



# *Osher Lifelong Learning Institute, Spring 2023* **Contemporary Economic Policy Issues**

Olli – Washington University, St. Louis  
May, 2023

**Host: Jon Haveman**  
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
- Healthcare Economics



## Course Outline

- **Contemporary Economic Policy**


- Week 1 (5/5): US Economic Update (Geoffrey Woglom, Amherst College)
- **Week 2 (5/12): Economic Inequality (Adina Ardelean)**
- Week 3 (5/19): Economic Mobility (Kathryn Wilson, Kent State Univ.)
- Week 4 (5/26): The Black-White Wealth Gap (Jon Haveman, NEED)

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## Submitting Questions

- **Please submit questions of clarification in the chat or raise your “digital” hand.**
  - 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 at the course web site later today.**  
<https://sites.google.com/view/macro-current-issues/home>

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# Economic Inequality

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*Senior Lecturer, Santa Clara University*


**OLLI, Washington University, St. Louis**  
May 12, 2023

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- **This slide deck was authored by:**
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## Outline

- **Definition**
- What happened?
- Does it matter?
- Is it a problem?
- What to do about it



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## Income Inequality

- **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**

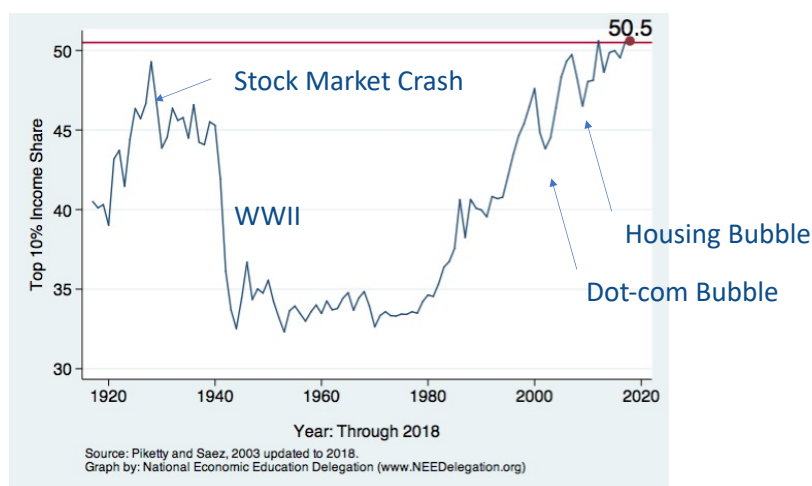


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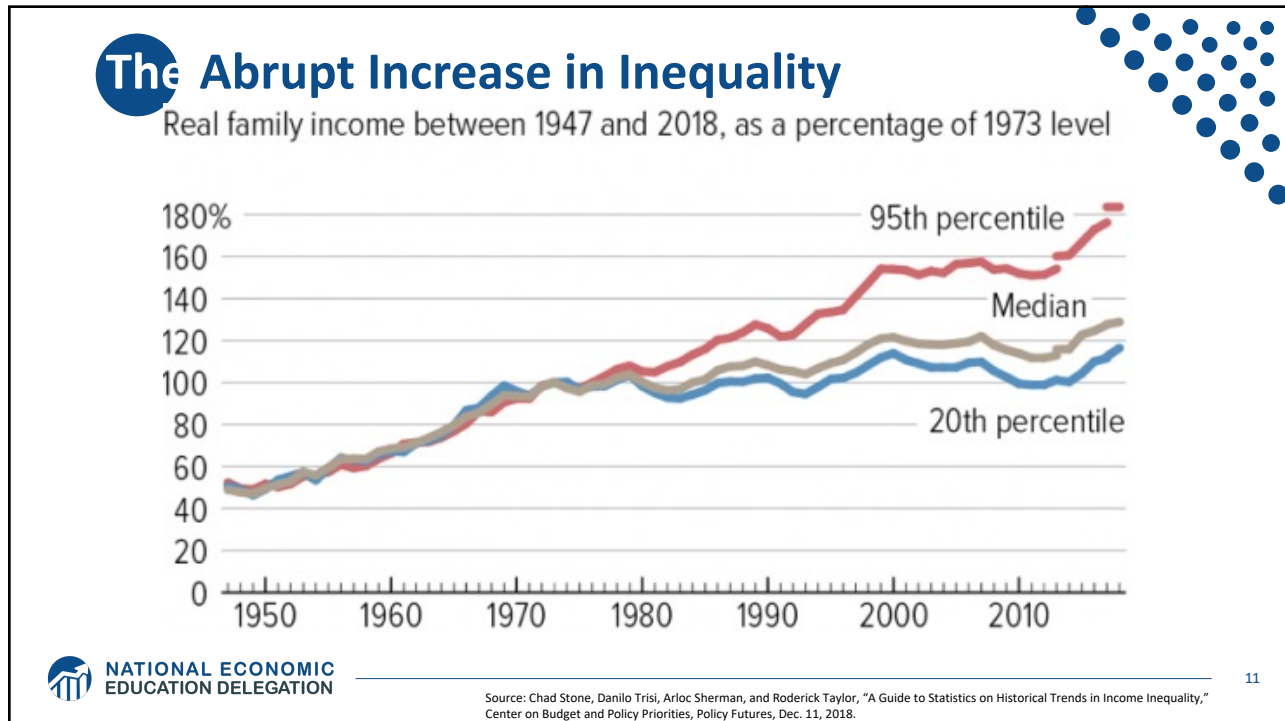
## National Income Inequality: Share of Top 10%



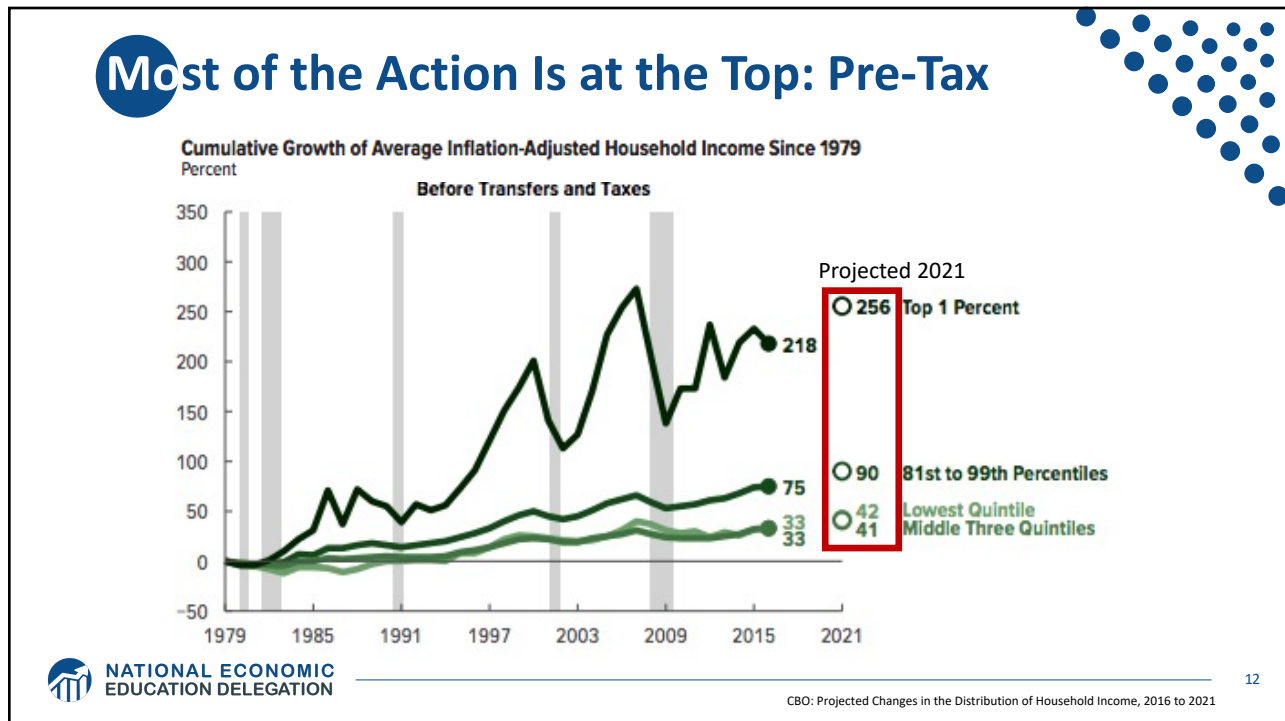
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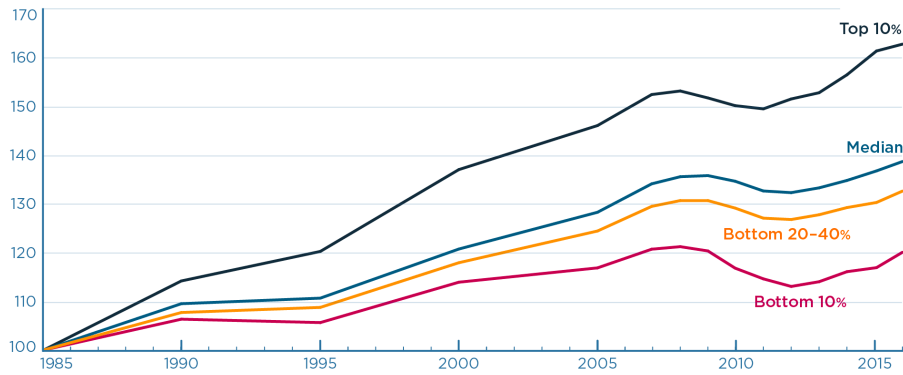
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# Inequality is rising in advanced economies

Figure 2: Real disposable income in advanced economies by income position, 1985-2016 (index: 1985=100)



**Note:** Unweighted average for 17 countries for which long-term data are available: Canada, Denmark, Finland, France, Germany, Greece, Israel, Italy, Japan, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Sweden, United Kingdom, and United States. Available dataset includes Mexico, which is not an advanced economy.

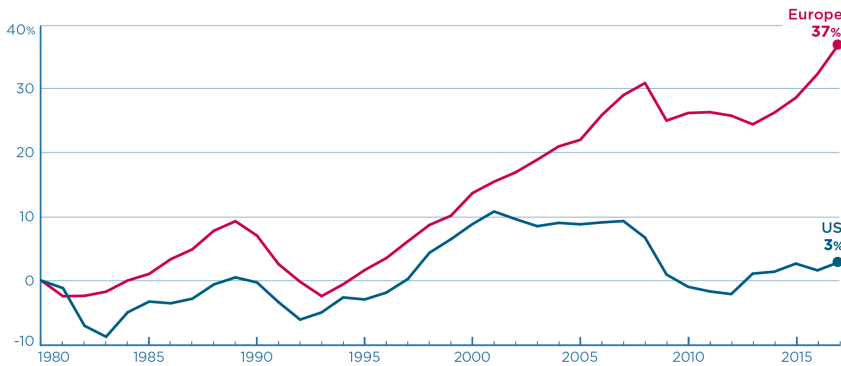


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Source: Peterson Institute of International Economics, "How to fix economic inequality", based on OECD "Under Pressure: The Squeezed Middle Class"

# The bottom half of workers: the U.S. vs. Europe

Figure 3: Average pretax income growth of bottom 50 percent of population relative to 1980



**Note:** Data for Europe refer to 38 European nations.

**Sources:** Chancel (2019) based on Blanchet, Chancel, and Gethin (2019); Piketty, Saez, and Zucman (2018).



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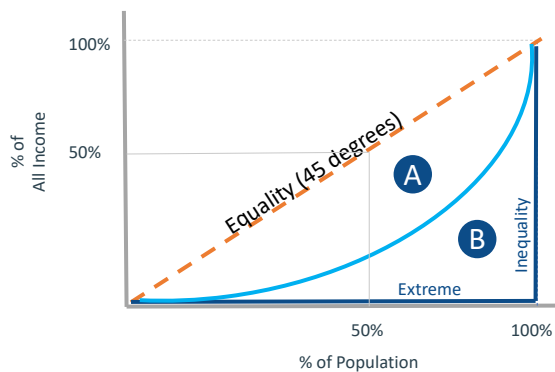
Source: Peterson Institute of International Economics, "How to fix economic inequality"

## Gini Coefficient

- Another way to describe income inequality is by using a Gini coefficient.
- Gini coefficient – a numerical measure of the overall dispersion of income
  - Ranges from 0 – 1
  - 0= perfect equality – everyone has same income
  - 1=perfect inequality – one person makes all income
  - In practice:
    - 0.5 – 0.7 – highly unequal
    - 0.2 – 0.35 – relatively equal

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## The Gini Coefficient

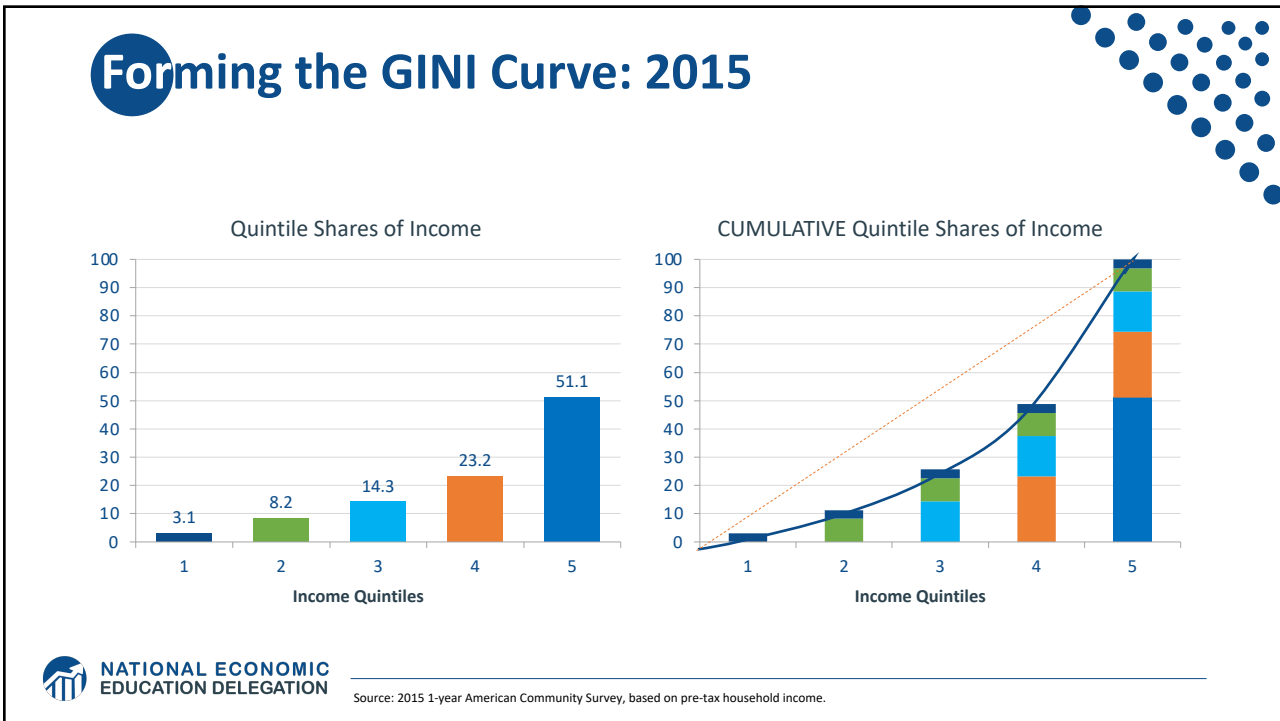


$$\text{Gini} = \frac{A}{A + B} \times 100$$

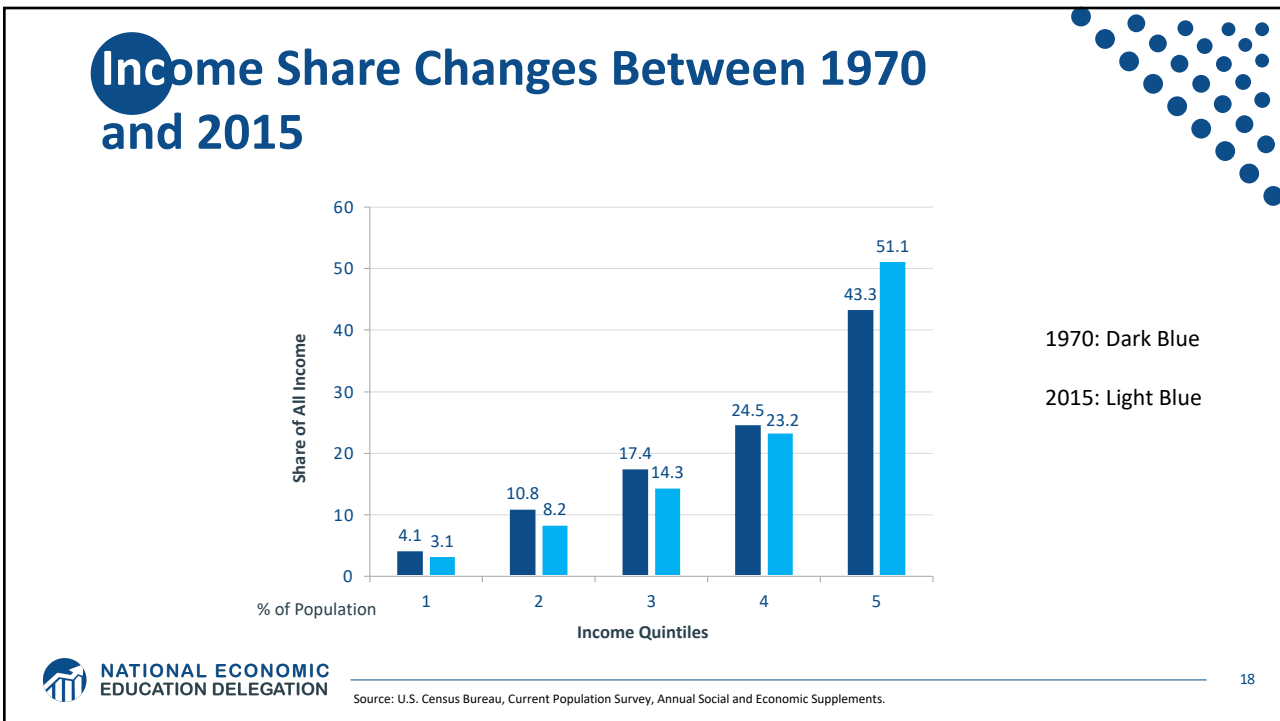
Bigger A: More inequality  
Smaller A: Less inequality

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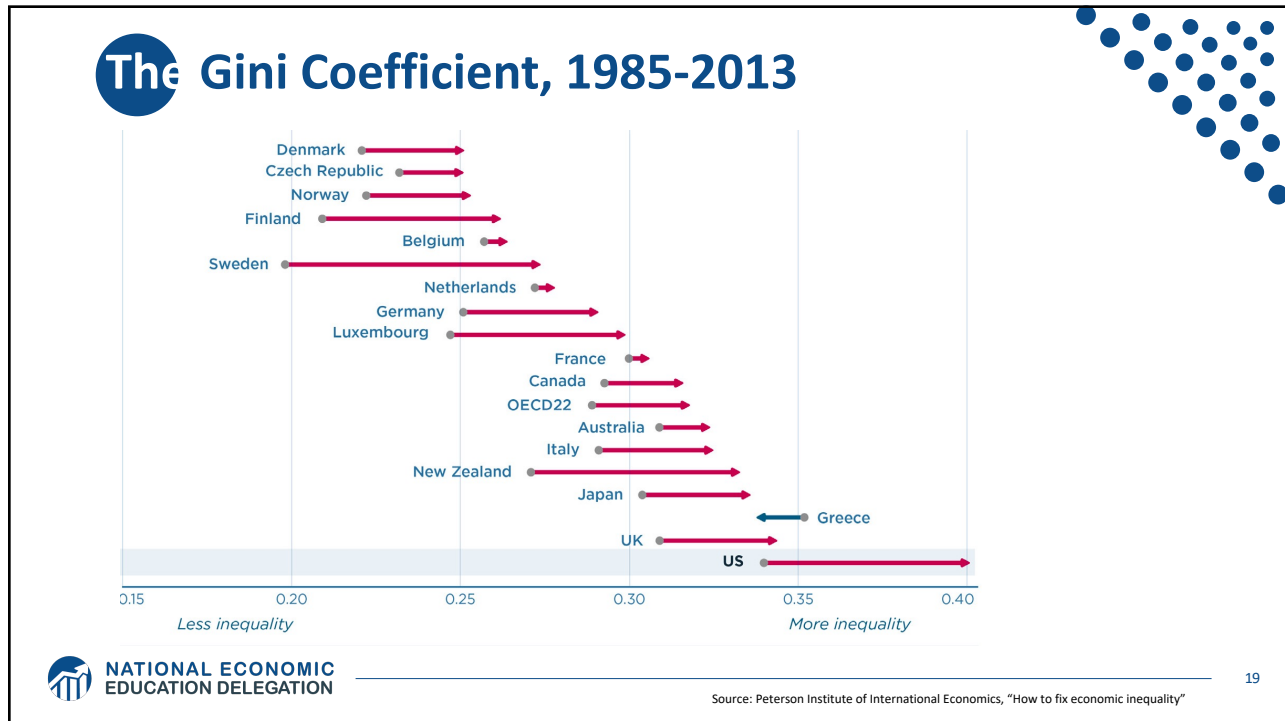




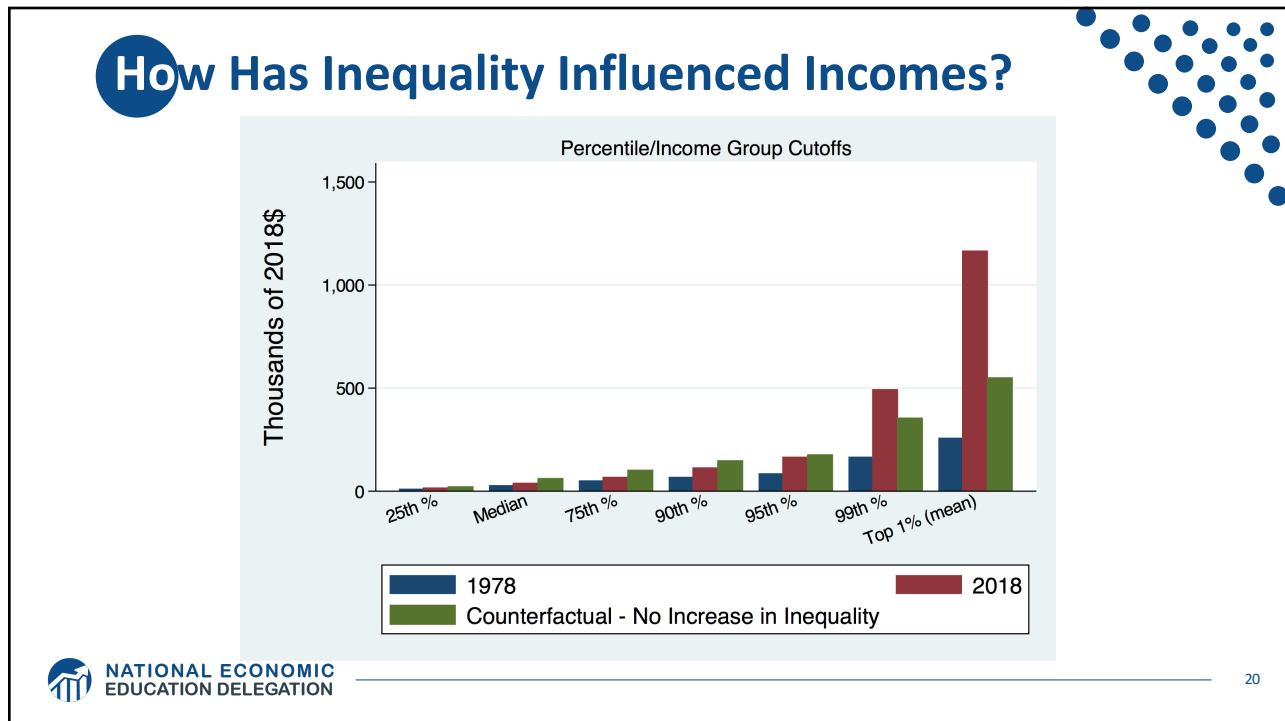
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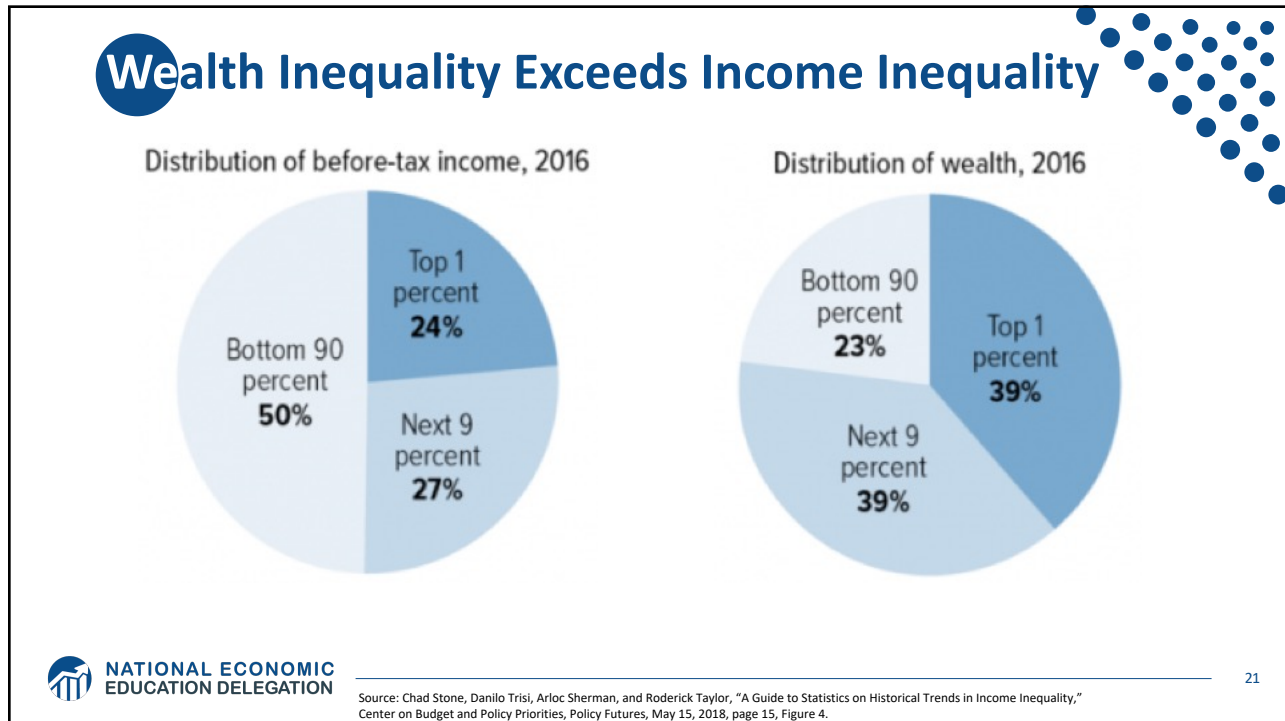
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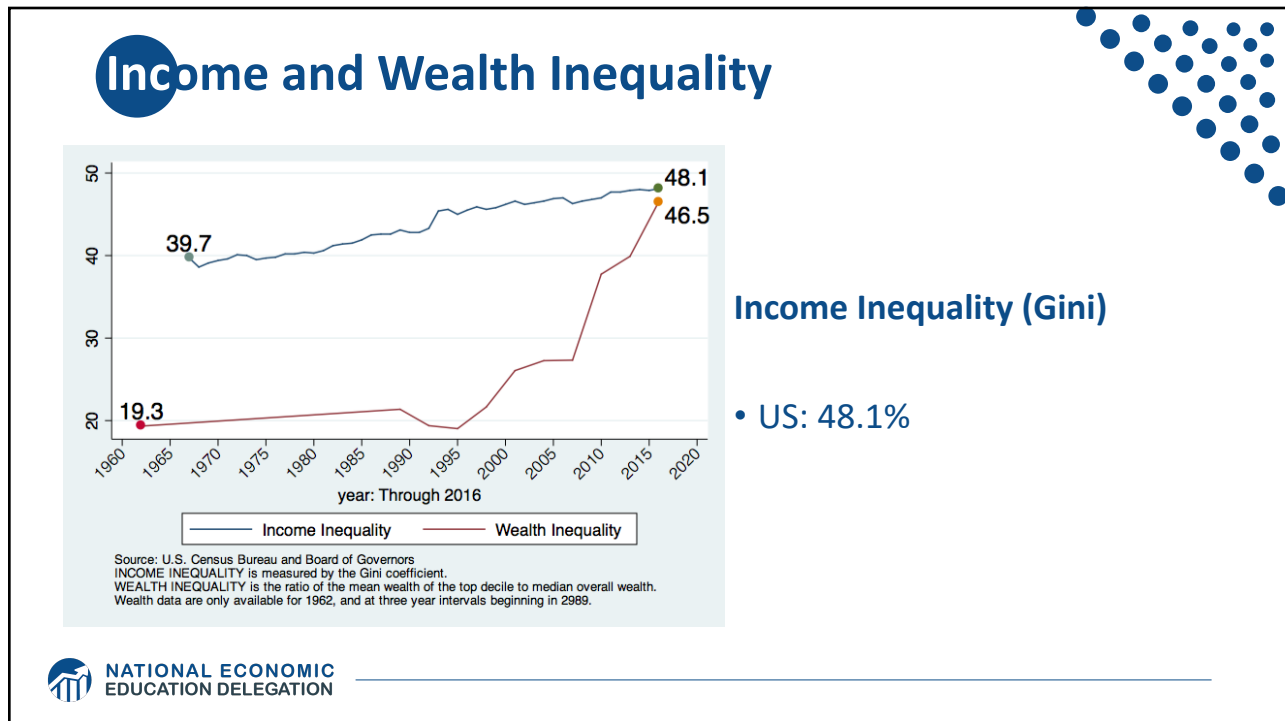
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## Outline

- Definition
- **What happened?**
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## Where Does Inequality Come From?

### • Labor Characteristics

- Demographics
  - Age distribution
- Personal Choices
  - Educational attainment
  - Household composition
- Immigration

### • Market Forces

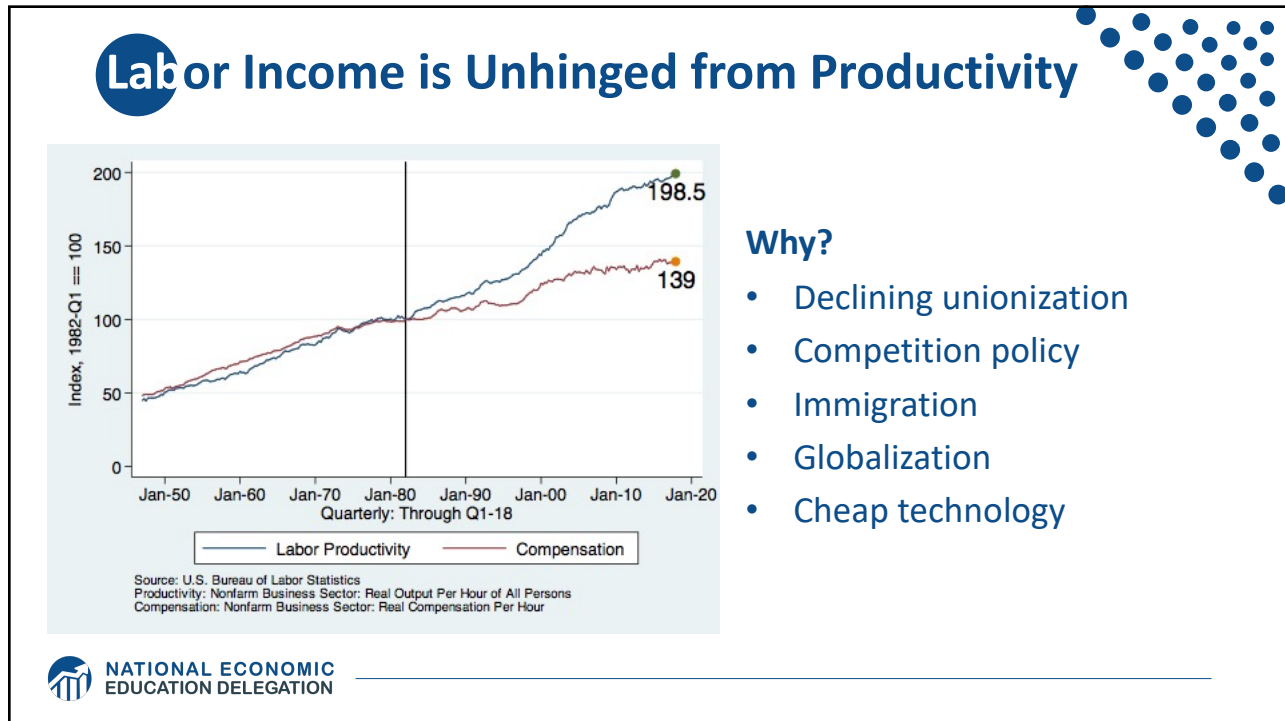
- Technology
- Globalization
- Competition for labor

### • Government Policy

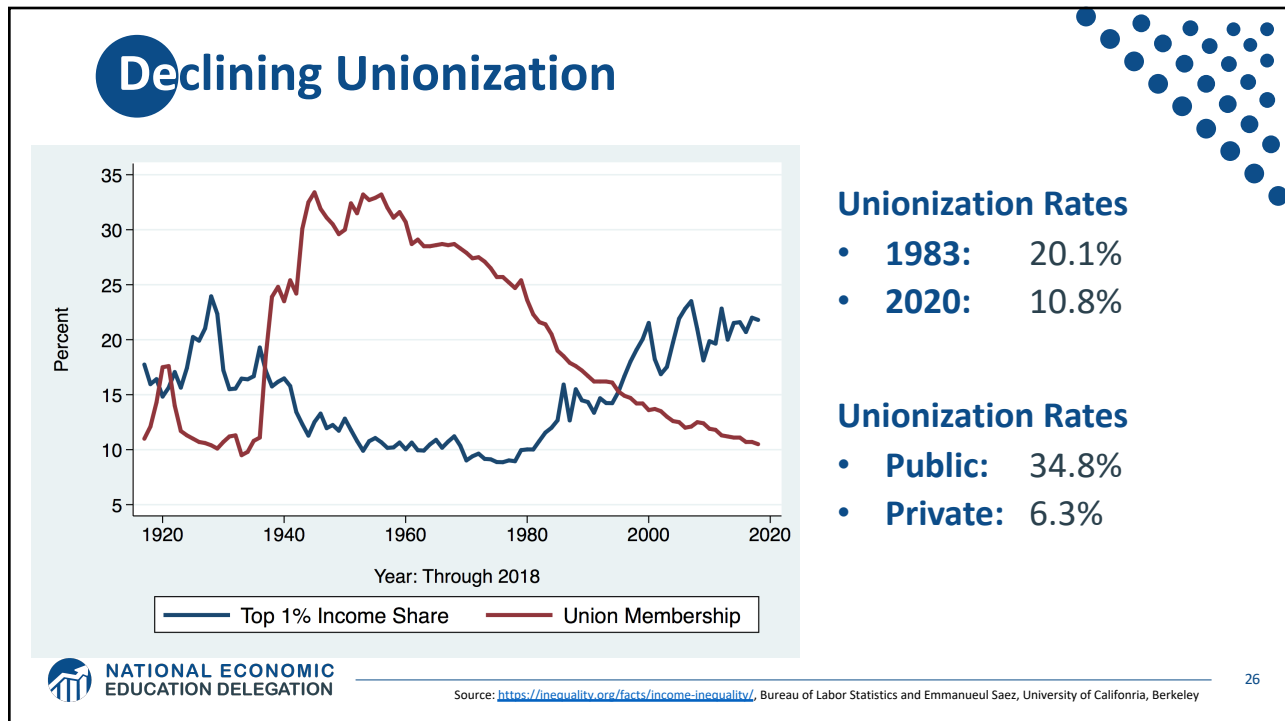
- Market influence
- Redistribution



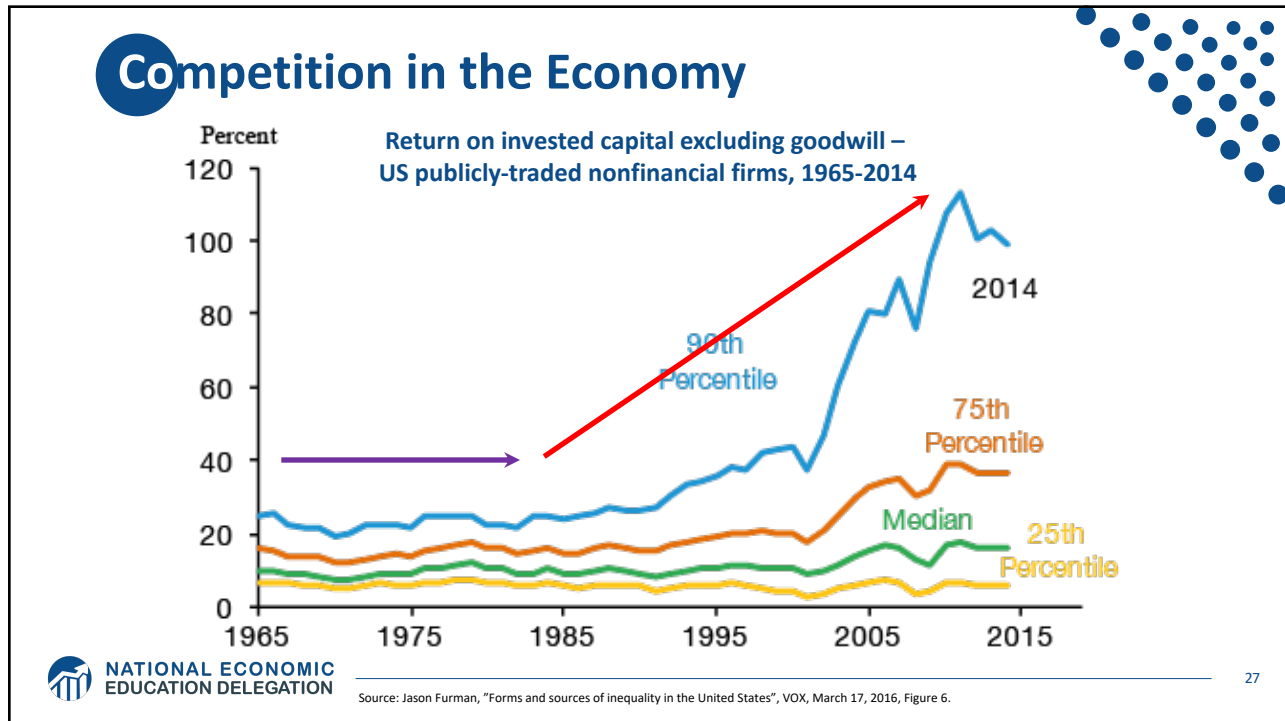
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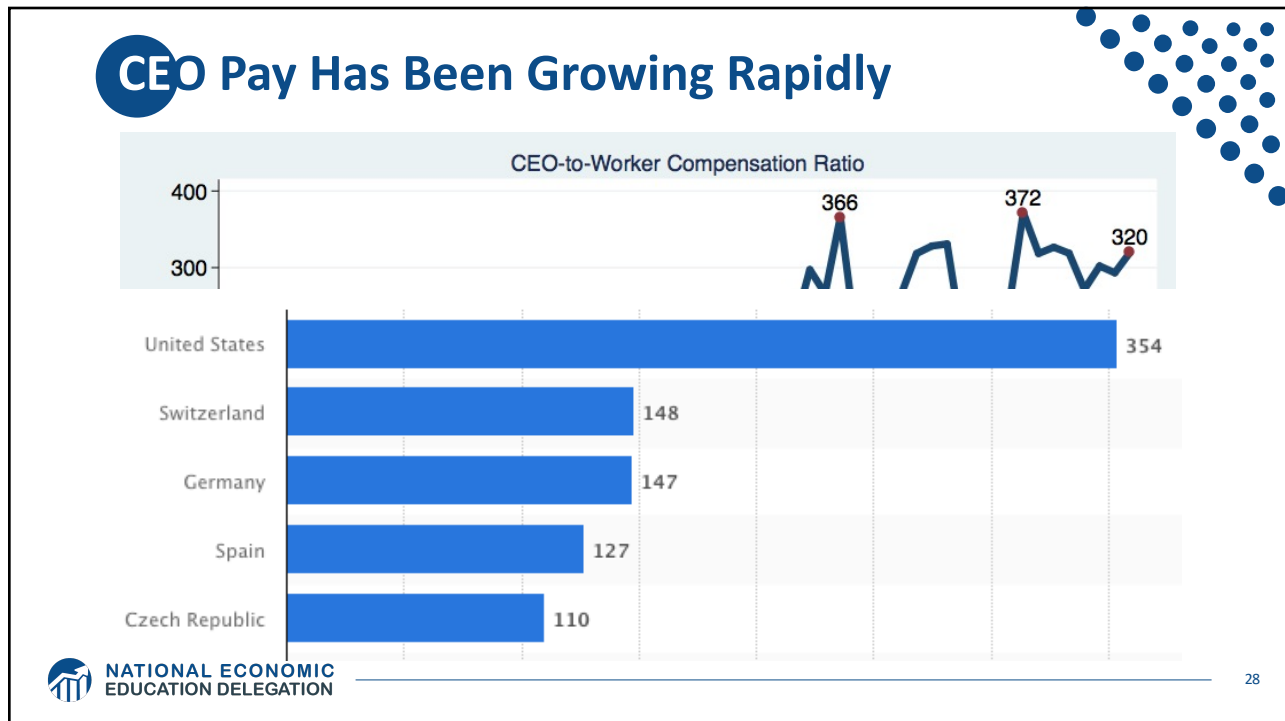
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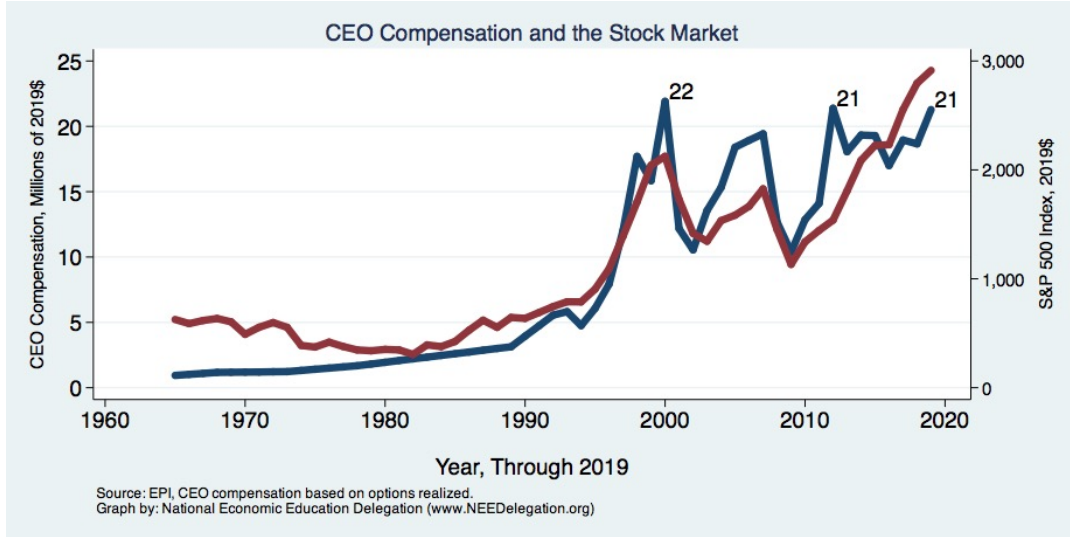


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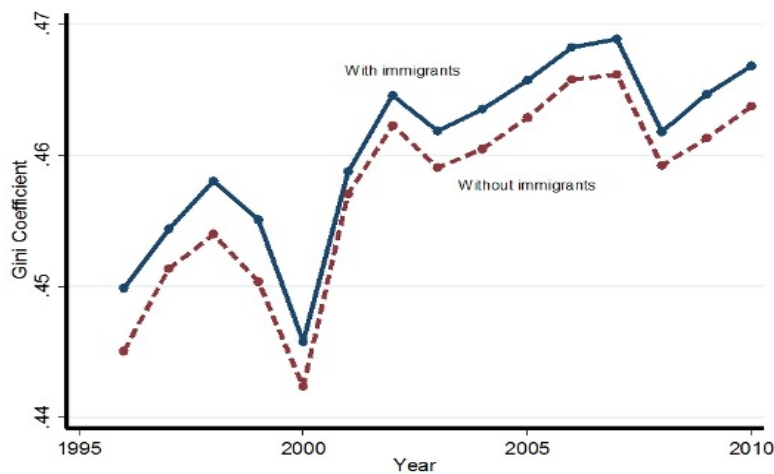
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## CEO Compensation – Tied to Stock Prices



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## Immigration and Inequality



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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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## 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 potentially 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 can Hurt Low Income Workers



Early on, technology was good to low income workers



Until it was bad for them....



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## 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.



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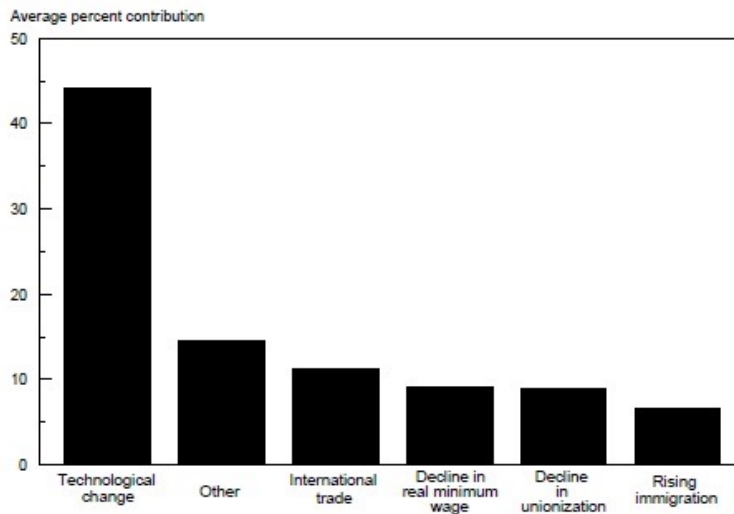
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## What is driving increasing inequality?

- **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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## Sources of Inequality Through Late 1990s



Source: Federal Reserve Bank of New York.

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# Government Policy and Inequality

- **Market Influence: PRE-distribution**

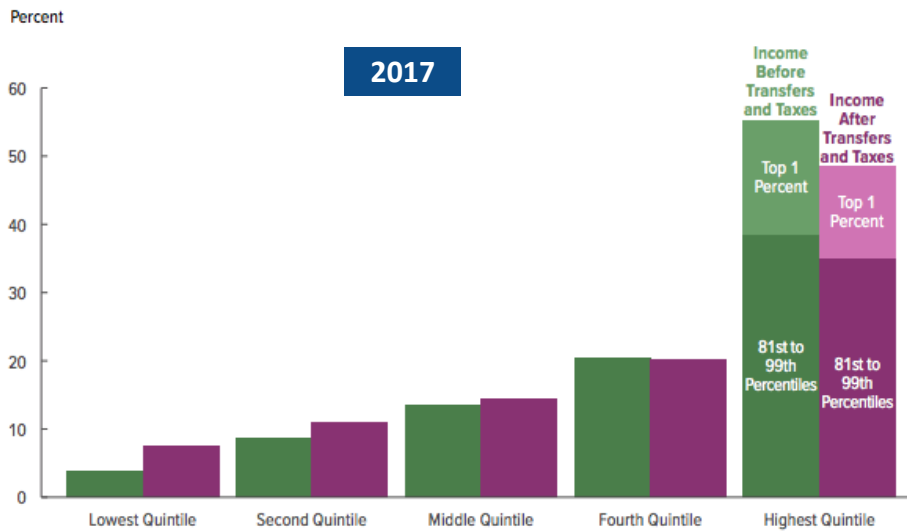
- Characteristics of labor
  - o Access to education
- Effects on labor demand
  - o Market regulation
    - Competition policy
  - o Labor regulations
    - Minimum wage, overtime, health insurance, etc.

- **RE-distribution**

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

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# Tax and Transfer Programs: Income Shares

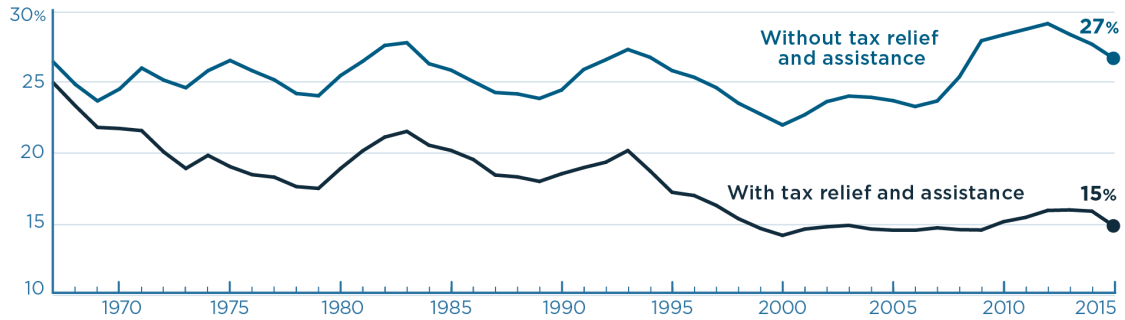


Source: U.S. Congressional Budget Office, "The Distribution of Household Income, 2016", Average Income Before and After Means-Tested Transfers and Federal Taxes, by Income Group, 2016.

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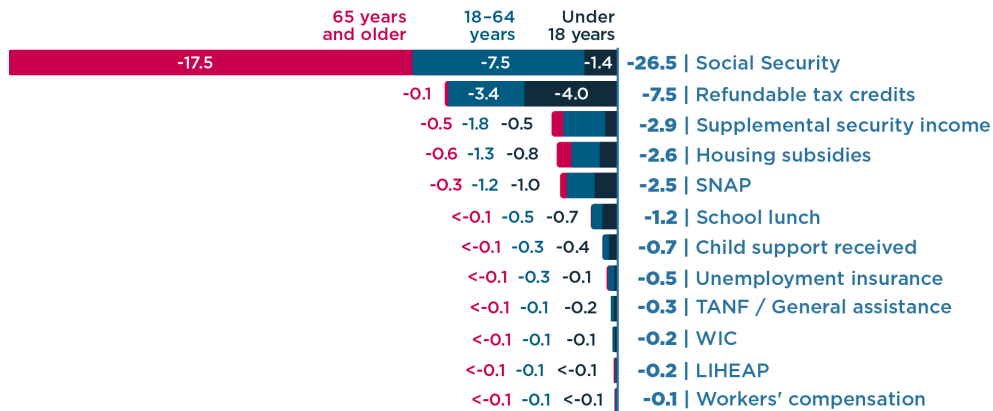
## Tax and Transfer Programs help low-income Americans

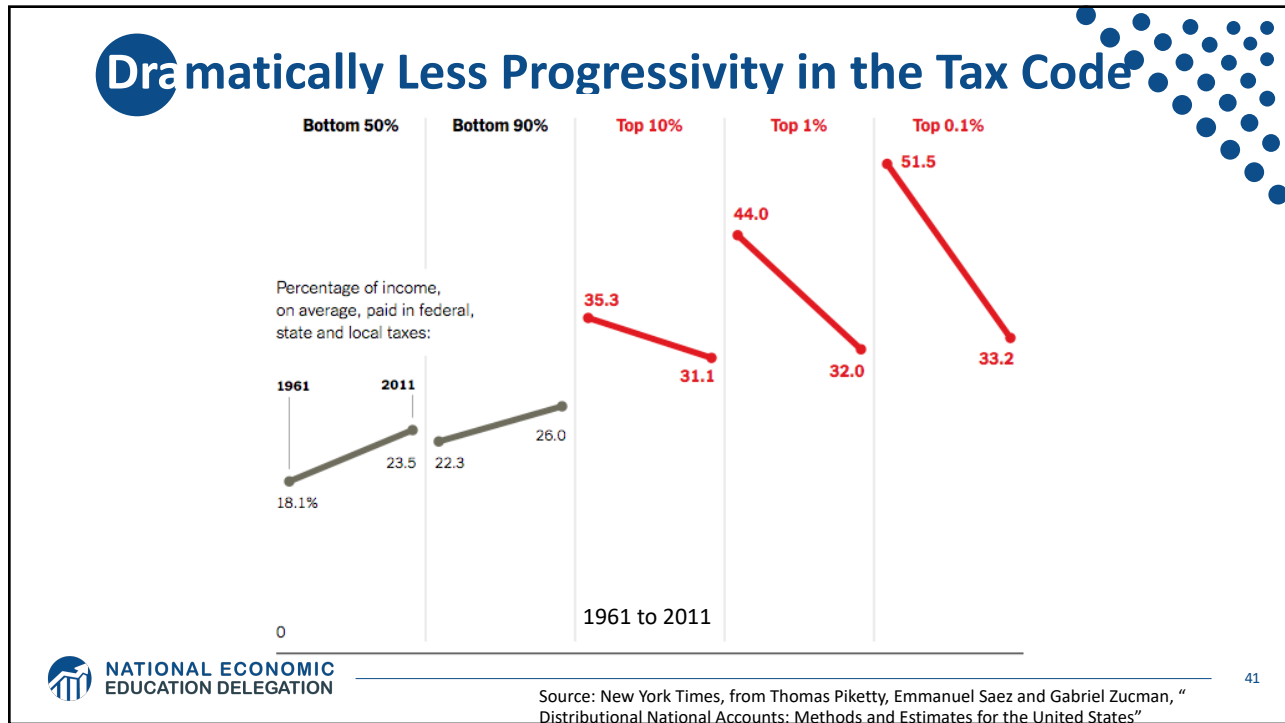
US poverty levels with and without tax relief and government assistance, 1967-2015



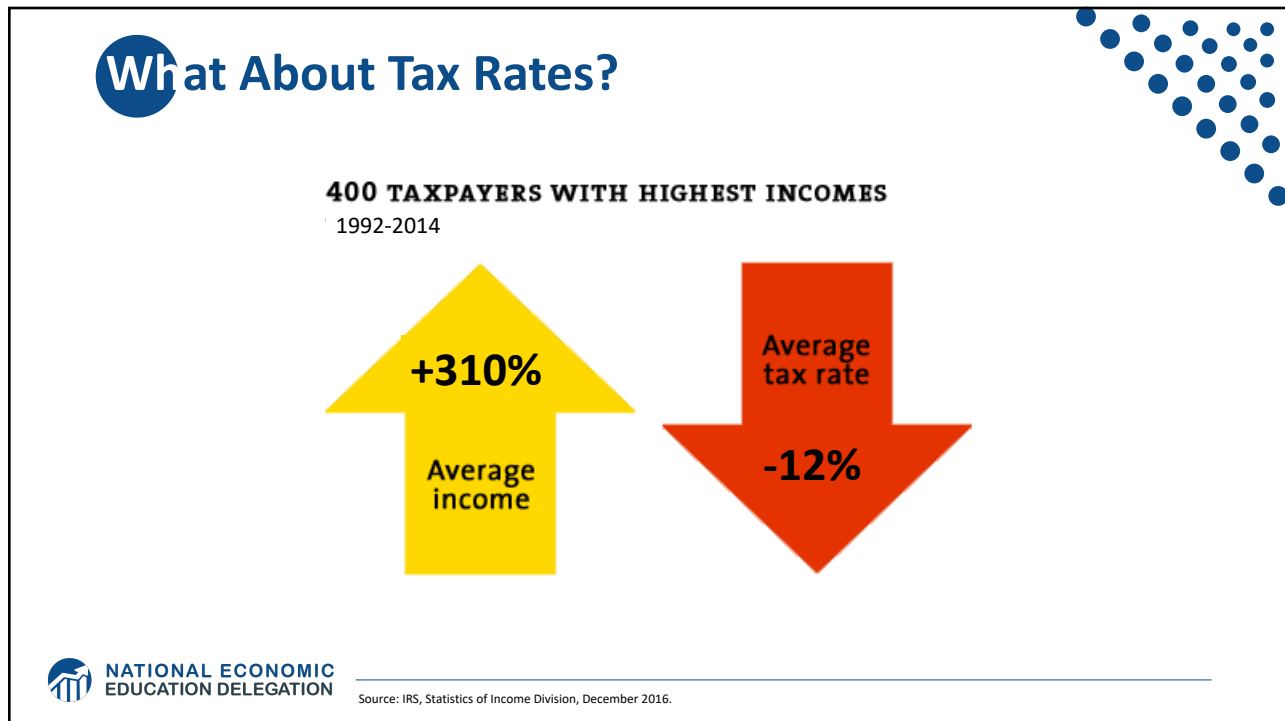
## Tax and Transfer Programs help low-income Americans

Change in the number of people in poverty in the US after transfer programs by age group





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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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# Why Does Inequality Matter?

- **Too little inequality can:**

- Reduce individual motivation
- Slow economic growth

- **Too much inequality can:**

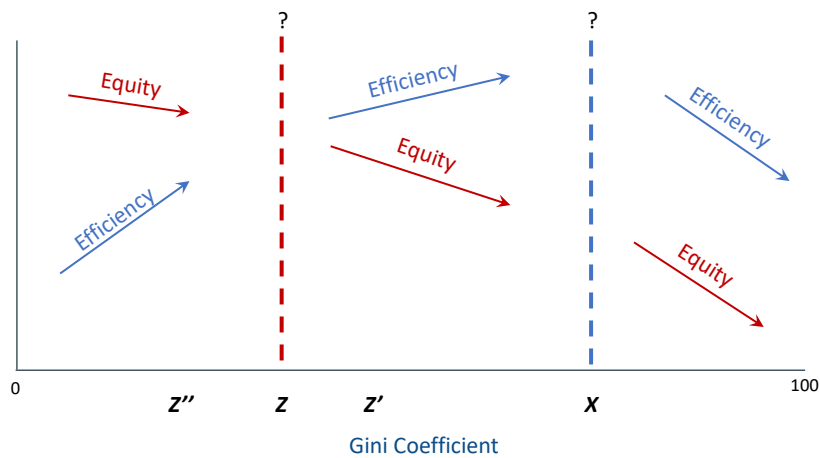
- Slow growth
- Reduce individual motivation

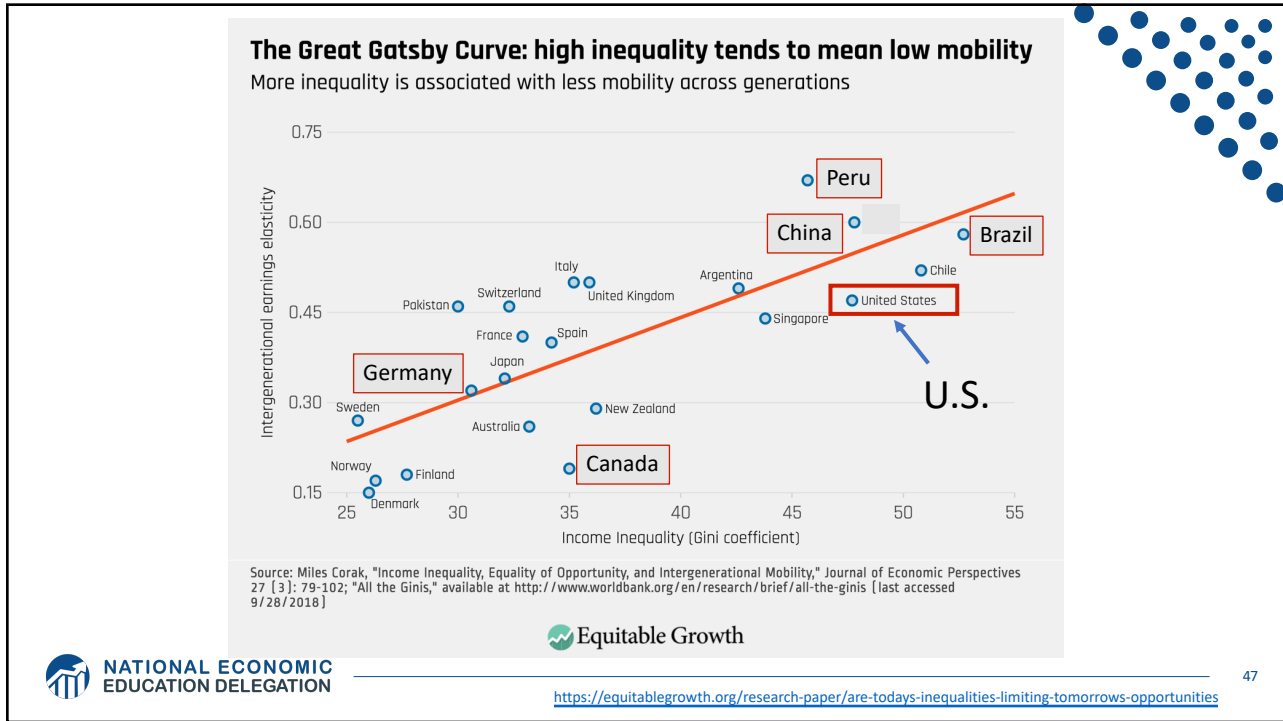
- **Too much inequality may also:**

- Divide society
- Distort political environment
- Reduce political participation
- Reduce investments in public goods
  - o Education
  - o Environmental protections

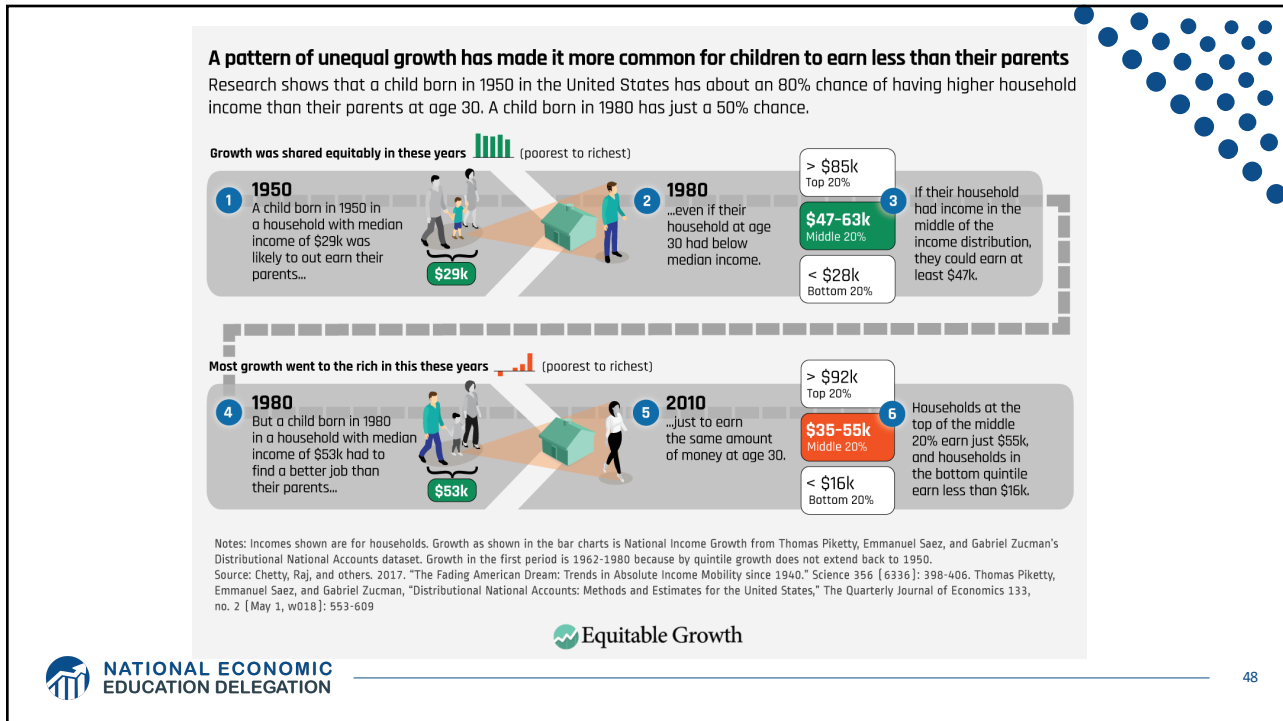


# How Much Inequality Is too Much?





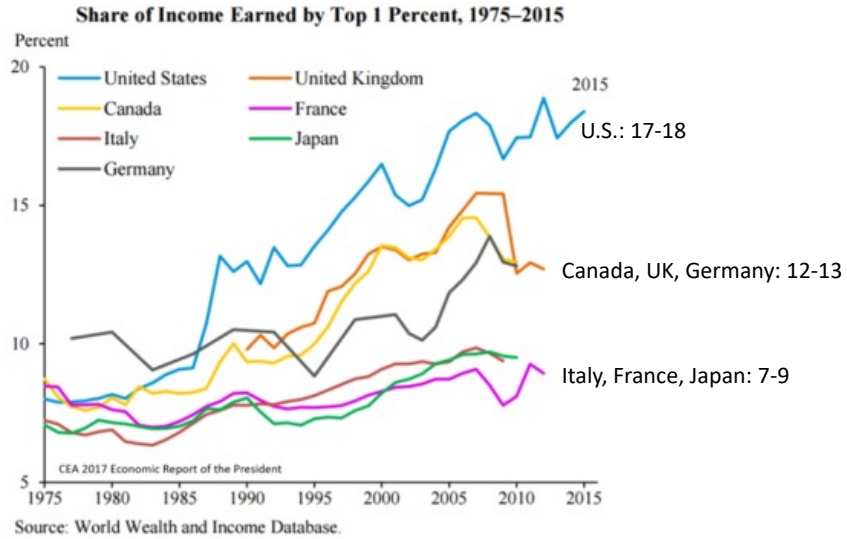
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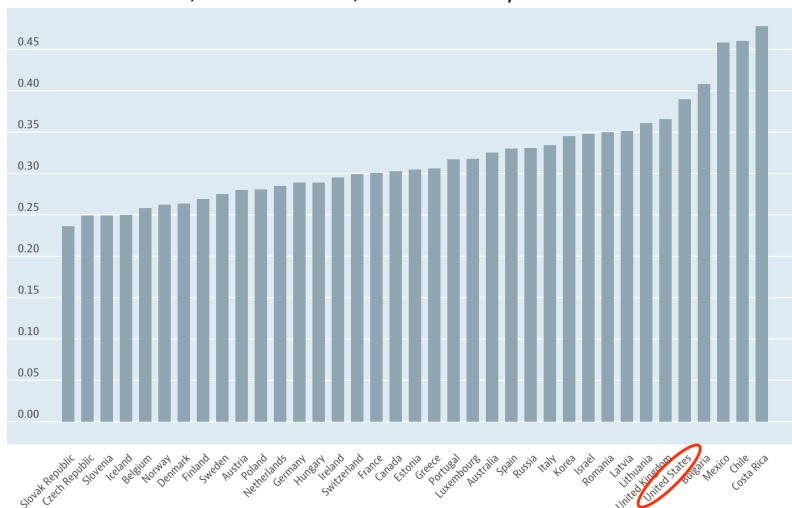


# An International Perspective: Trends



# An International Perspective: Gini

Gini Coefficient, OECD countries, 2019 or latest year available



## Outline

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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: Long Term

- **It's all about access to resources:**

- Education, in particular
  - o Improve public education
  - o Reduce disparities in quality of public education
  - o Improve counseling in low-income schools
    - With respect to college – paths to success and funding
  - o 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**

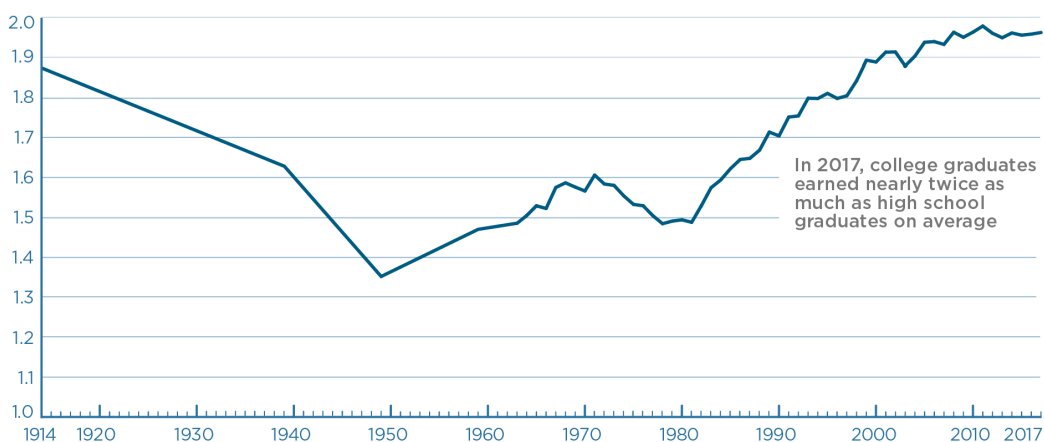
- Mentoring programs for black boys, efforts to reduce racial bias among whites, interventions to reduce discrimination in criminal justice, and efforts to facilitate greater interaction across racial groups.



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## The College Premium



Source: Autor, Goldin, and Katz (2020).



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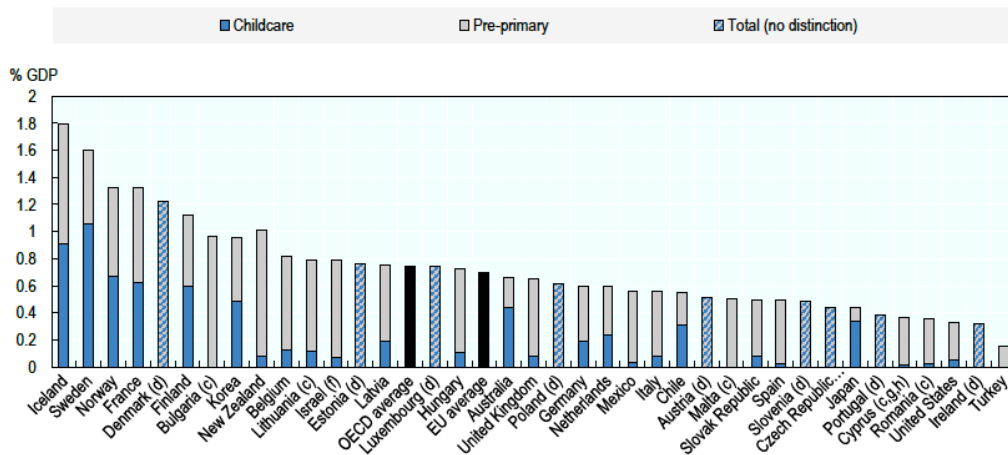
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## Early Child Education

- High-quality birth-five programs for disadvantaged kids can deliver a 13% per year return on investment improving education, employment, health outcomes and savings on later remediation costs.
- Early education has tremendous benefits for kids. Research shows that kids who experience quality early learning:
  - Are 25% more likely to graduate high school (Perry School Project)
  - Are four times more likely to have completed a bachelor’s degree or higher (The Abecedarian Project)
  - Earn up to 25% more in wages as an adult (The Jamaican Study)
- Government-provided universal preschool education and childcare could financially benefit low-skilled and low-income workers and keep women in the workforce.

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## Early Education – International Perspective



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## What to do About Inequality?

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



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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.**
  - Expanding equality of access requires resources likely from the well-to-do.



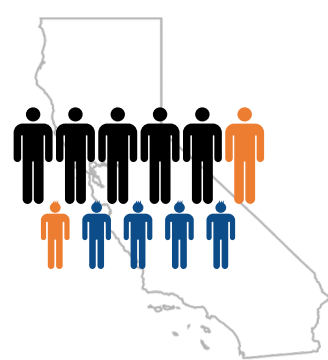
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## Summary

- **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.**

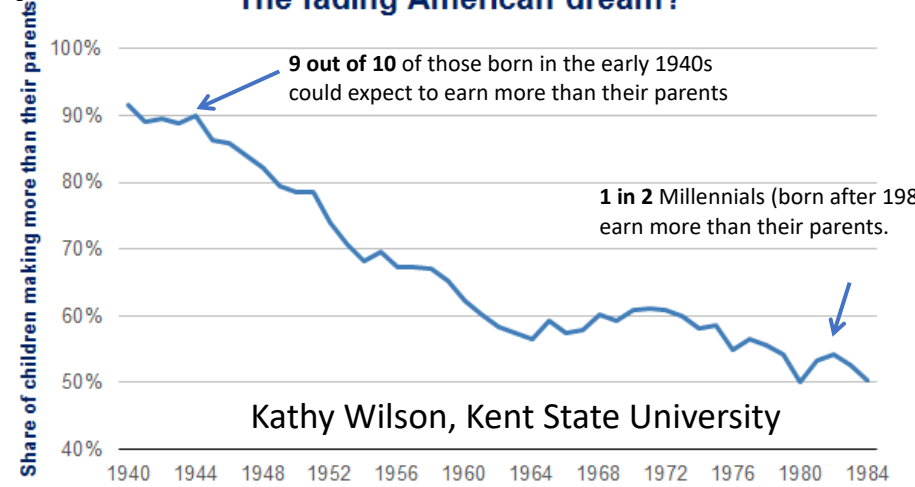


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## Mobility

### The fading American dream?



Share of children making more than their parents


9 out of 10 of those born in the early 1940s could expect to earn more than their parents

1 in 2 Millennials (born after 1980) earn more than their parents.

Kathy Wilson, Kent State University

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

BROOKINGS

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**Thank you!**

## Any Questions?

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