

Osher Lifelong Learning Institute, Winter 2021

Contemporary Economic Policy

Dominican University

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National Economic Education Delegation



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Course Outline

- **Contemporary Economic Policy**

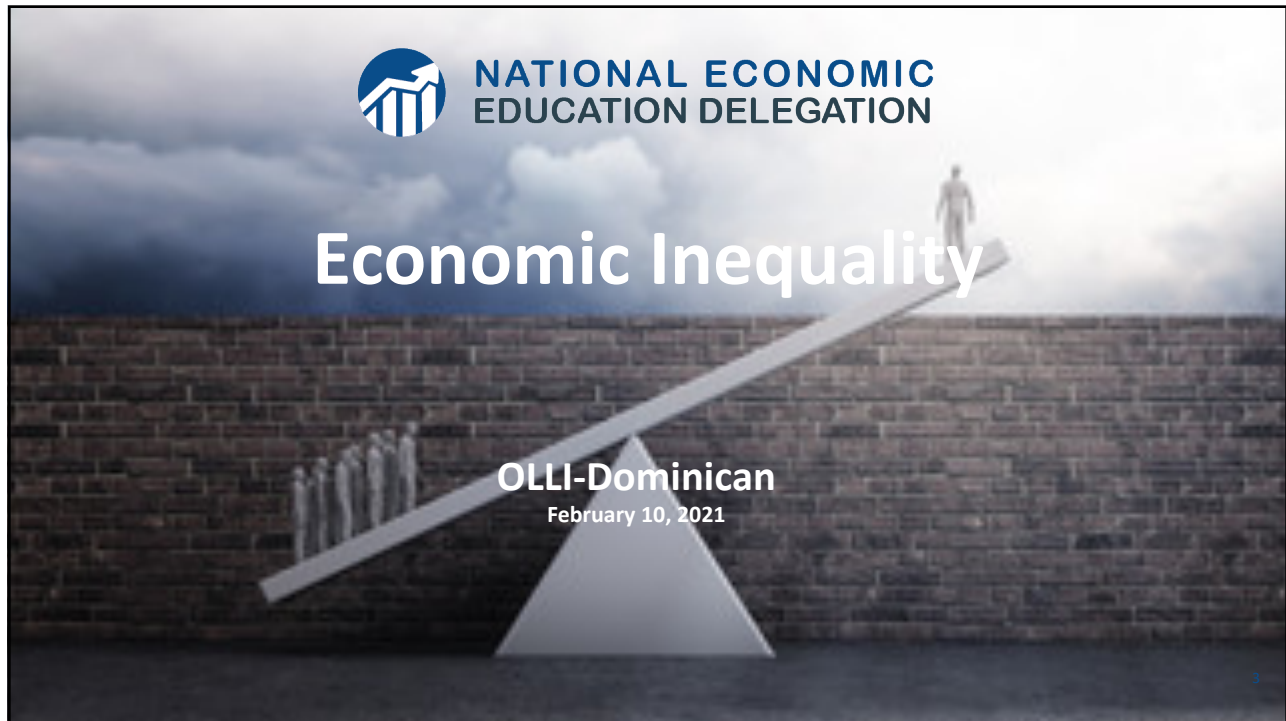
- Week 1 (1/13): US Economy & Coronavirus Economics
- Week 2 (1/27): Healthcare Economics (Veronika Dolar, SUNY)
- Week 3 (2/3): Federal Debt (Geoffrey Woglom, Amherst College)
- **Week 4 (2/10): Economic Inequality**
- Week 5 (2/17): Racial Discrimination in U.S. Policy, A History
- Week 6 (2/24): The Black-White Wealth Gap



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Credits and Disclaimer

- **This slide deck was authored by:**
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- **This slide deck was reviewed by:**
 - Timothy Smeeding, University of Wisconsin
 - Robert Wright, Augustana University
- **Disclaimer**
 - NEED presentations are designed to be nonpartisan
 - It is, however, inevitable that the presenter will be asked for and will provide their own views
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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



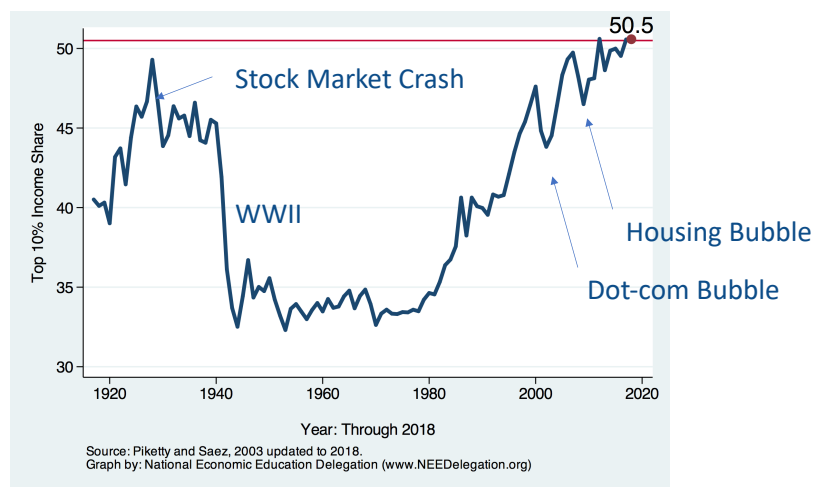
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Different Ways of Thinking About Inequality

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

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National Income Inequality: Share of Top 10%



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Recent Facts on Income Inequality

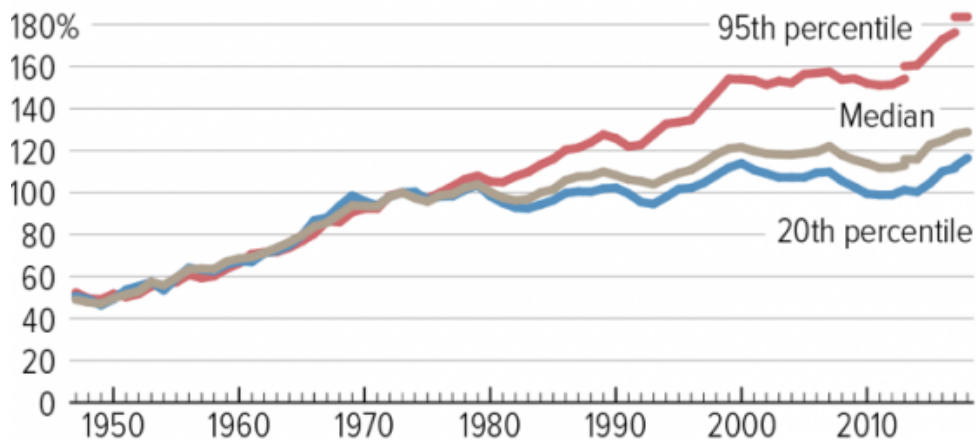
- **Beginning in the 1970s, the income gap widened.**
 - Income growth in the middle and lower parts of the distribution slowed.
 - Incomes at the top continued to grow strongly.
 - Income shares at the very top of the distribution rose to levels last seen more than 80 years ago.



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.

The Abrupt Increase in Inequality

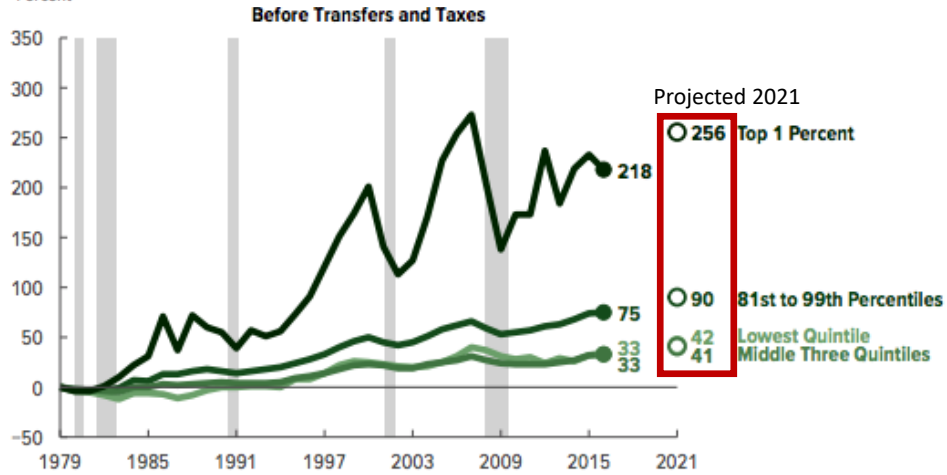
Real family income between 1947 and 2018, as a percentage of 1973 level



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, Dec. 11, 2018.

Most of the Action Is at the Top: PRE-Tax

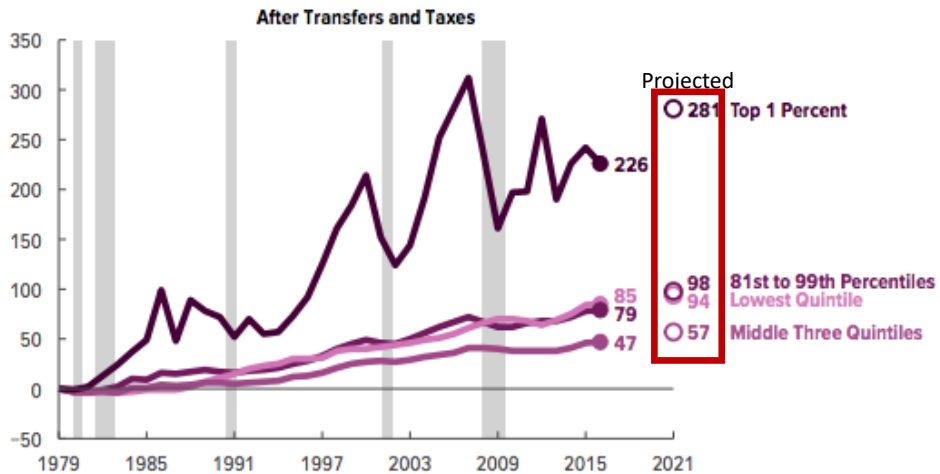
Cumulative Growth of Average Inflation-Adjusted Household Income Since 1979
Percent



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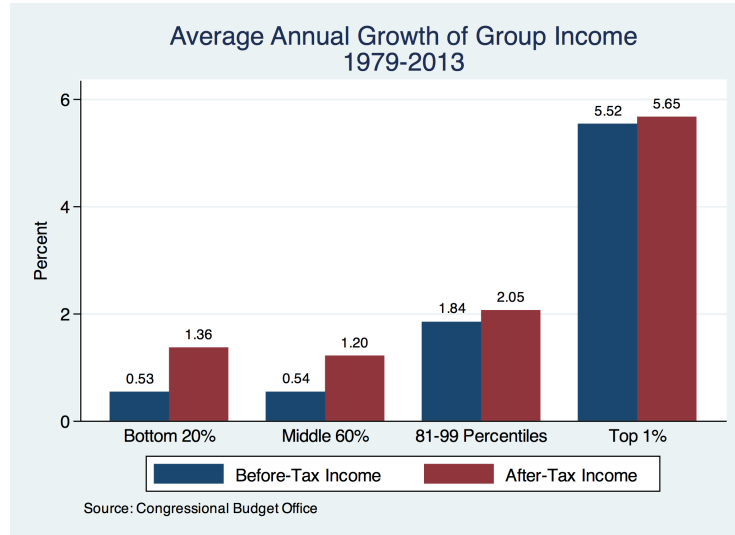
Most of the Action Is at the Top: POST-Tax

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



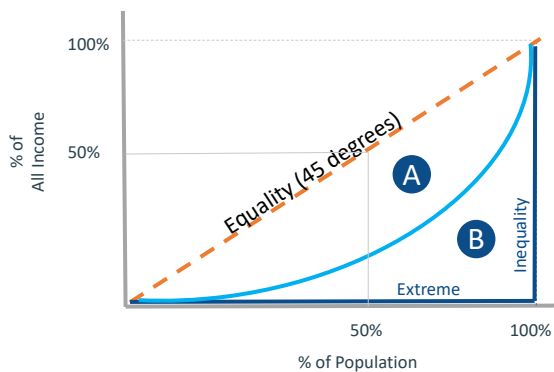
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Growth Has Been Primarily at the Very Top



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Measuring Inequality: The Gini Coefficient

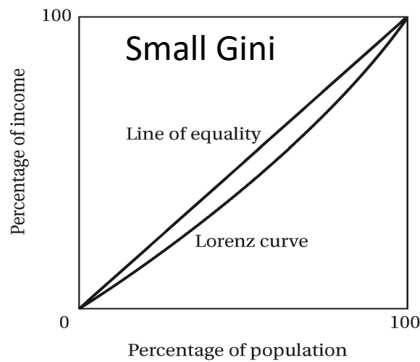


$$\text{Gini} = \frac{A}{A + B} \times 100$$

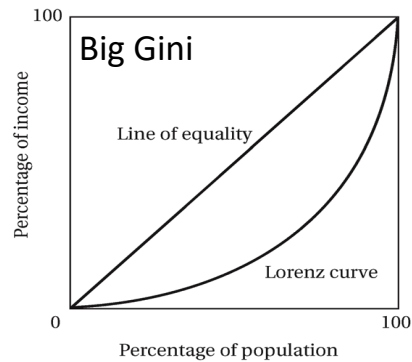
Bigger A: More inequality
Smaller A: Less inequality

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Equal, Unequal, & the Gini

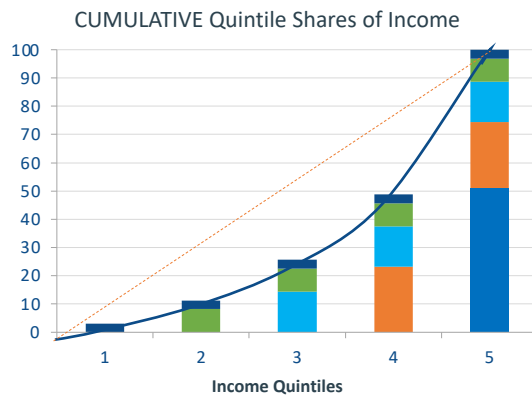
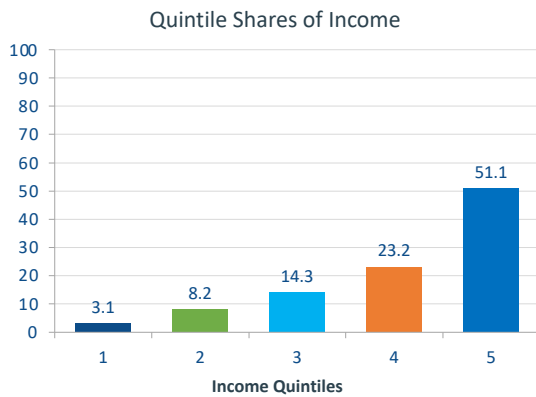


(a) A relatively equal distribution

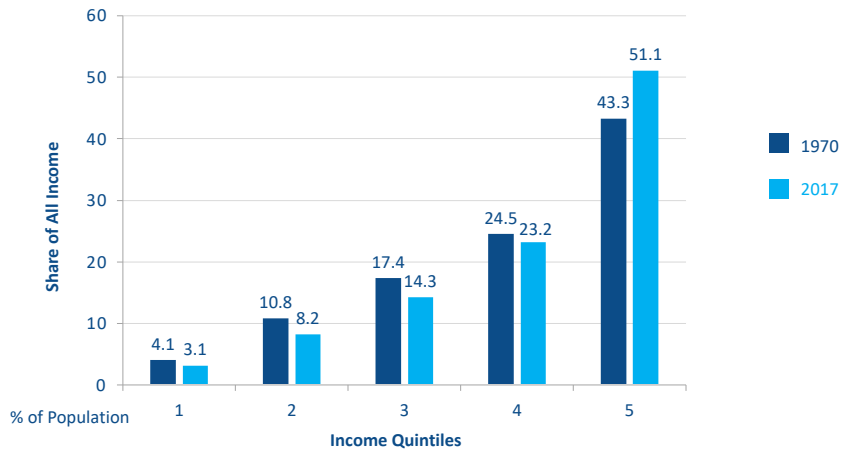


(b) A relatively unequal distribution

Forming the GINI Coefficient: 2015

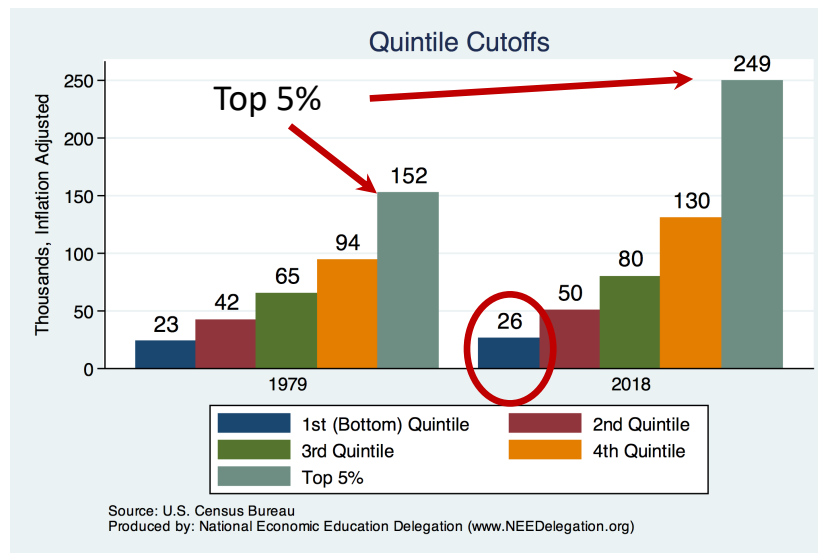


Income Share Changes Between 1970 and 2017



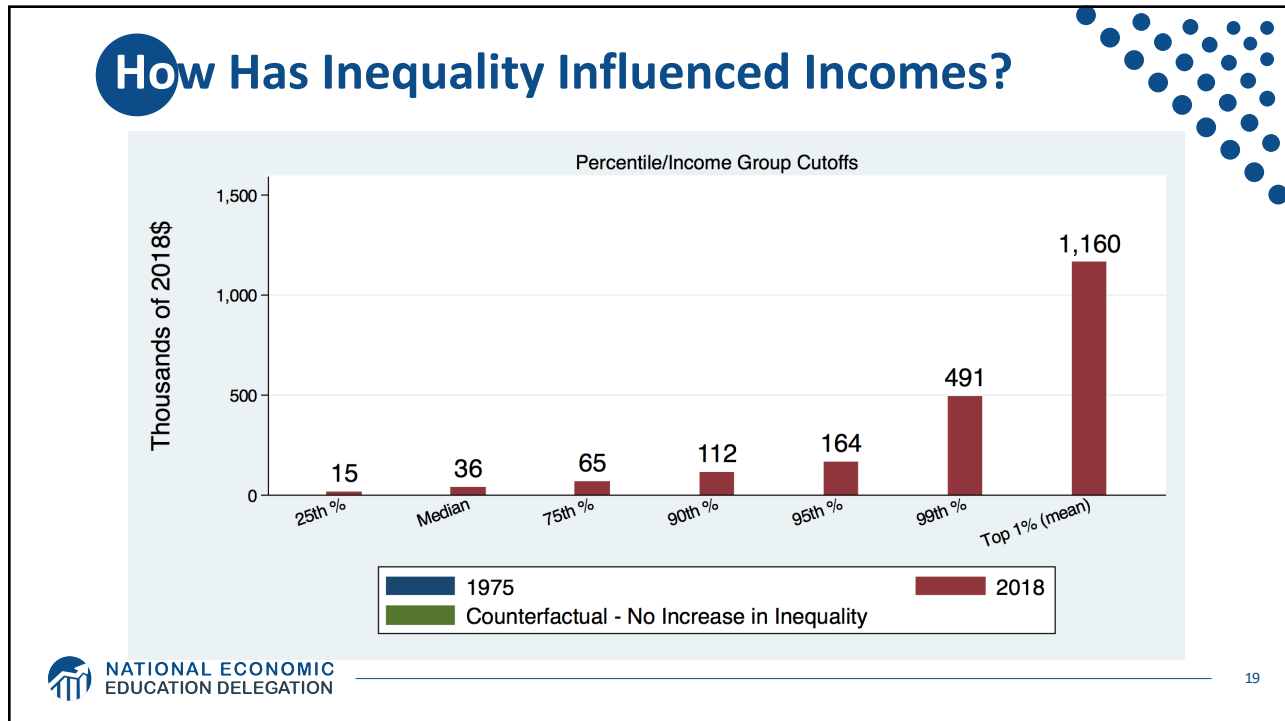
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Quintile Income Cutoffs

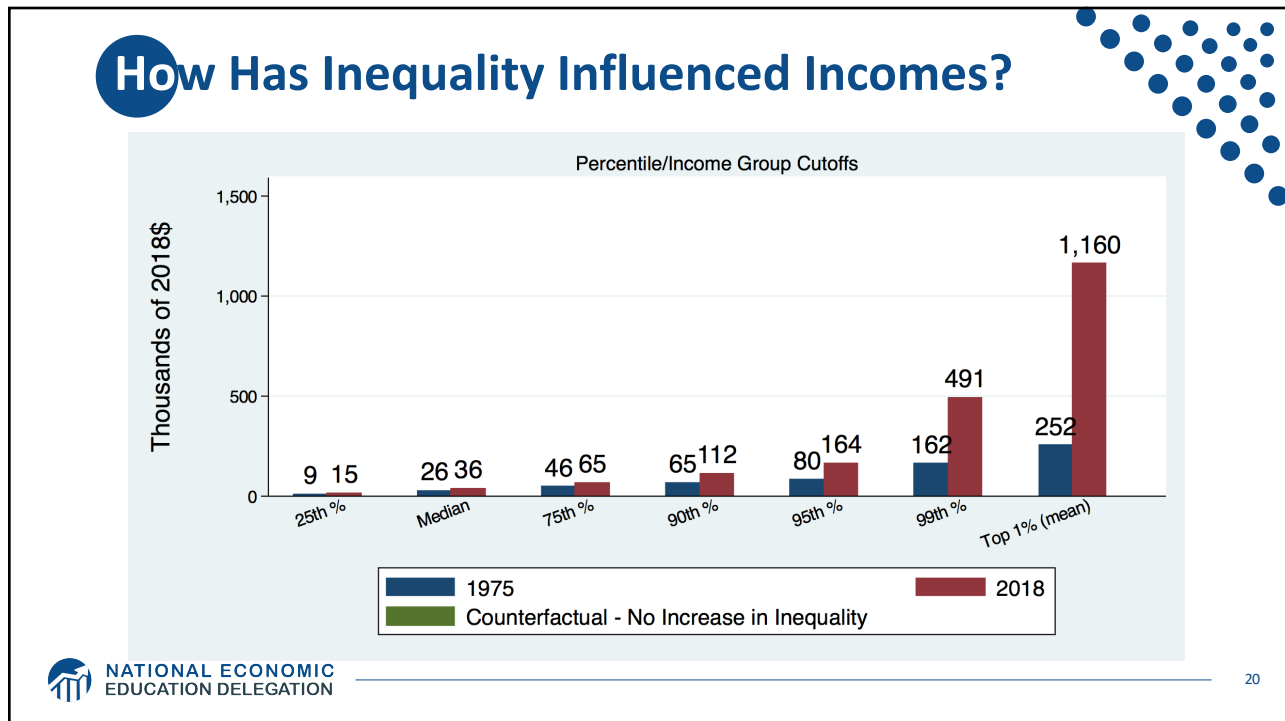


Source: U.S. Census Bureau
Produced by: National Economic Education Delegation (www.NEEDelegation.org)

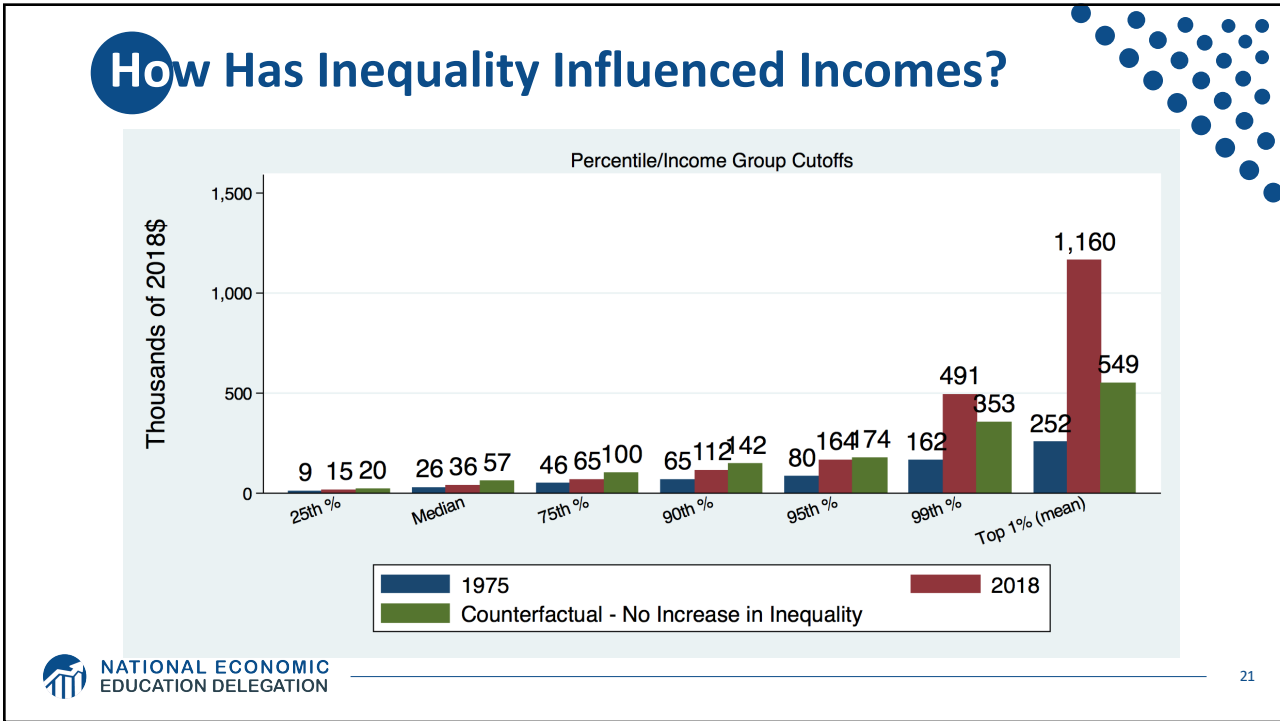
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Income Changes from Growing Inequality

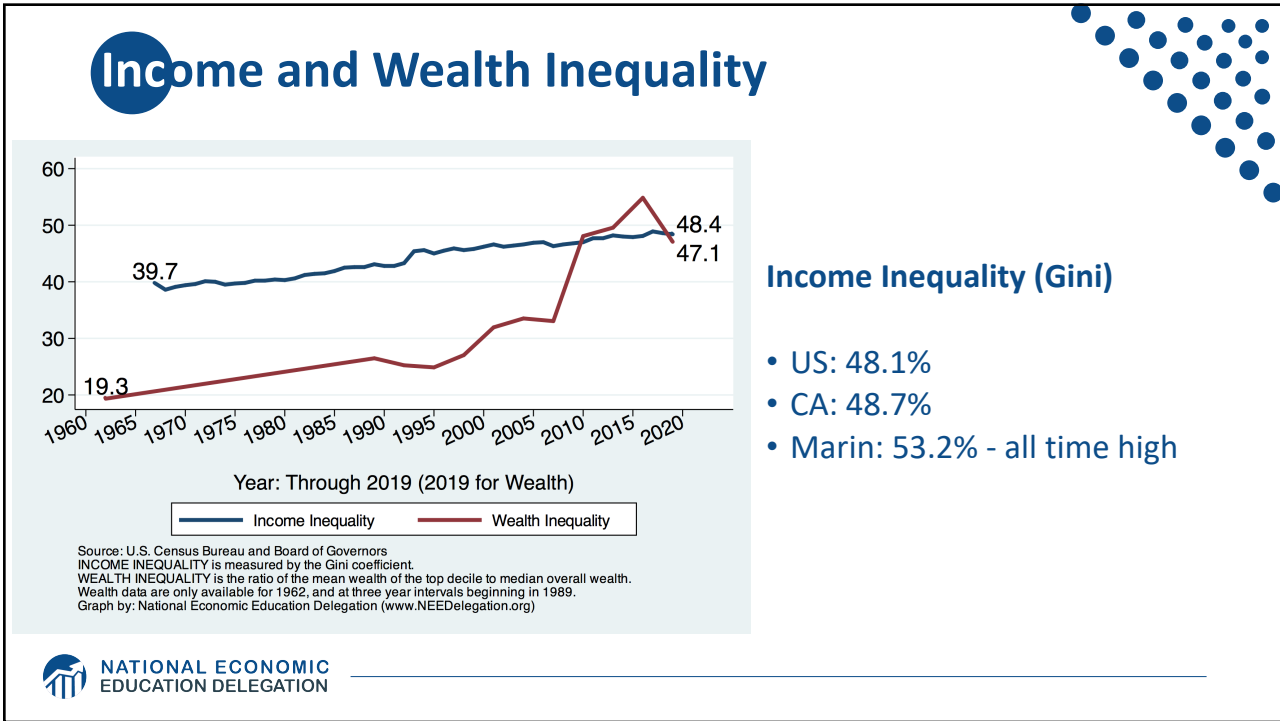
INCOME GROUP	TOTAL LOSS/GAIN IN ANNUAL INCOME*	AVERAGE LOSS/GAIN PER HOUSEHOLD PER YEAR*
TOP 1%	\$673 billion more	\$597,241 more
96-99	\$140 billion more	\$29,895 more
91-95	\$29 billion more	\$4,912 more
81-90	\$43 billion less	\$3,733 less
61-80	\$194 billion less	\$8,598 less
41-60	\$224 billion less	\$10,100 less
21-40	\$189 billion less	\$8,582 less
BOTTOM 20%	\$136 billion less	\$5,623 less

Bottom 90% of Households →

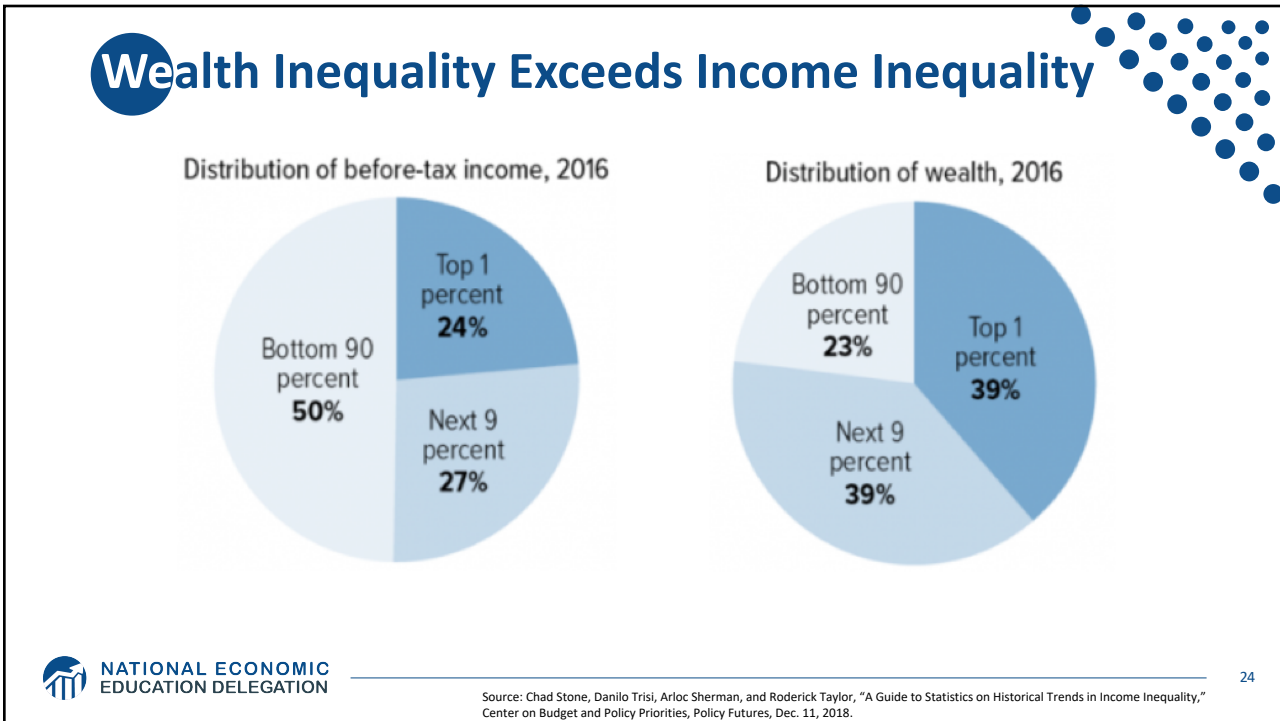
* Compared to what incomes would have been had all income groups seen the same growth rate in 1979-2005 as they did during previous decades. Source: Jacob Hacker, Yale University; Paul Pierson, UC-Berkeley

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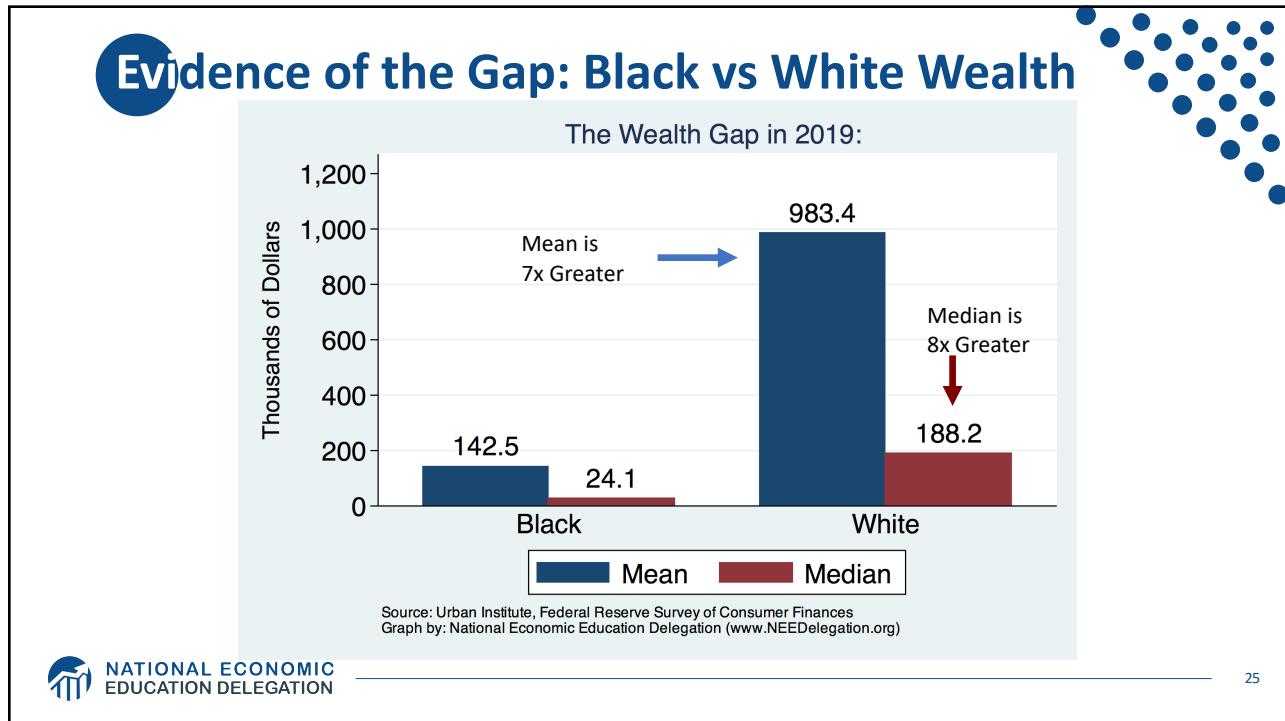
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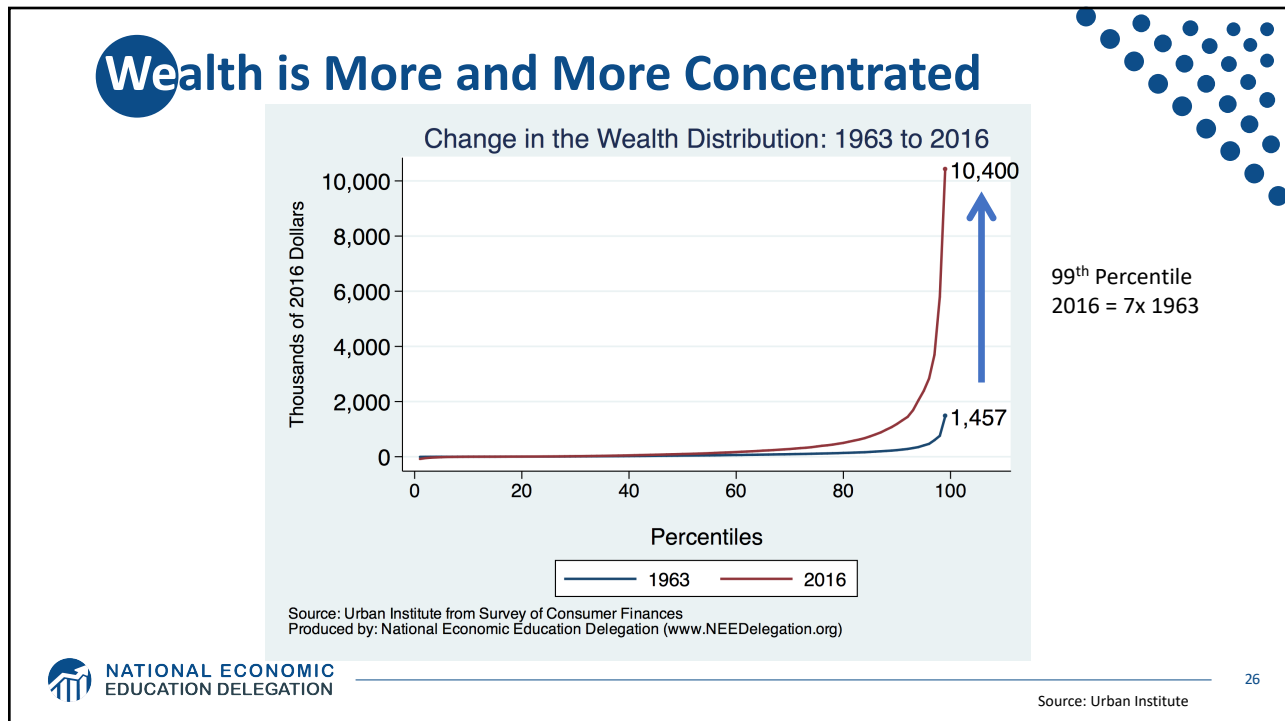
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Where Does Inequality Come From?

• Labor Characteristics

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

• 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, etc.

• RE-distribution

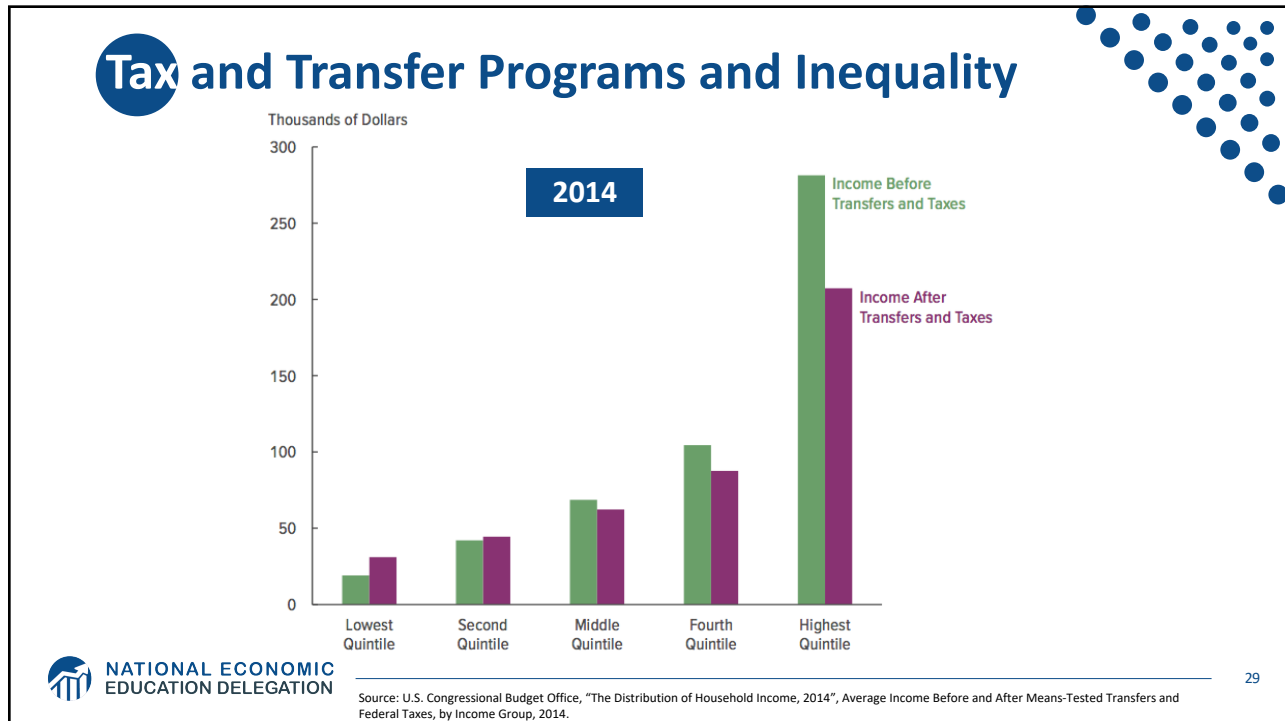
- Tax Rates
- Income support
 - Direct aid
 - Food stamps



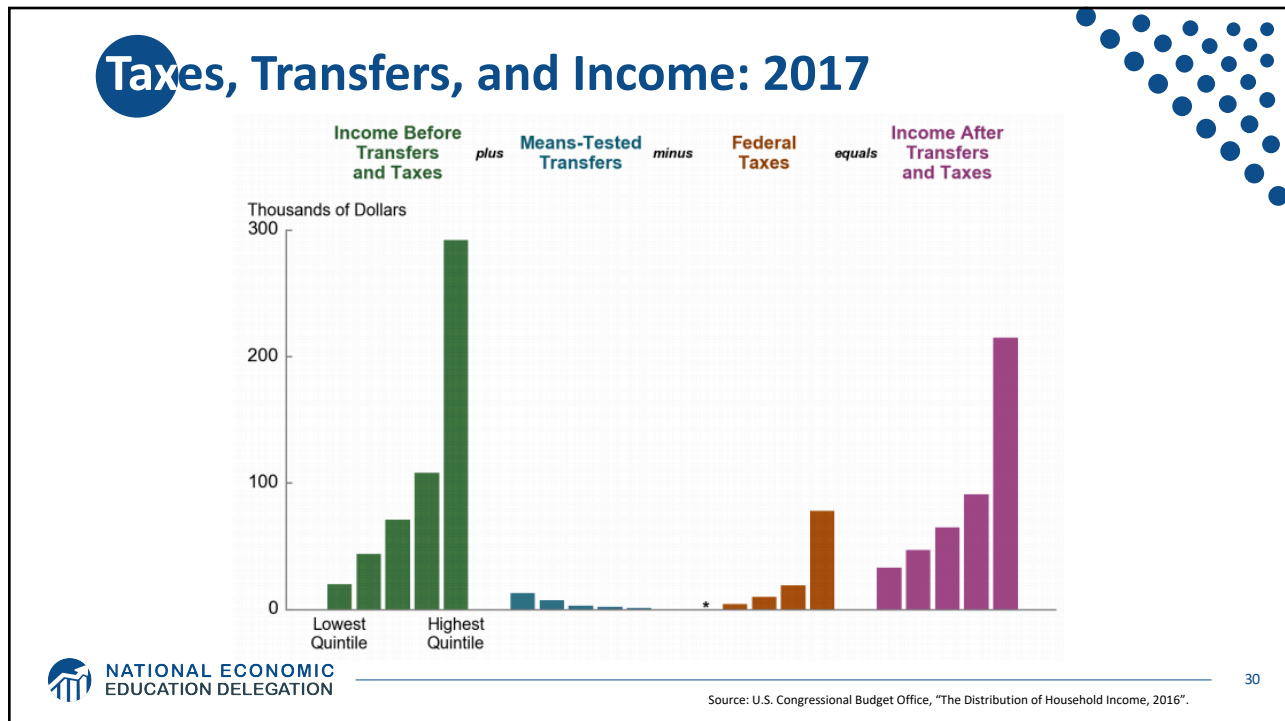
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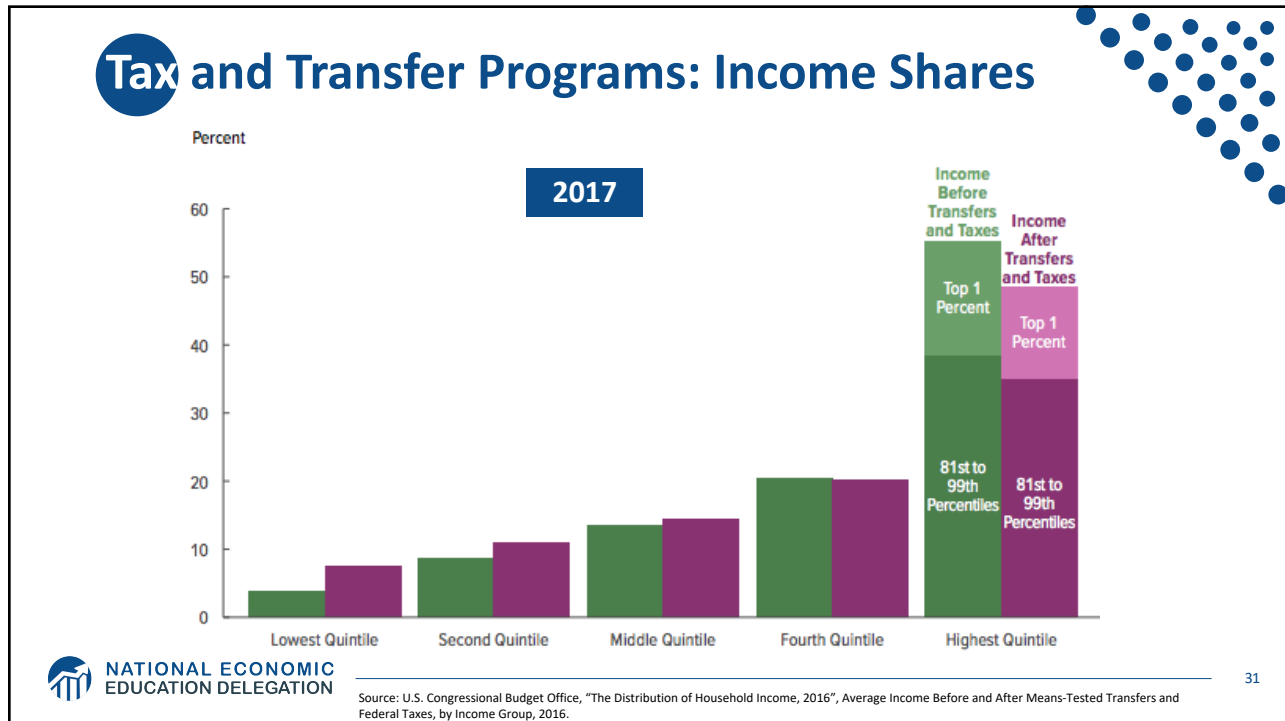
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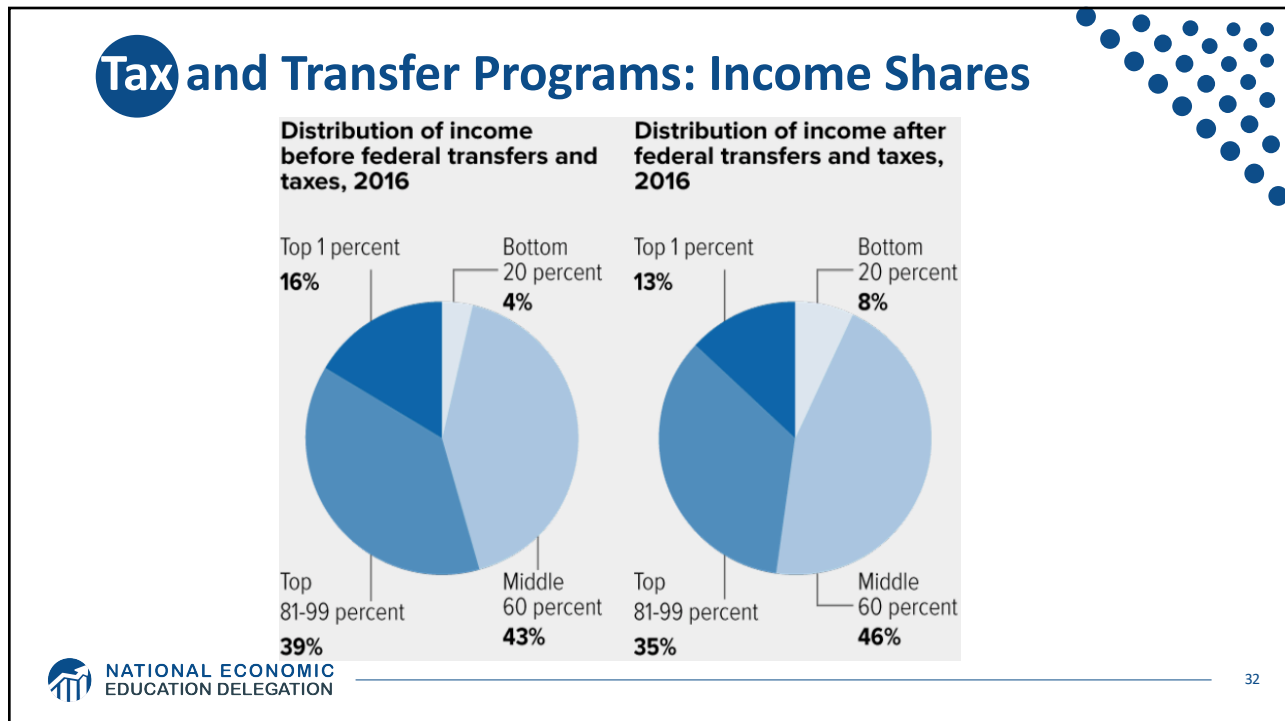
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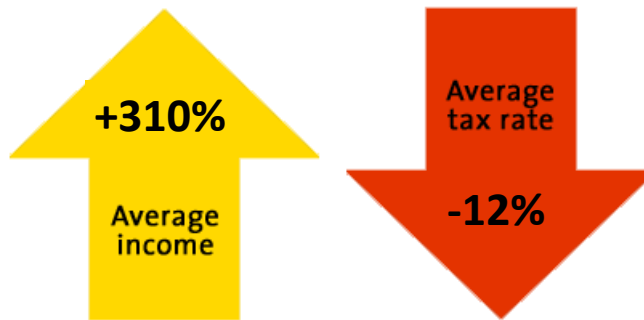
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What About Tax Rates?

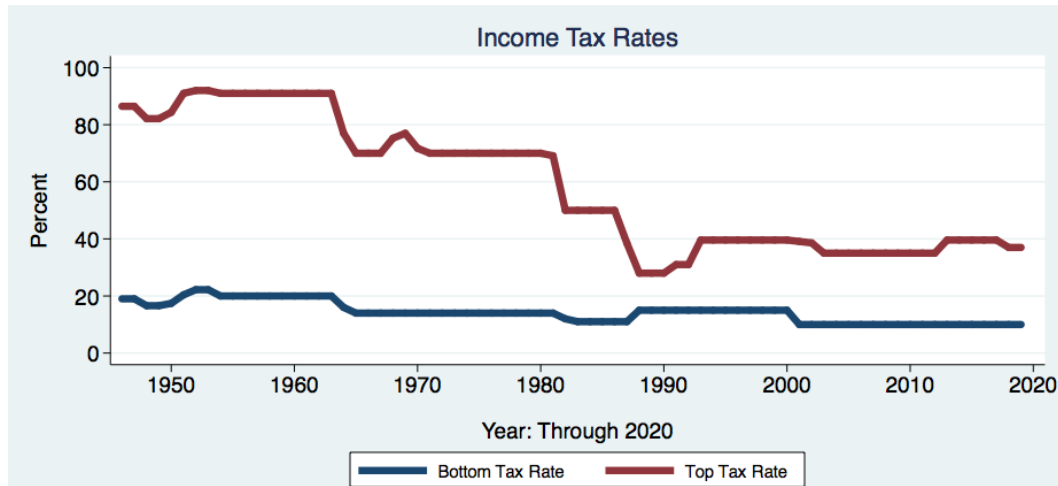
400 TAXPAYERS WITH HIGHEST INCOMES
1992-2014



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

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Tax Rates Over Time

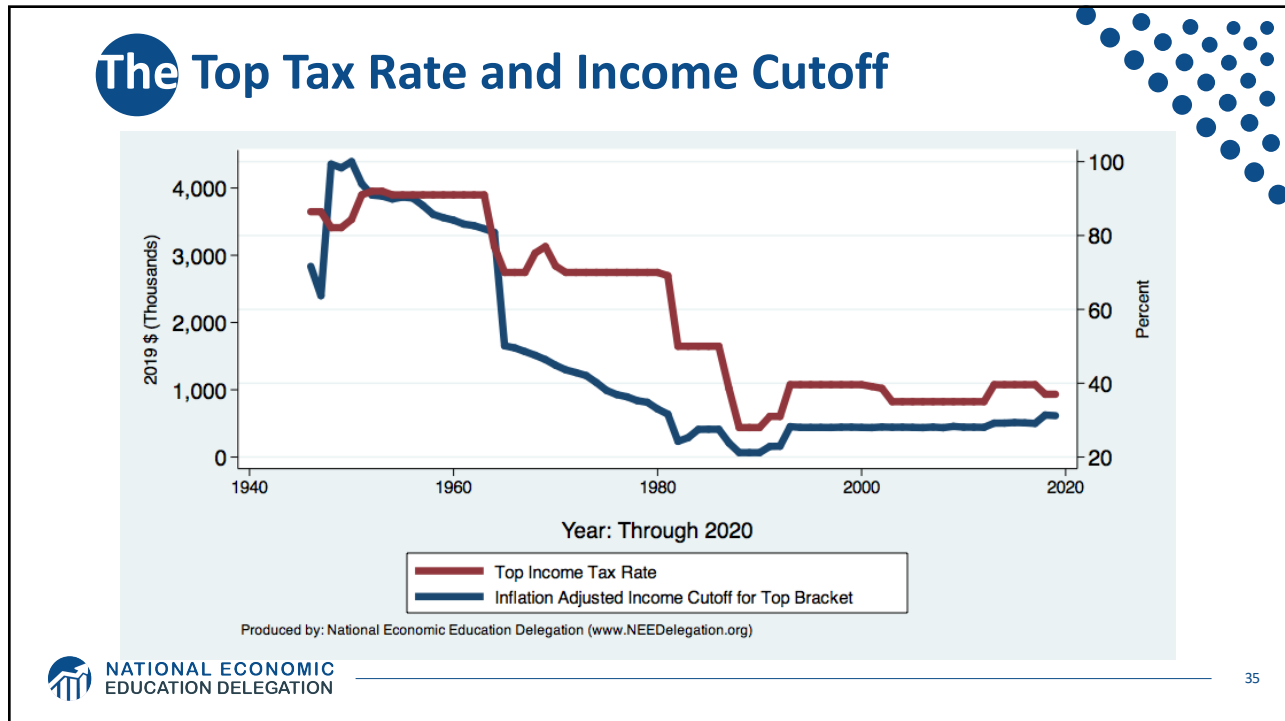


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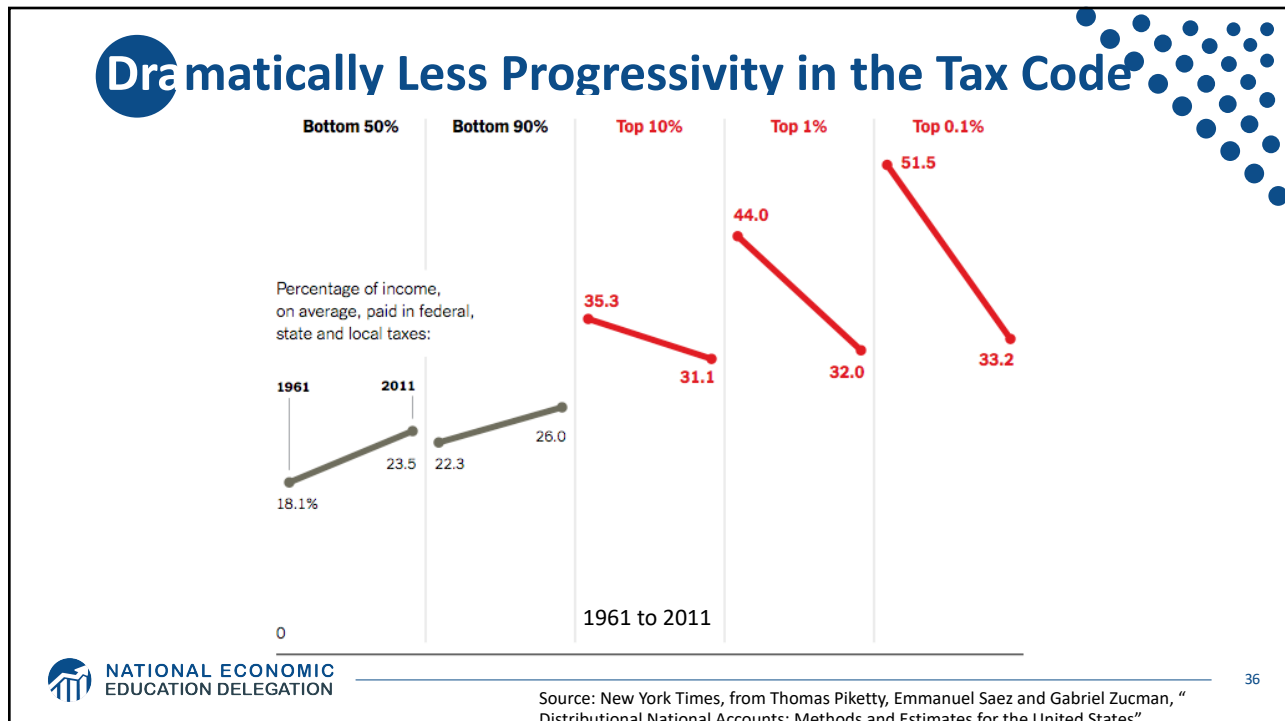


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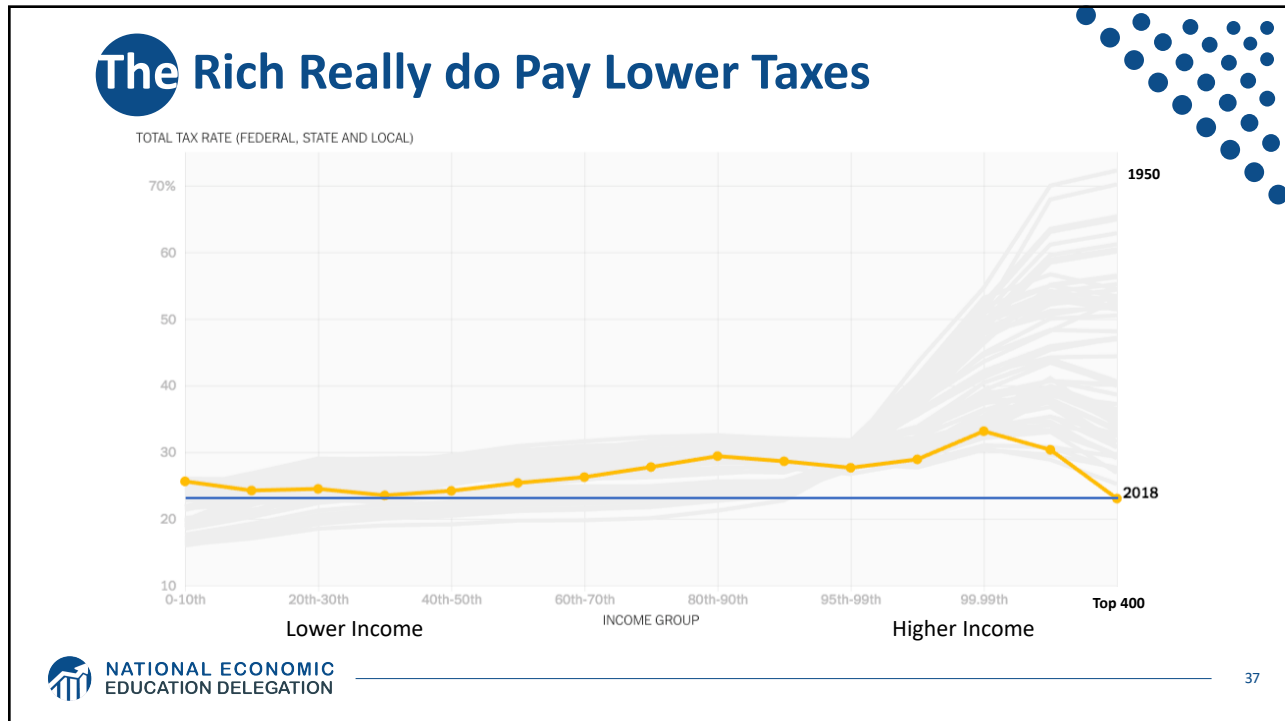
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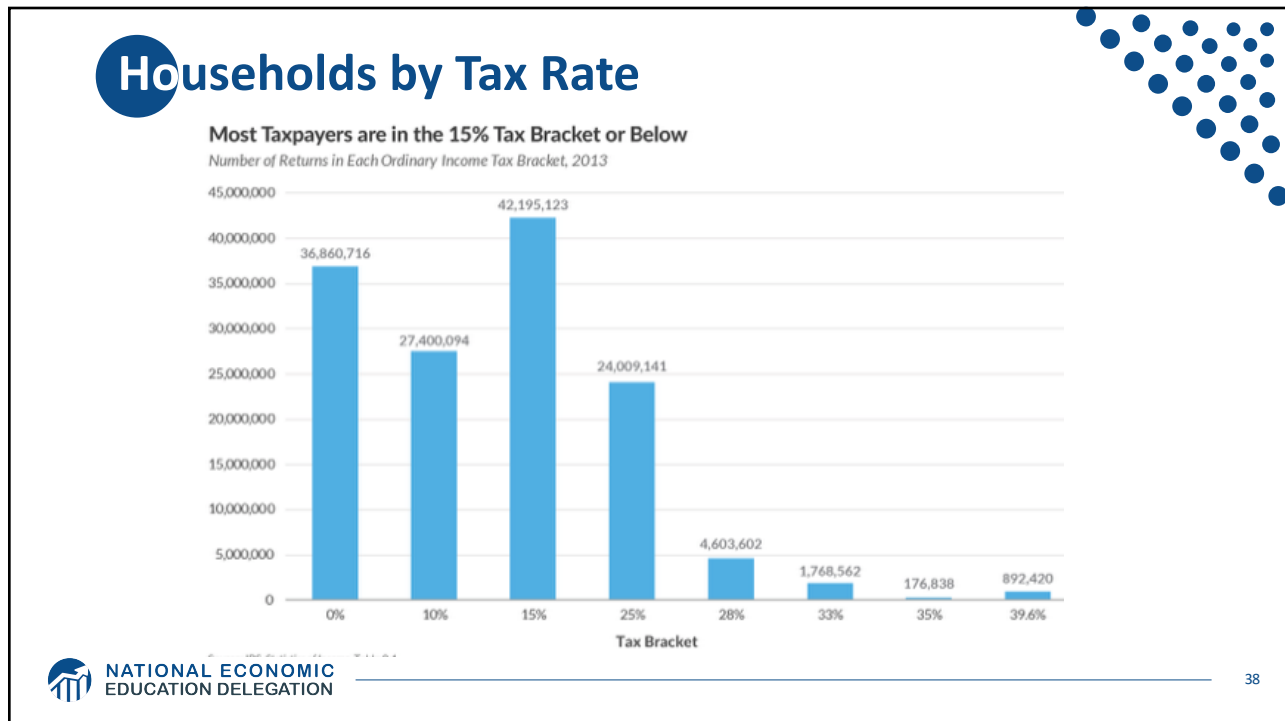
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Market Forces and Inequality

- **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?

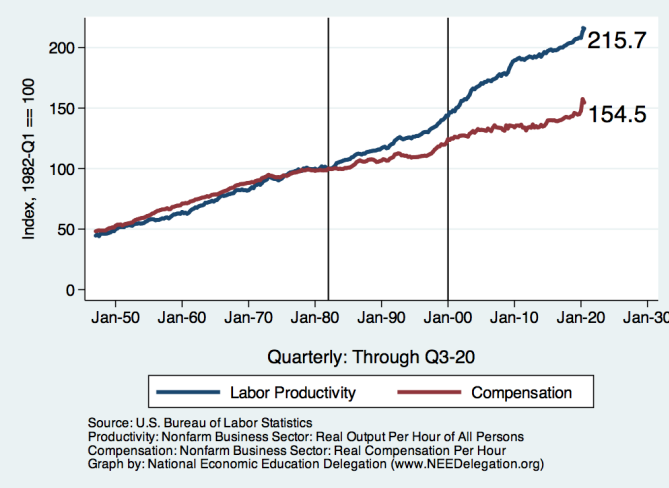
- **Government policies**

- PRE-distribution – affecting markets
- Redistribution – affecting incomes



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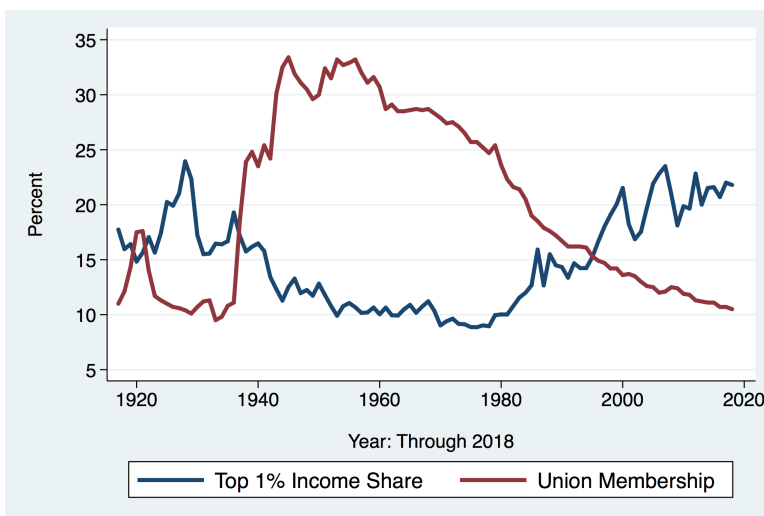
Labor Income is Unhinged from Productivity



Why?

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

Declining Unionization

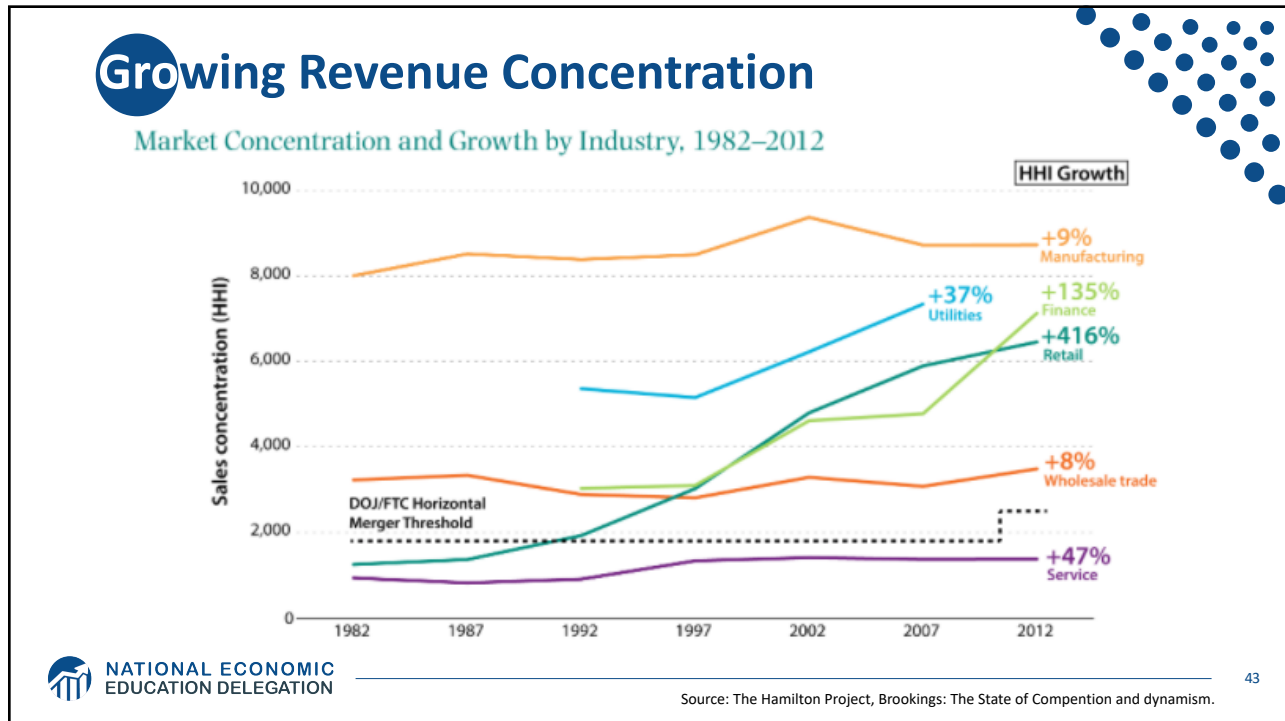


Unionization Rates

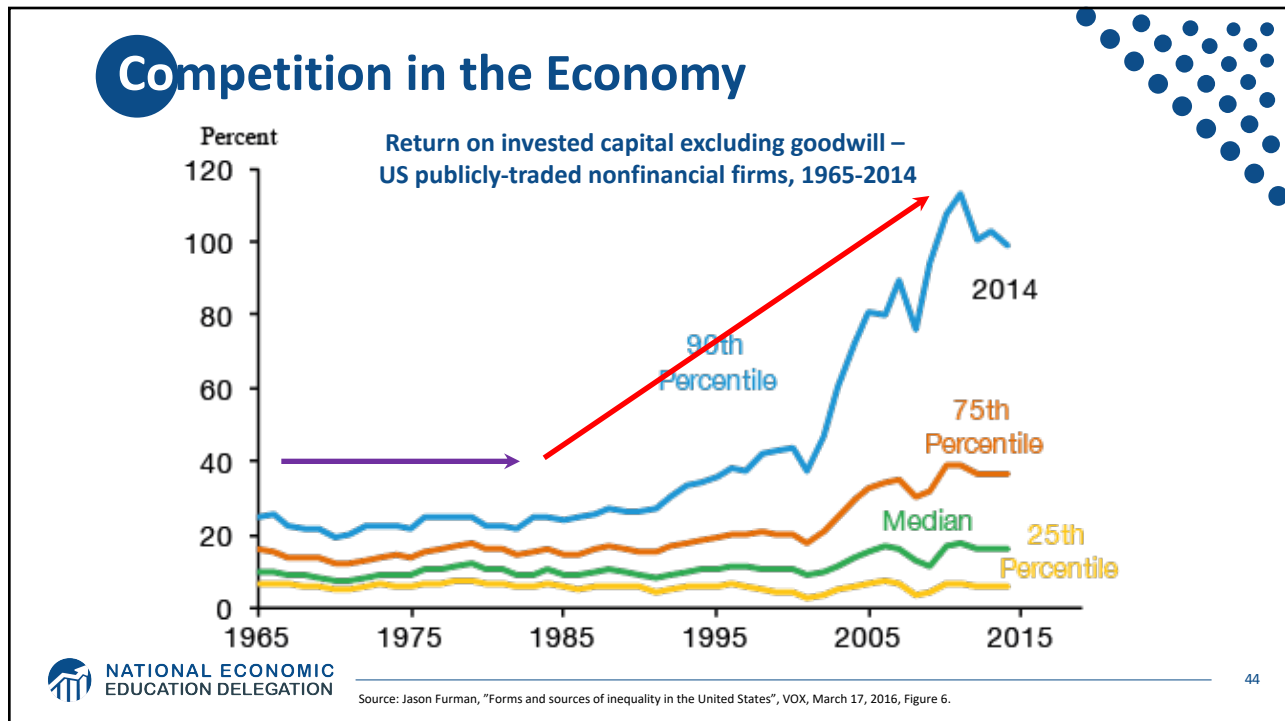
- **1983:** 20.1%
- **2020:** 10.8%

Unionization Rates

- **Public:** 34.8%
- **Private:** 6.3%

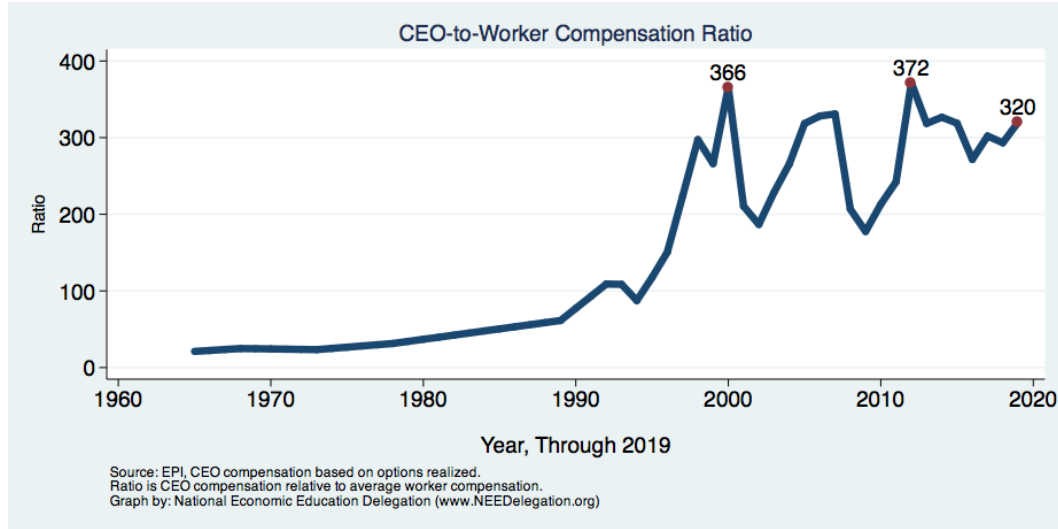


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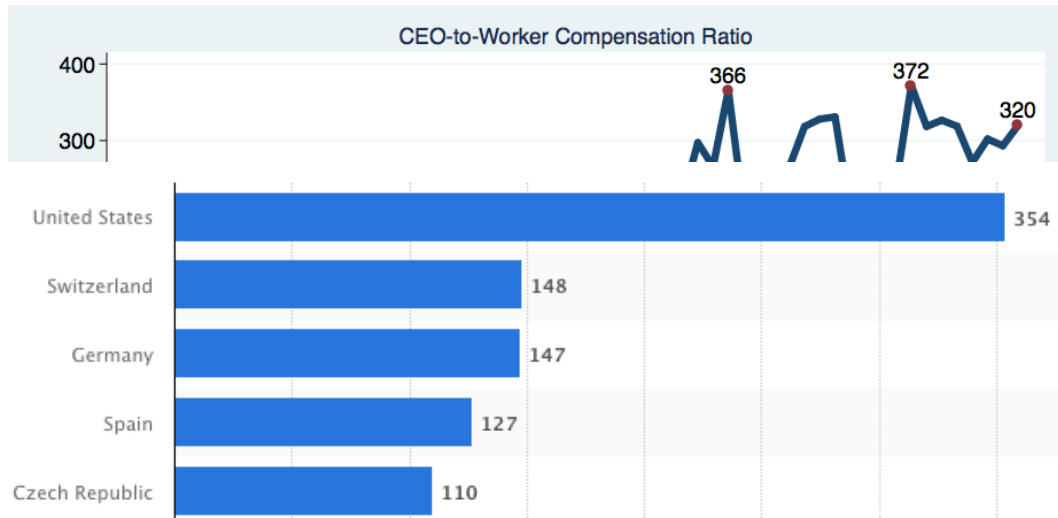


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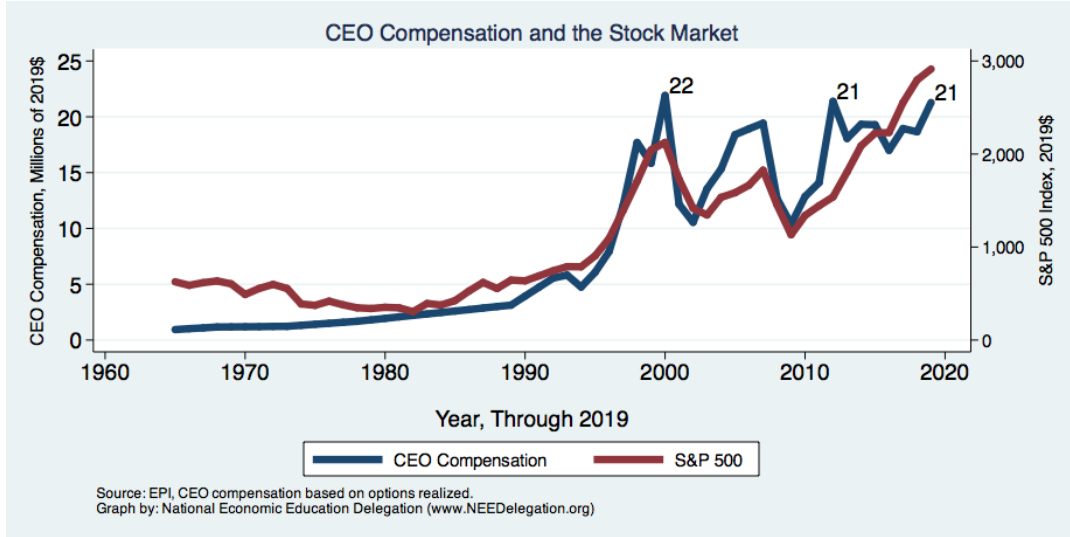
CEO Pay Has Been Growing Rapidly



CEO Pay Has Been Growing Rapidly

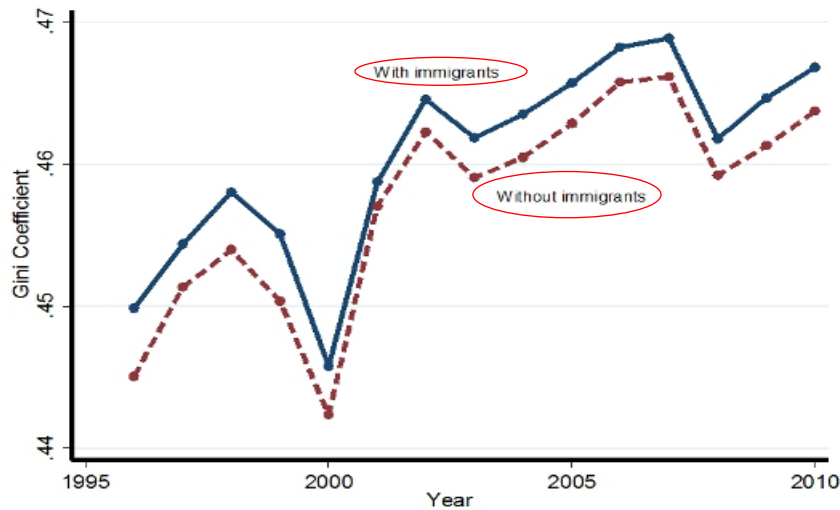


CEO Compensation – Tied to Stock Prices



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Immigration and Inequality



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Immigration and Inequality- Summary

- **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

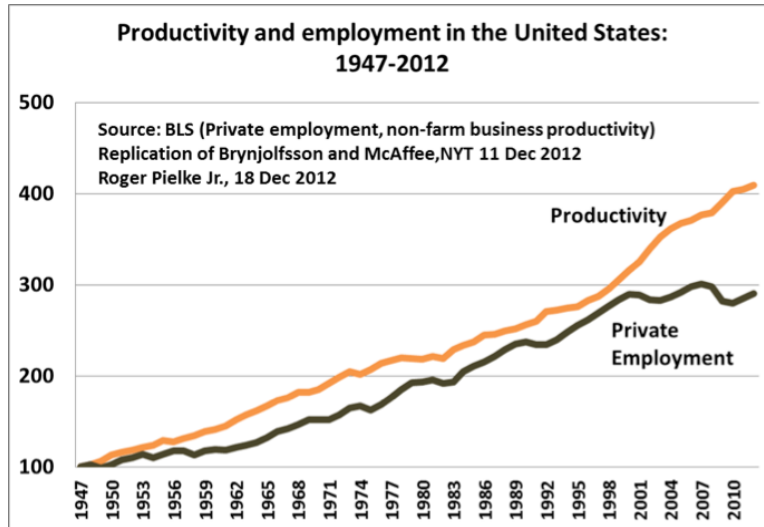


Technological Change and Inequality

- **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



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.



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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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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

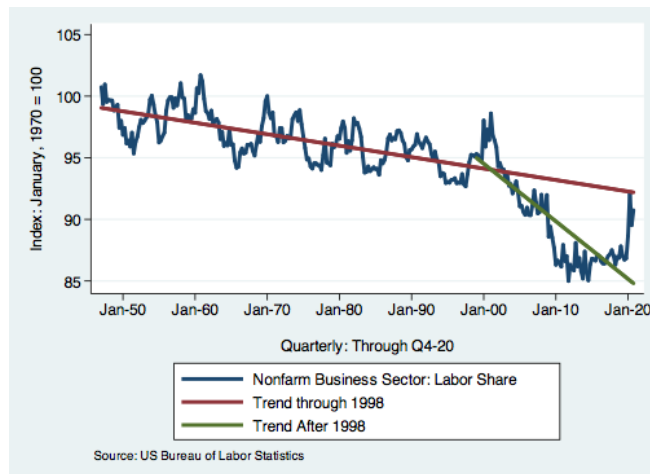
- **Trade in services**

- US imports of middle-skill services: business and some professional services

- **Intuitively: The same as if we were to move the actual workers.**

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Effects of the Unhinging?



Labor's Share of Income

1960: 66%

2011: 56%

2016: 58%

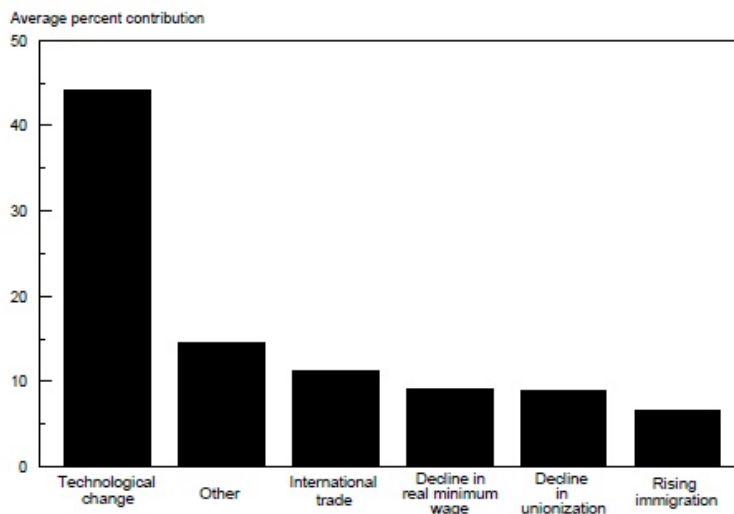
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What is driving increasing inequality?

- **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

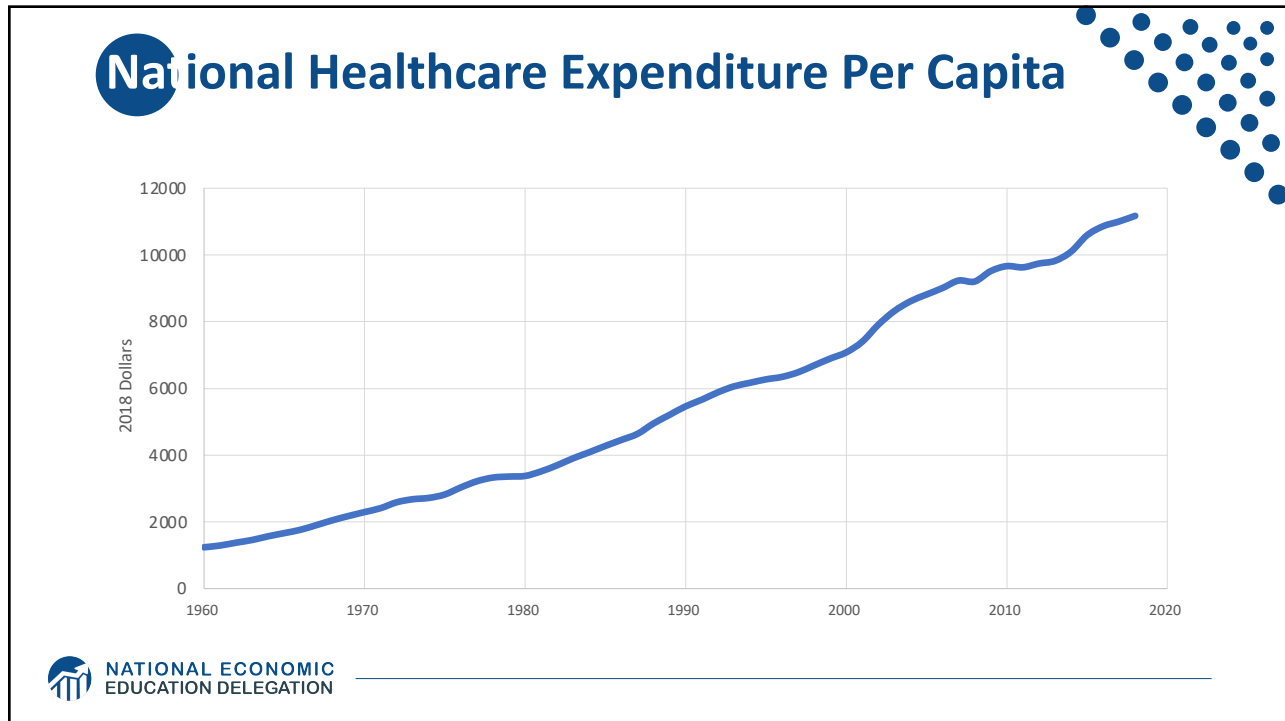
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Sources of Inequality Through Late 1990s



Source: Federal Reserve Bank of New York.

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Why Does Inequality Matter?

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

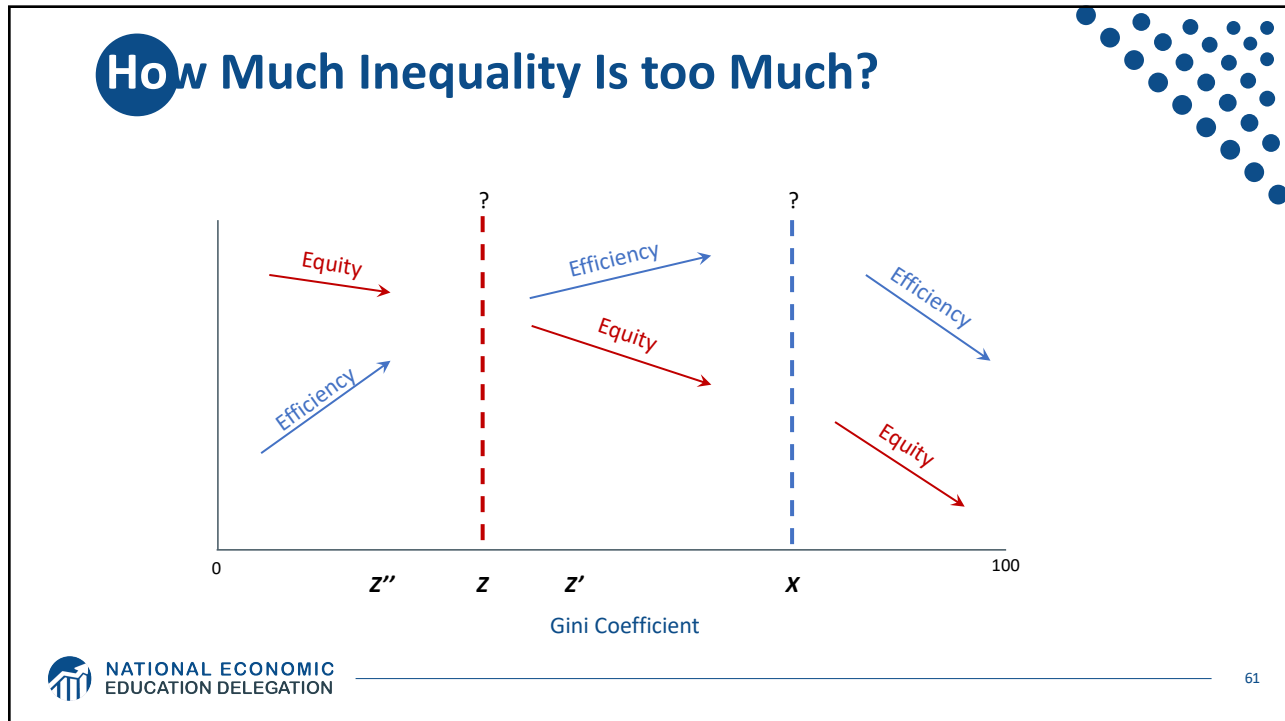
- **Too much inequality can:**
 - Reduce individual motivation
 - Slow economic growth

- **Too much inequality may also:**
 - Divide society
 - Distort political environment
 - Reduce political participation

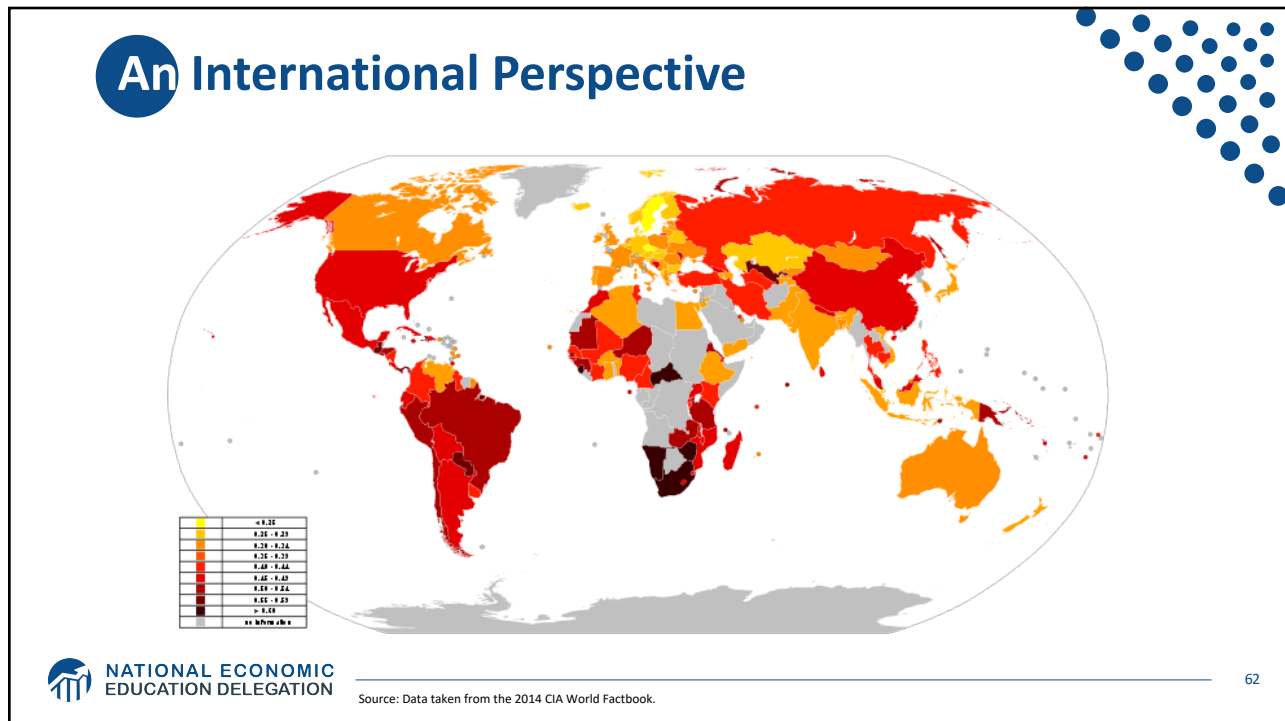
- Reduce investments in public goods
 - o Education
 - o Environmental protections

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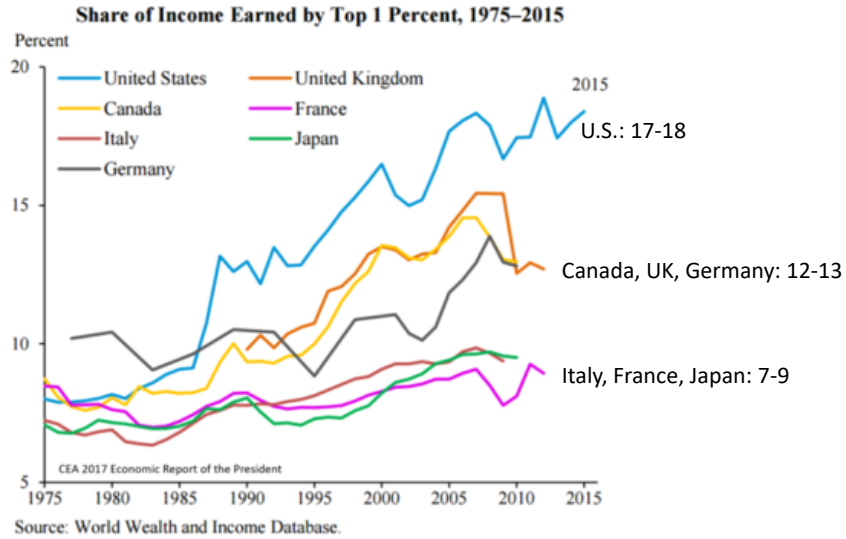


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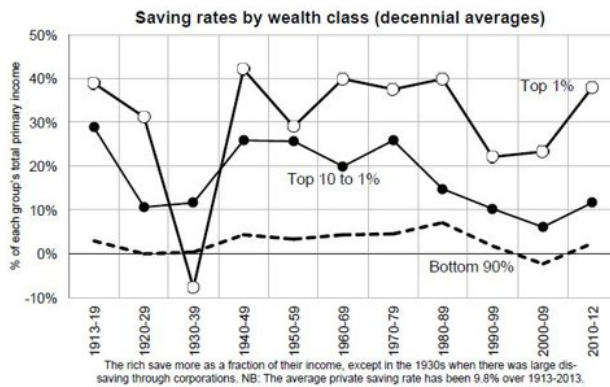
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An International Perspective: Comparables



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But the High-Income Households Save More

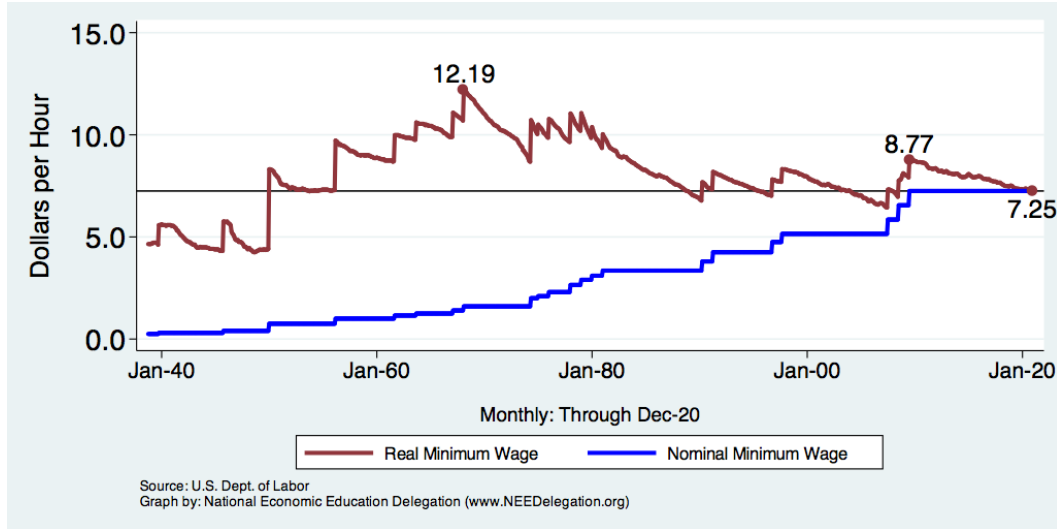


Source: Emmanuel Saez and Gabriel Zucman, *The Distribution of U.S. Wealth, Capital*

- Facilitates the Consumption of: **Wealth**
- Which facilitates the consumption of: **Leisure**

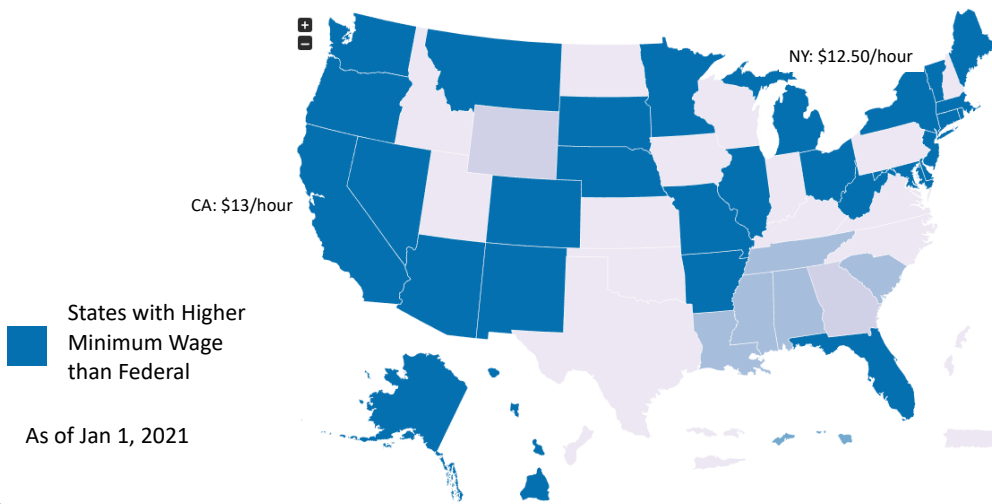
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Historical Values of Minimum Wages



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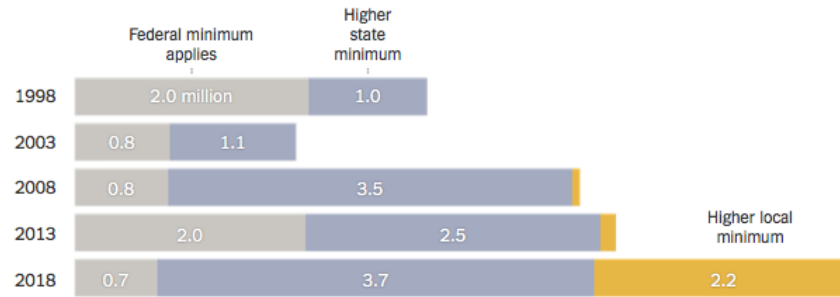
Many States Have A Higher Min Wage



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

Millions of workers:

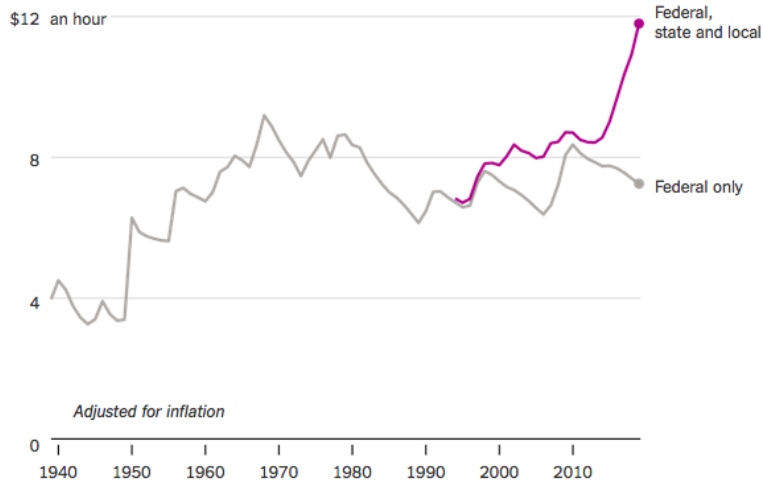


Includes farm workers and tipped incomes

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).

States and Local Gov'ts are Raising Min Wages

The average job at the federal, state or local minimum wage pays almost \$12 an hour.



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.
 - Uber, Lyft, etc.



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Addressing Inequality: Long Term

- **It's all about access to resources:**
 - 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.
 - Universal pre-K.
 - Upgrade quality of elementary schools in low-income areas.

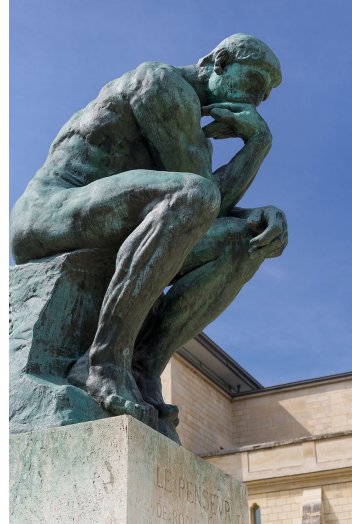


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What to do About Inequality?

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

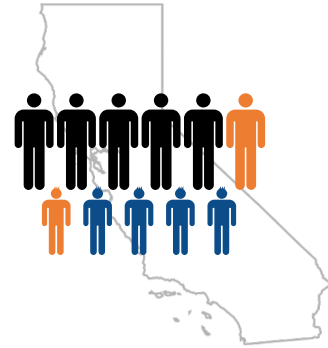


Tension in Policy Solutions

- **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.

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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Inequality and the Pandemic



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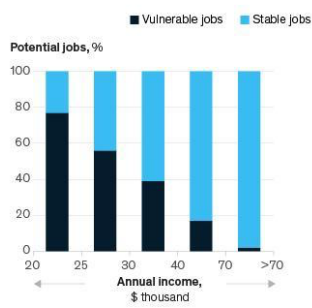
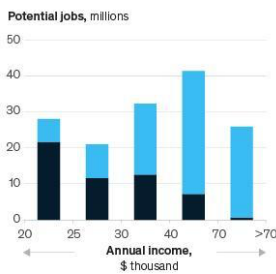
Coronavirus and Inequality

- Primarily low wage jobs are at risk
- Racial inequities
- Telecommuting
- Resources to weather the storm
- Educational inequities

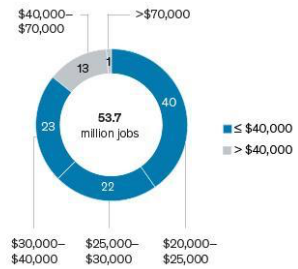
77

Eighty-six percent of vulnerable jobs paid less than \$40,000 a year.

Level of job vulnerability,¹ by income band

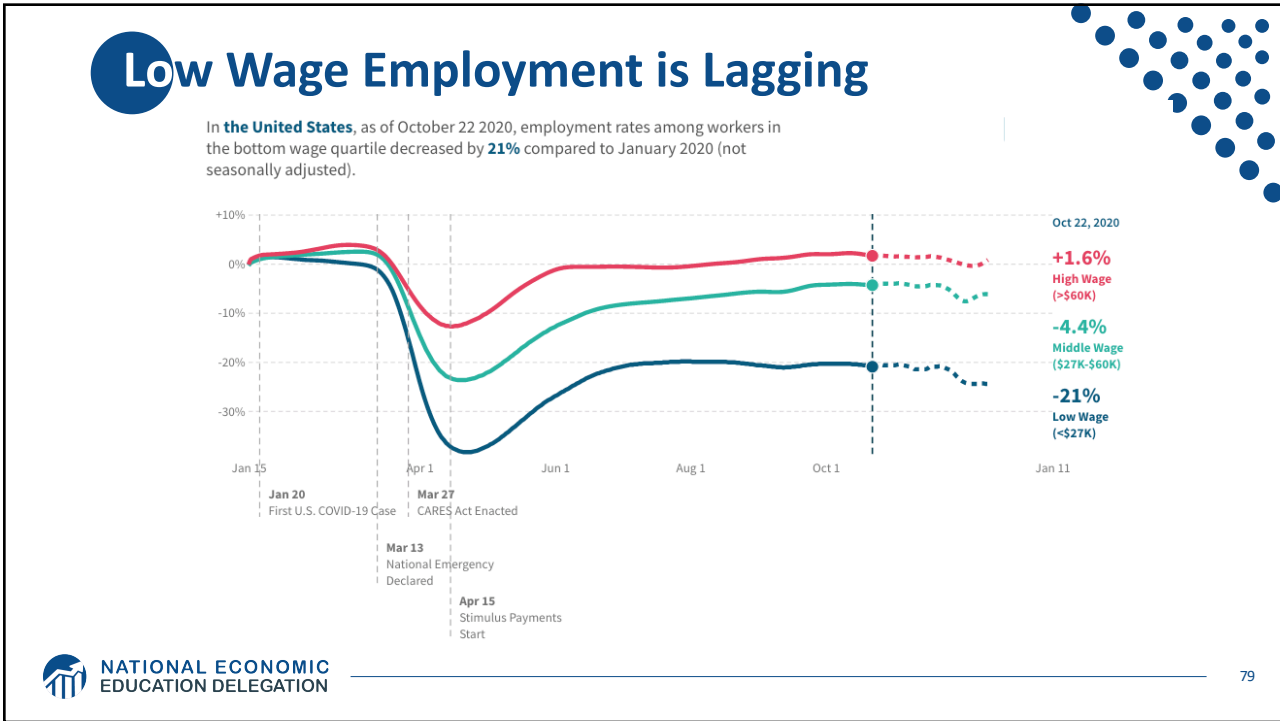


Vulnerable jobs by annual income band¹ %

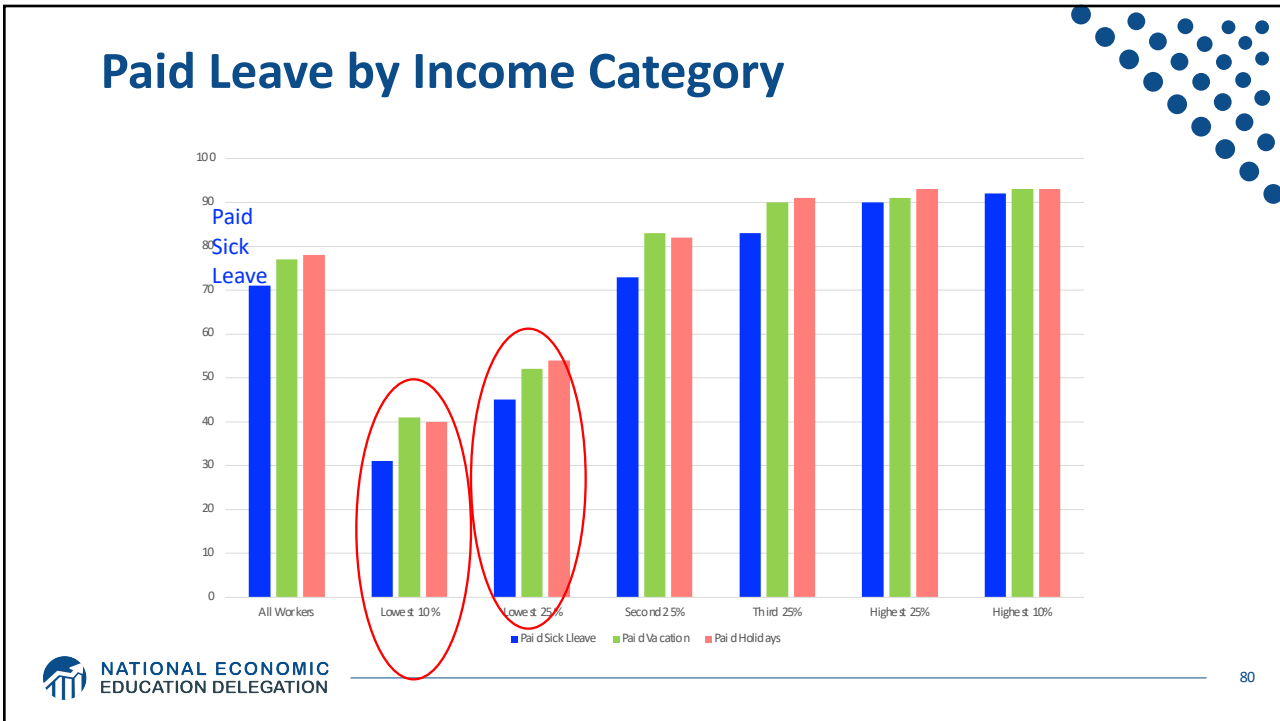


Note: Data may not sum to 100, because of rounding.
¹Vulnerable* jobs are subject to furloughs, layoffs, or being rendered unproductive (for example, workers kept on payroll but not working) during periods of high physical distancing.
 Source: LaborCube; McKinsey Global Institute analysis

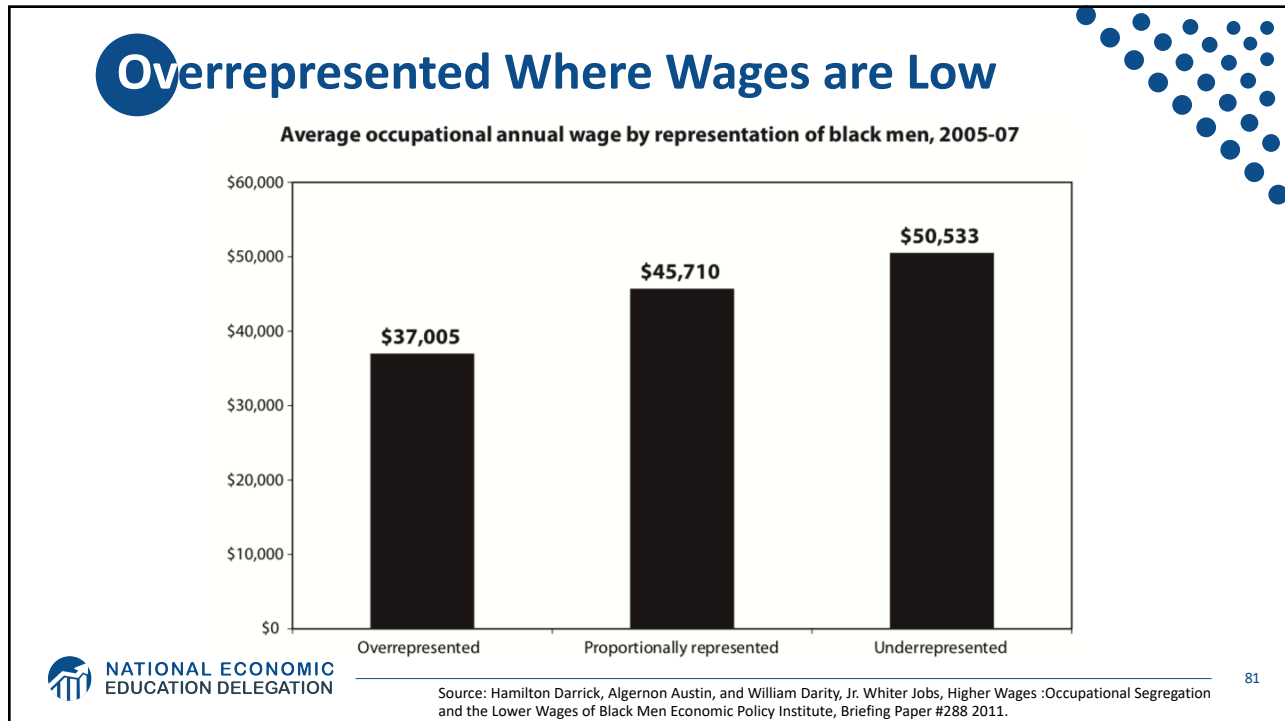
78



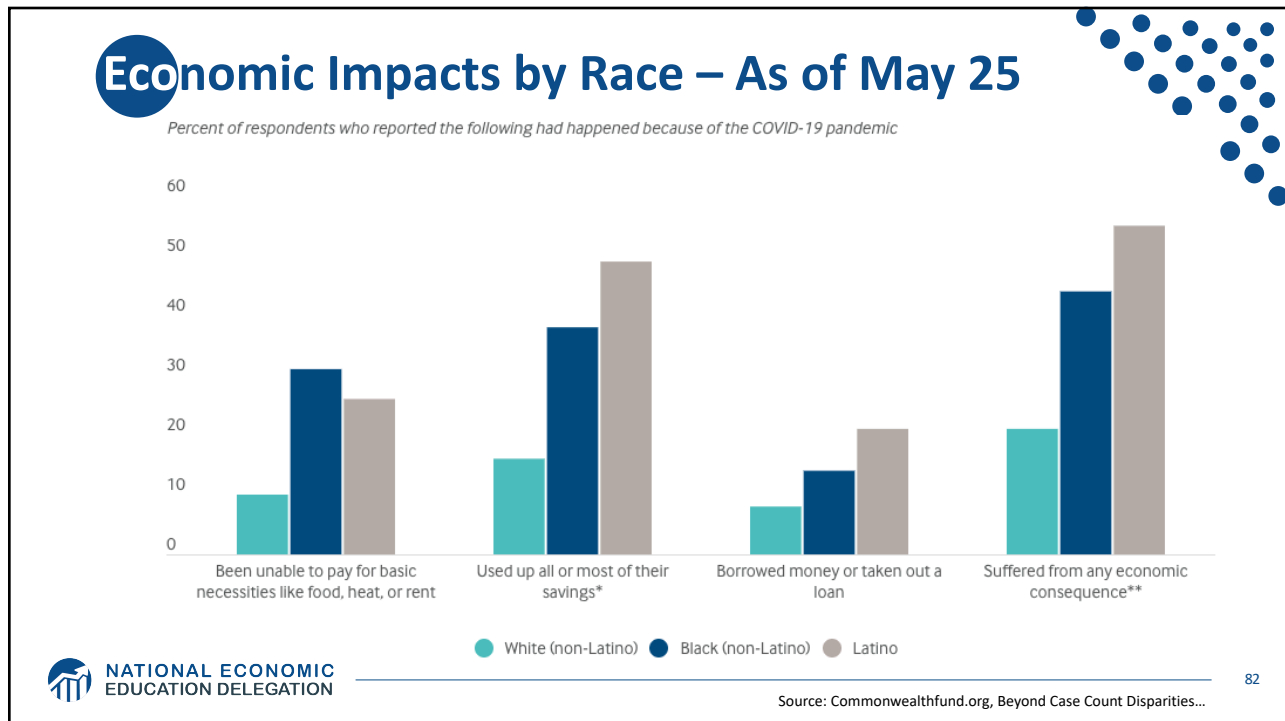
79



80



81



82

Small Businesses are Struggling

OPPORTUNITY INSIGHTS ECONOMIC TRACKER

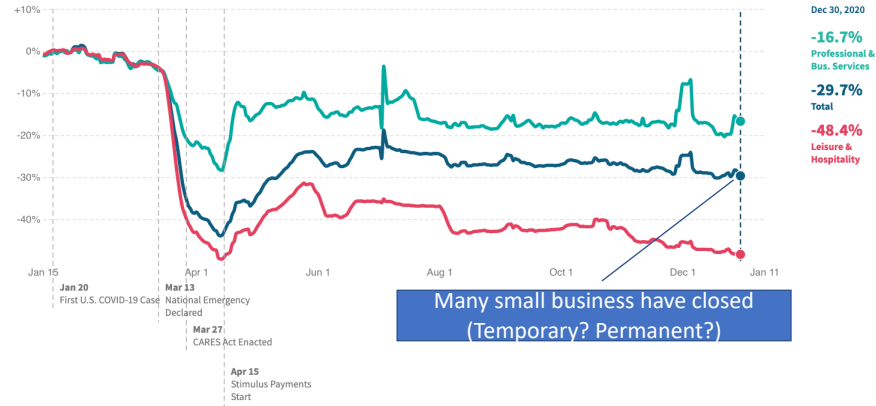
HARVARD UNIVERSITY

MIT

BILL & MELINDA GATES FOUNDATION

Percent Change in Number of Small Businesses Open*

In the United States, as of December 30 2020, the number of small businesses open decreased by 29.7% compared to January 2020.



Many small business have closed (Temporary? Permanent?)

*Change in small businesses open (defined as having financial transaction activity), indexed to January 4-31 2020 and seasonally adjusted. This series is based on data from Womply. last updated: January 08, 2021 next update expected: January 15, 2021

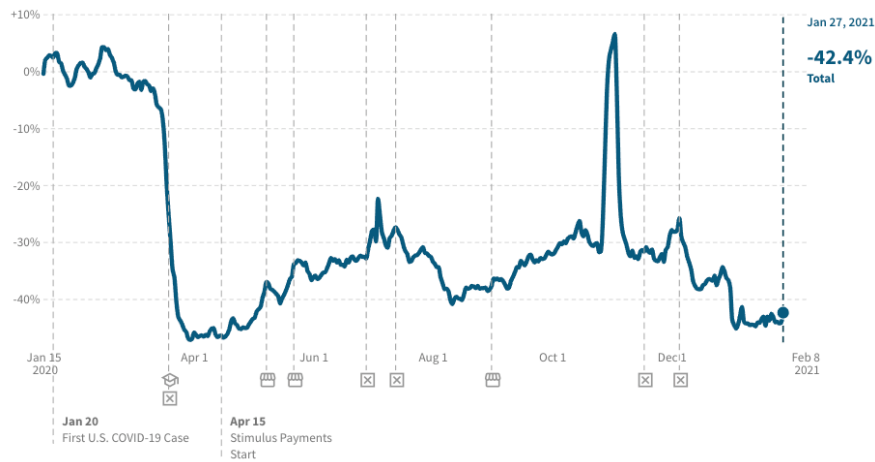
visit tracktherecovery.org to explore



Source: <https://tracktherecovery.org/>

Small Businesses are Struggling

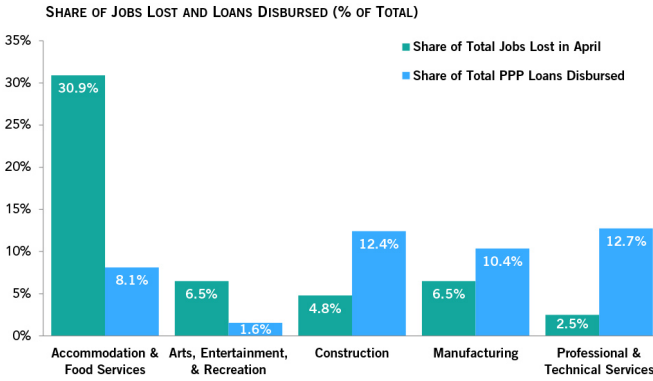
In Marin, as of January 27 2021, the number of small businesses open decreased by 42.4% compared to January 2020.



PPP Loans Didn't Go to the Right Firms



The distribution of PPP loans has not matched levels of unemployment



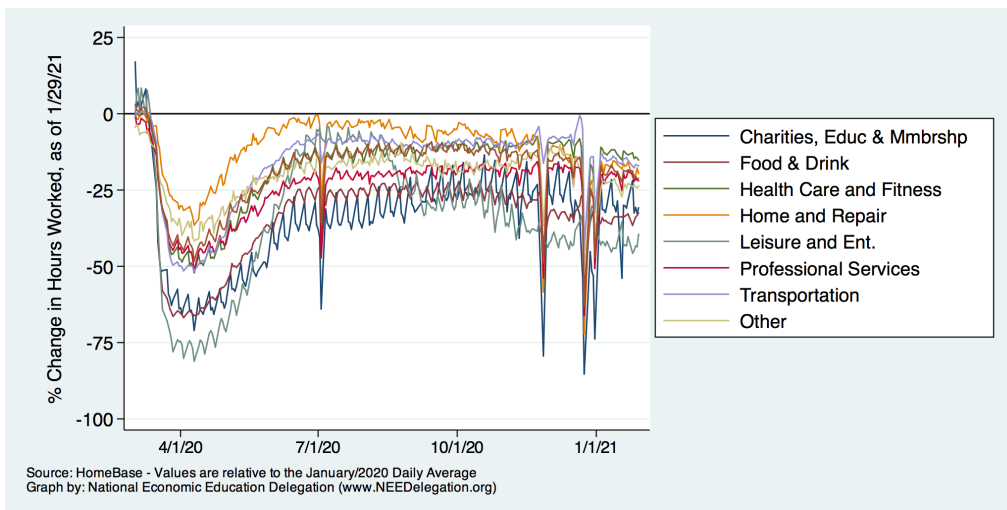
SOURCES: U.S. Small Business Services Administration, Paycheck Protection Program (PPP) Report, Approvals through 07/24/20, July 2020; and S&P Global Ratings, Economic Research: The Paycheck Protection Program Impact on Jobs: (More) Help Wanted, May 2020.
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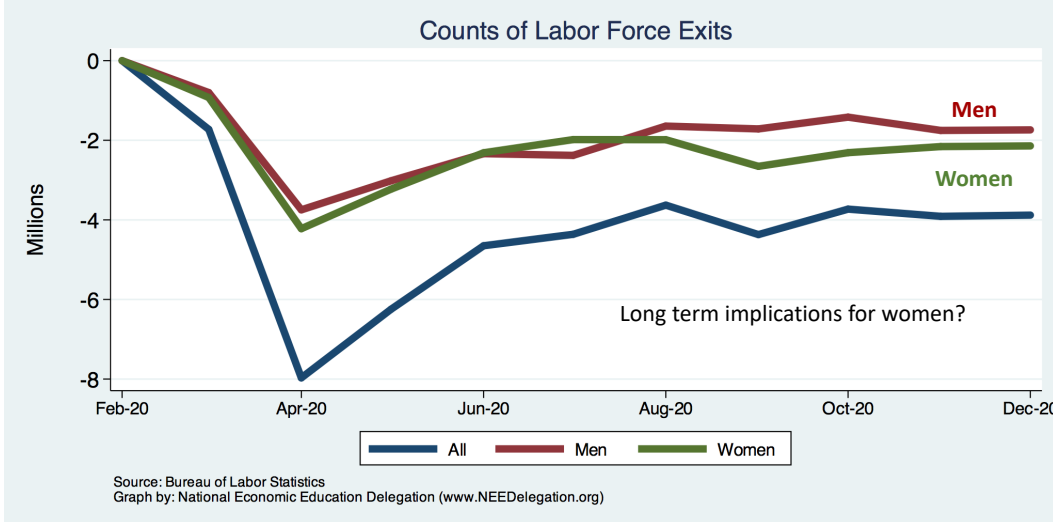
In addition, first round loans went disproportionately to predominantly white Congressional Districts
Bloomberg, 7/30

Improvements to the program in the second stimulus bill

Change in Hours Worked: Hourly Workers

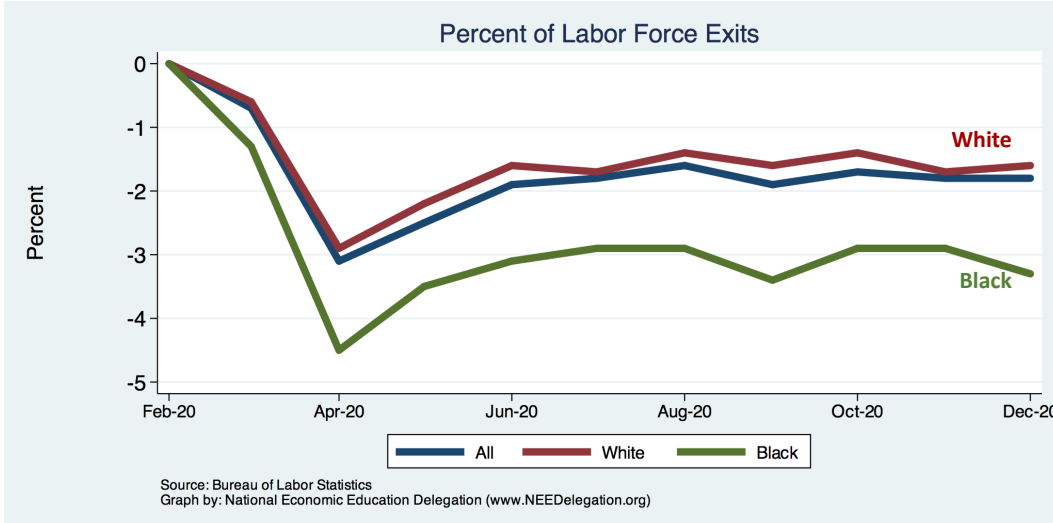


Affecting Women More Than Men



87

Affecting Black Workers More than White



88

Financial Insecurity Before Coronavirus

- 40% of Americans don't have the cash to pay for a \$400 emergency expense
- 25% have no retirement or pension savings
- Less than 60% can answer at least three basic financial literacy questions correctly.
- 1 in 5 of adults knows someone impacted by the opioid crisis.
- About 25% of borrowers who attended a for-profit college are behind on student loan payments compared with about 10% who attended a public or private college



Source: The Federal Reserve, Survey of Household Economics and Decisionmaking,

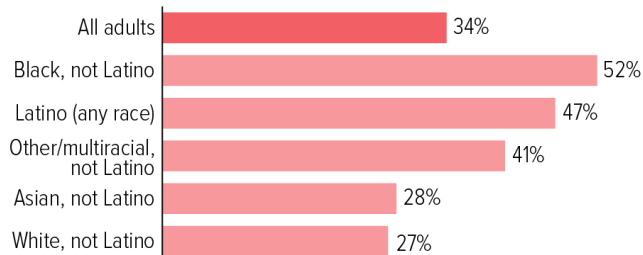
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Low Income Troubles

1 in 3 Adults Had Trouble Paying for Usual Household Expenses in Last 7 Days

Share of adults reporting that it was somewhat or very difficult for their household to pay for usual expenses



Note: Other/multiracial, not Latino = people identifying as American Indian, Alaska Native, Native Hawaiian or Pacific Islander, or more than one race. Percentages exclude individuals who did not respond to the question.

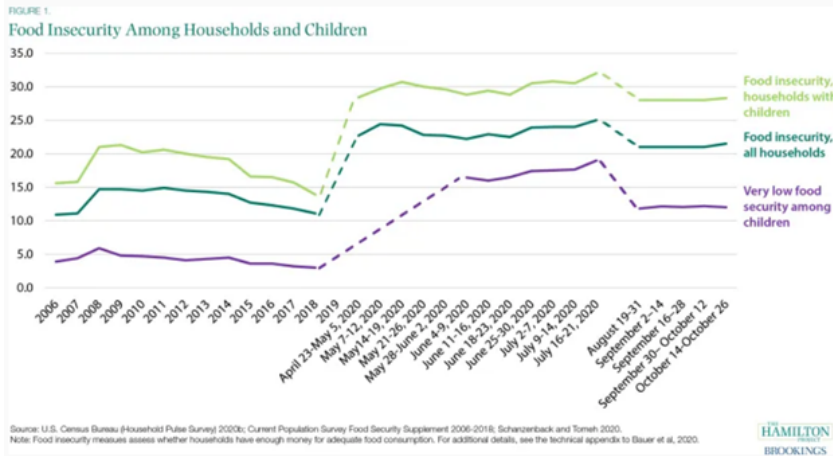
Source: CBPP analysis of Census Bureau Household Pulse Survey tables for October 28 – November 9, 2020

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

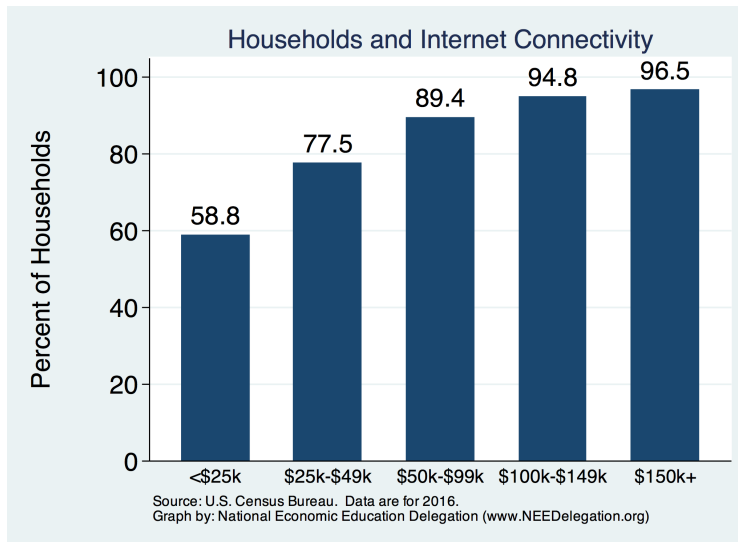


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Food Insecurity is Elevated



Home Schooling - Access to the Internet



Recovery/Recession for Whom?

Top 10 S&P Stocks:

1. Apple
2. Microsoft
3. Amazon
4. Facebook
5. Alphabet Class A shares
6. Alphabet Class C shares
7. Berkshire Hathaway
8. Johnson & Johnson
9. Visa
10. Procter & Gamble

Top 10 S&P Stocks vs. Bottom 490, Year-to-Date Performance



Source: TrendPlaybook.com, Bloomberg

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Rich Getting Richer

- As of November 17, the combined wealth of 647 U.S. billionaires **increased by almost \$960 billion** since mid-March, the beginning of the pandemic lockdown.
- Since March, there are **33 new billionaires** in the U.S.
- Driving this exploding inequality are 12 companies whose profits are coming at the expense of workers and communities.
- They include retailers like **Walmart, Amazon, Target, and Dollar Tree** and **Dollar Store**, gig economy companies like **Instacart**, and food producers like **Tyson Foods** and private equity firms like **BlackRock**.

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Gains by American Billionaires

WEALTH OF U.S. BILLIONAIRES GROWS \$1.06 TRILLION (36%) IN 9 MONTHS
March 18, 2020 - December 7, 2020

First Name	Net Worth Mar. 18, 2020 (\$ Billions)	Dec. 7 Real Time Worth (\$ Billions)	Wealth Growth, Mar. 18 to Dec. 7, 2020 (\$ Billions)	% Wealth Growth, Mar. 18 to Dec. 7, 2020	Net Worth Feb. 8, 2019 (\$ Billions)	Wealth Growth, Feb. 8, 2019 to Dec. 7, 2020 (\$ Billions)	% Wealth Growth, Feb. 8, 2019 to Dec. 7, 2020	Source
Jeff Bezos	\$113.0	\$184.4	\$71.4	63.2%	\$131.0	\$53.4	40.8%	Amazon
Elon Musk	\$24.6	\$143.1	\$118.5	481.7%	\$22.3	\$120.8	541.7%	Tesla, SpaceX
Bill Gates	\$98.0	\$118.7	\$20.7	21.1%	\$96.5	\$22.2	23.0%	Microsoft
Mark Zuckerberg	\$54.7	\$104.8	\$50.1	91.7%	\$62.3	\$42.5	68.3%	Facebook
Warren Buffett	\$87.5	\$86.5	\$19.0	28.1%	\$82.5	\$4.0	4.8%	Berkshire Hathaway
Larry Ellison	\$59.0	\$82.0	\$23.0	38.9%	\$62.5	\$19.5	31.1%	Oracle
Larry Page	\$50.9	\$79.8	\$28.9	56.9%	\$50.8	\$29.0	57.2%	Google
Sergey Brin	\$49.1	\$77.6	\$28.5	58.0%	\$49.8	\$27.8	55.8%	Google
Steve Ballmer	\$52.7	\$72.9	\$20.2	38.4%	\$41.2	\$31.7	77.0%	Microsoft
Alice Walton	\$54.4	\$69.0	\$14.6	28.8%	\$44.4	\$24.6	55.4%	Walmart
Jim Walton	\$54.6	\$68.8	\$14.2	25.9%	\$44.6	\$24.2	54.2%	Walmart
Rob Walton	\$54.1	\$68.4	\$14.3	26.5%	\$44.3	\$24.1	54.5%	Walmart
MacKenzie Scott	\$36.0	\$59.8	\$23.8	66.2%	N/A	N/A	N/A	Amazon
Michael Bloomberg	\$48.0	\$54.9	\$6.9	14.4%	\$55.5	-\$0.6	-1.1%	Bloomberg LP
Phil Knight	\$29.5	\$52.1	\$22.6	76.5%	\$33.4	\$18.7	55.9%	Nike
SUBTOTAL	\$846.1	\$1,322.8	\$476.7	56.3%	\$821.1	\$501.7	61.1%	
ALL OTHERS	\$2,101.4	\$2,689.0	\$587.6	28.0%	\$2,289.9	\$399.1	17.43%	
TOTAL	\$2,947.5	\$4,011.8	\$1,064.3	36.1%	\$3,111.0	\$900.8	29.0%	

Sources: All data in table is from Forbes and available here. March 18, 2020 data: Forbes, "Forbes Publishes 34th Annual List Of Global Billionaires", March 18, 2020; Dec. 7, 2020 data: Forbes, "The World's Real-Time Billionaires: Today's Winners and Losers" (accessed Dec. 9, 2020); Feb. 8, 2020 data: Forbes 2019 World

Thank you!

Any Questions?

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