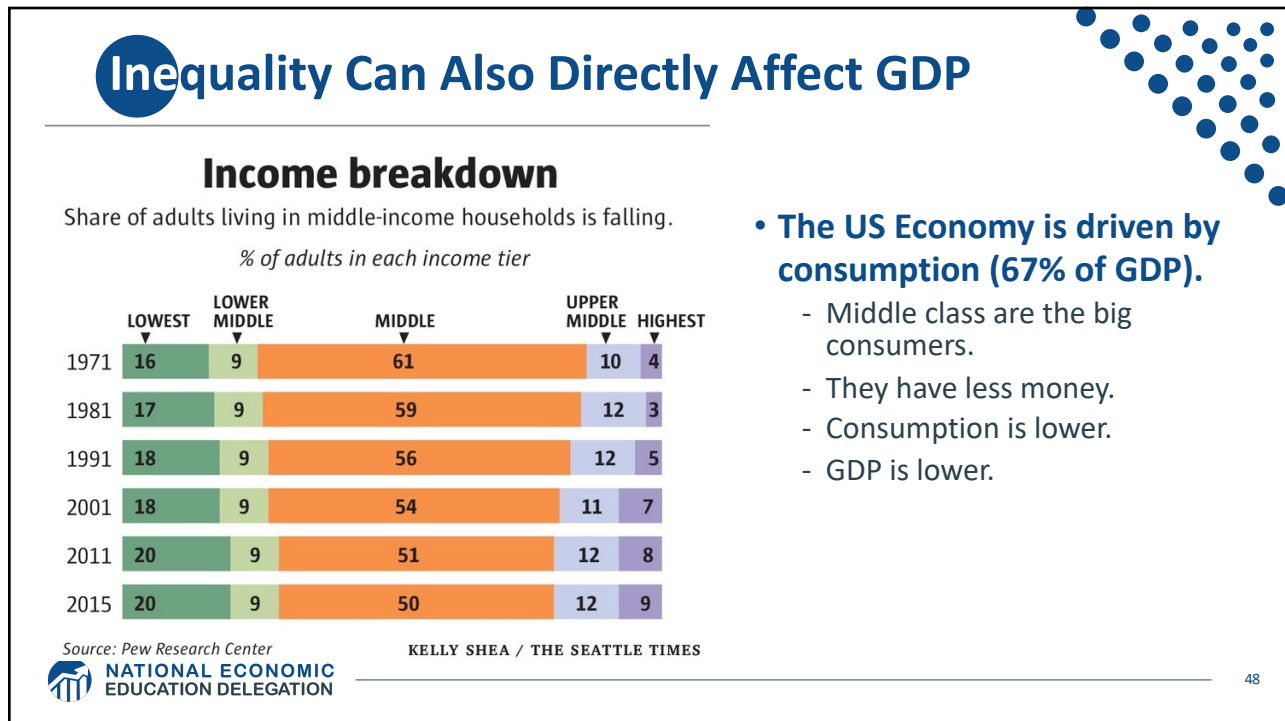
- **Too little inequality can:**
    - Reduce individual motivation
    - Slow economic growth
  - **Too much inequality can:**
    - Reduce individual motivation
    - Slow economic growth
- 
- **Too much inequality may also:**
    - Divide society
    - Distort political environment
    - Reduce political participation
  - Affect public goods spending and distribution
    - Education
    - Environmental protections



46



47



48





## 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

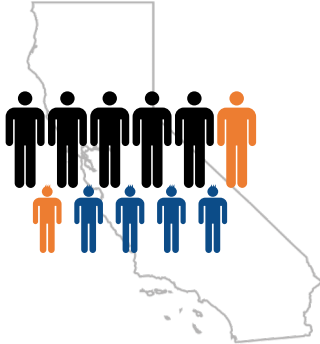
## What to do About Inequality?

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



## Summary

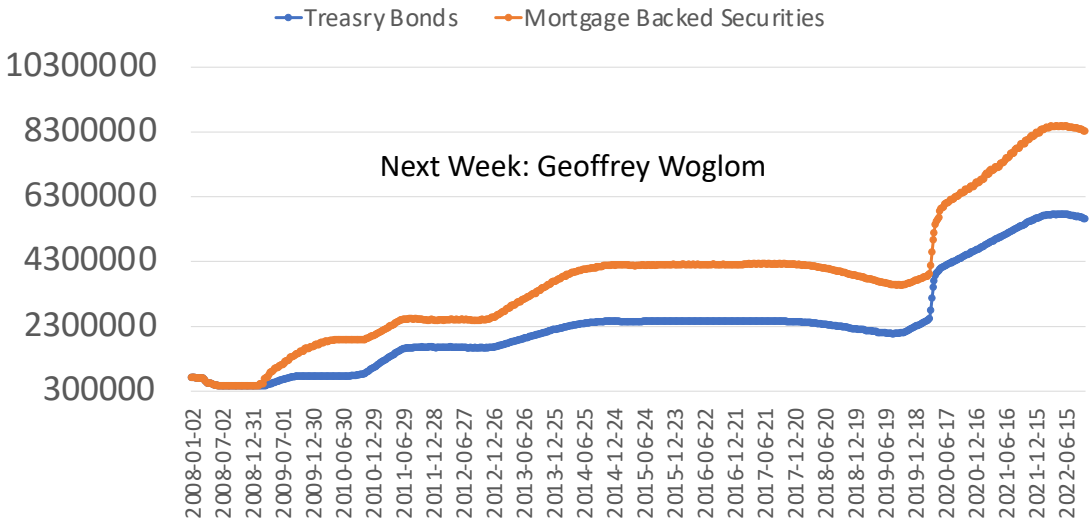
- **Income inequality is clearly increasing.**
  - Owners of productive resources seeing greater income growth than workers reliant on labor income only.
- **The causes appear to be largely driven by:**
  - Technology, competition, and trade
  - Institutions and public policies
- **Open questions are:**
  - 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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## Monetary Policy: QE Has Been a Big Deal



Next Week: Geoffrey Woglom

Source: Federal Reserve Board

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**Thank you!**

# Any Questions?

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55