



# *Osher Lifelong Learning Institute, Winter 2022*

## **Contemporary Economic Policy**

American University  
March-May, 2022

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



# 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



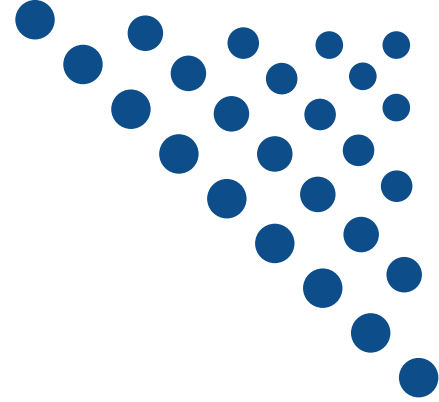
# Course Outline

- **Contemporary Economic Policy**

- Week 1 (3/11): US Economy & Coronavirus Economics
- Week 2 (3/18): Federal Debt (Brian Peterson, Central College)
- Week 3 (3/25): Trade and Globalization (Alan Deardorff, Univ. of Michigan)
- Week 4 (4/1): Healthcare Economics (Veronika Dolar, SUNY-Old Westbury)
- Week 5 (4/8): Economics of Immigration (Jennifer Alix-Garcia, Oregon St. Univ.)
- **Week 6 (4/15): Economic Inequality (Kyle Montanio, Colorado University - Denver)**
- Week 7 (4/22): Economic Mobility (Kathryn Wilson, Kent State University)
- Week 8 (4/29): Discrimination in US Policy History (Jon Haveman, NEED)
- Week 9 (5/6): The Black-White Wealth Gap (Mike Shor, Univ. of Connecticut)
- Week 10 (5/13): The Gender Wage Gap (Mallika Pung, Univ. of New Mexico)



# 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 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.**





**NATIONAL ECONOMIC  
EDUCATION DELEGATION**

# **Economic Inequality**

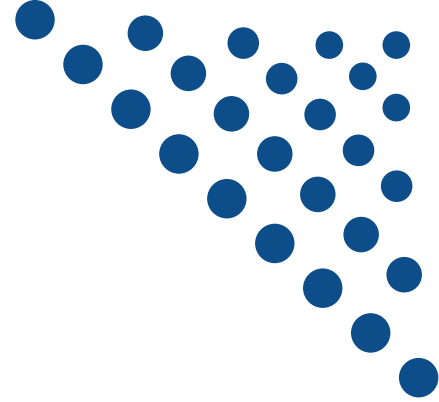
**Kyle Montanio, Ph.D.**  
*University of Colorado, Denver*  
*April 15, 2022*

# Credits and Disclaimer

- **This slide deck was authored by:**
  - Jon Haveman, Executive Director of NEED
- **This slide deck was reviewed by:**
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  - 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**



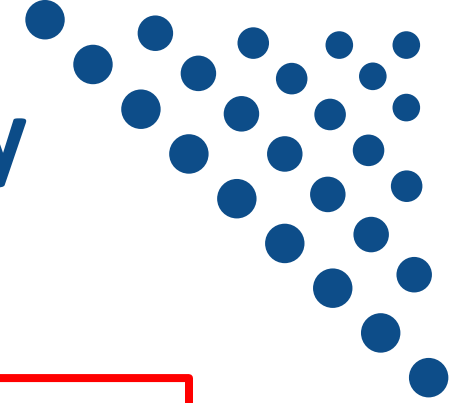
# Economic Inequality: Income

- **Definition:**

- The extent to which the distribution of income deviates from complete equality
- The dispersion of income/wealth throughout the economy



# 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



# Different Ways of Thinking About Inequality

- **Income Inequality**

- Before taxes and transfers
- After taxes and transfers

- **Wealth Inequality**

- **Consumption Inequality**

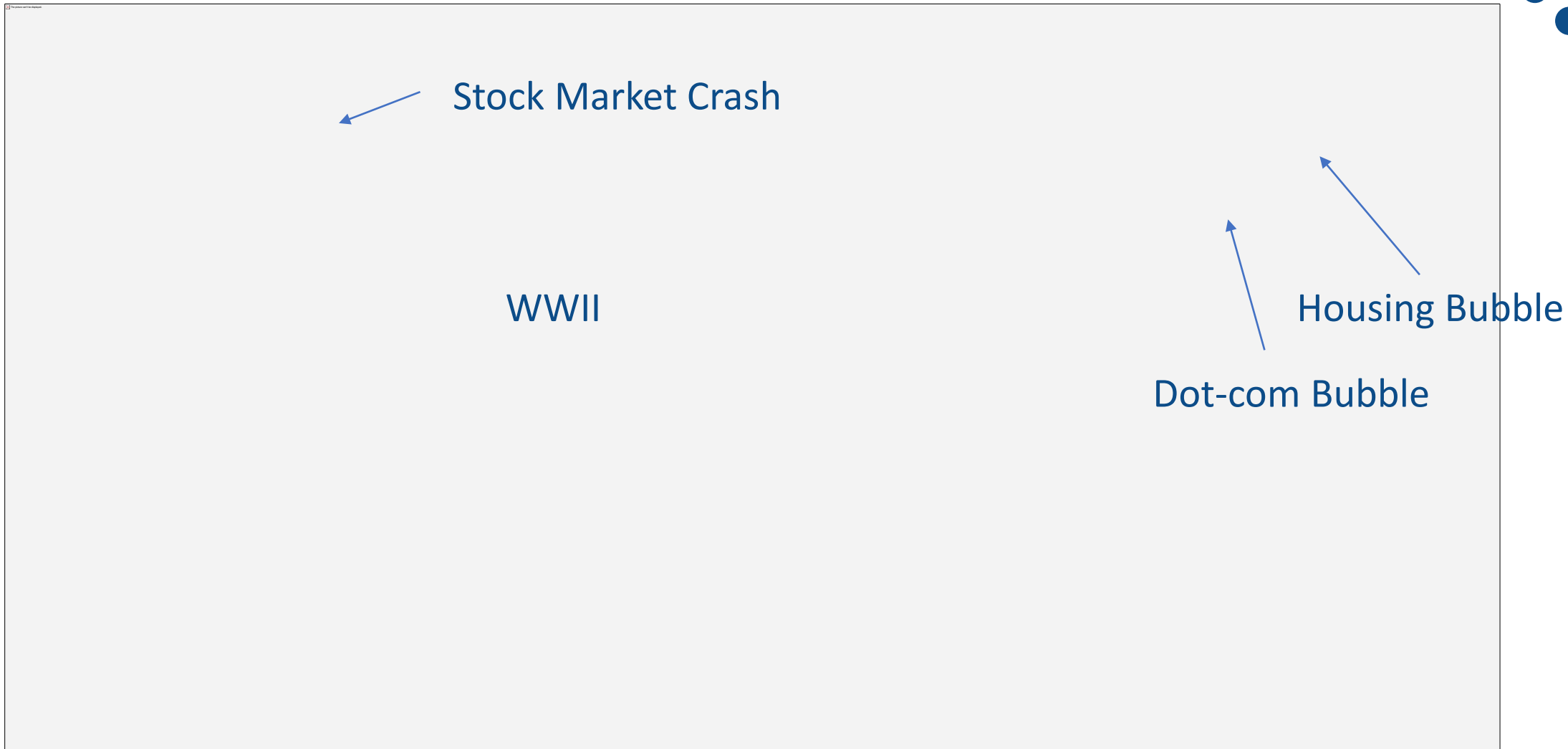
How does wealth differ from income?

**Income** is measured over a period of time, say one year.

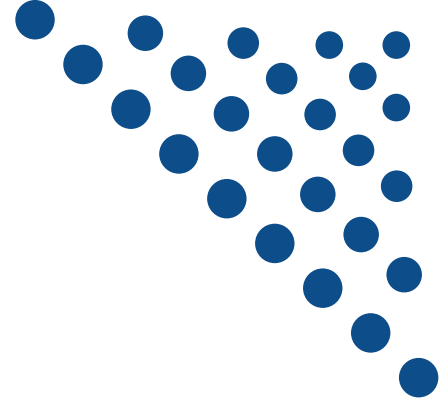
**Wealth** is one's accumulated savings, including physical and financial assets (net worth).



# National Income Inequality: Share of Top 10%



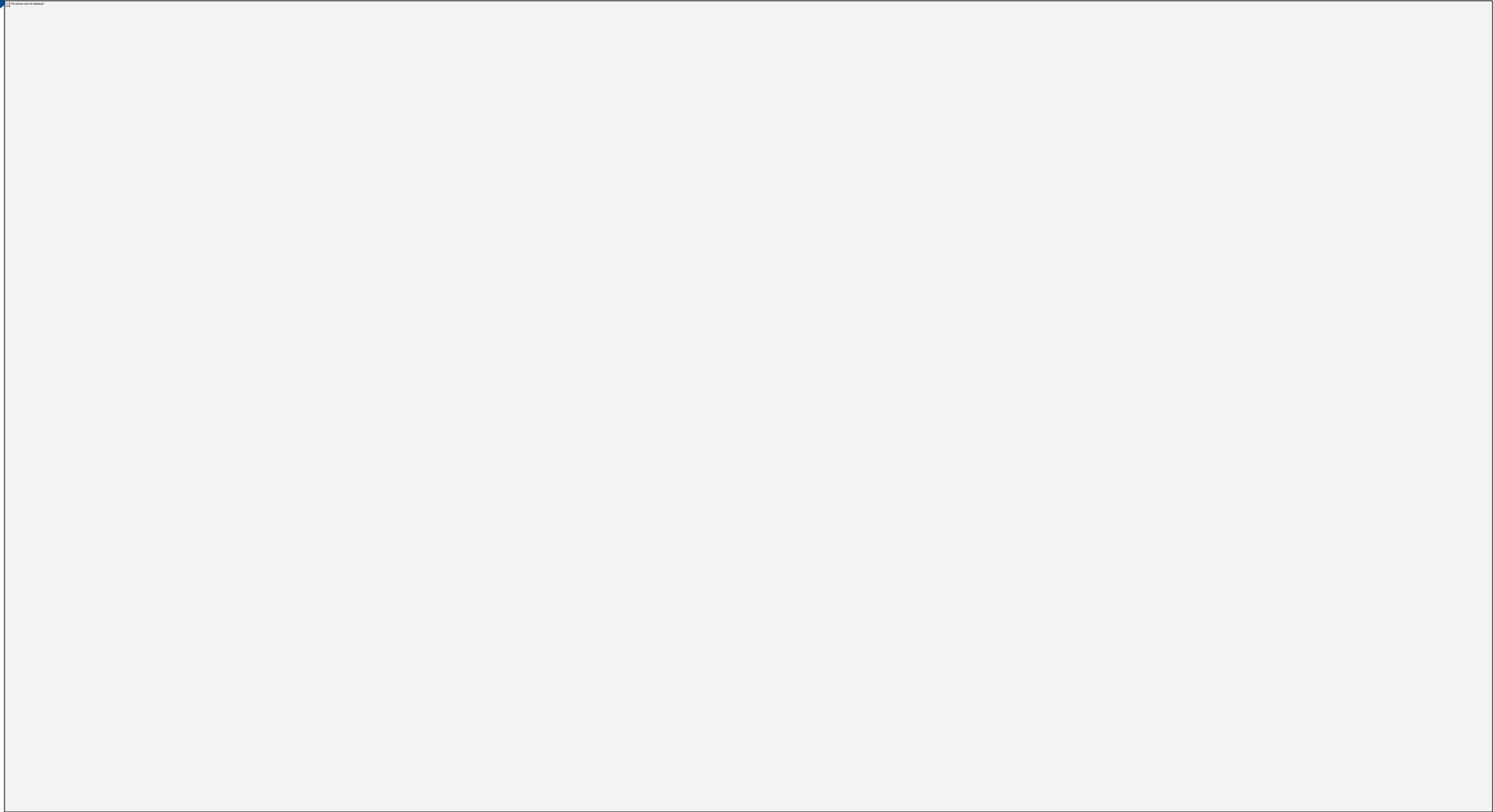
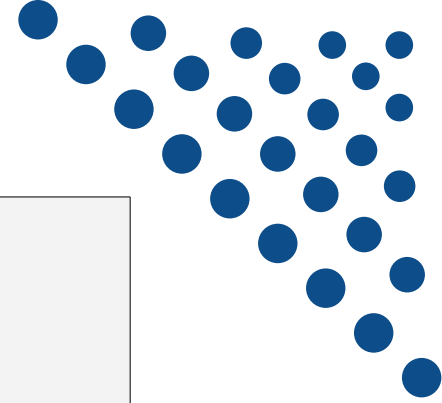
# Recent Facts on Income Inequality



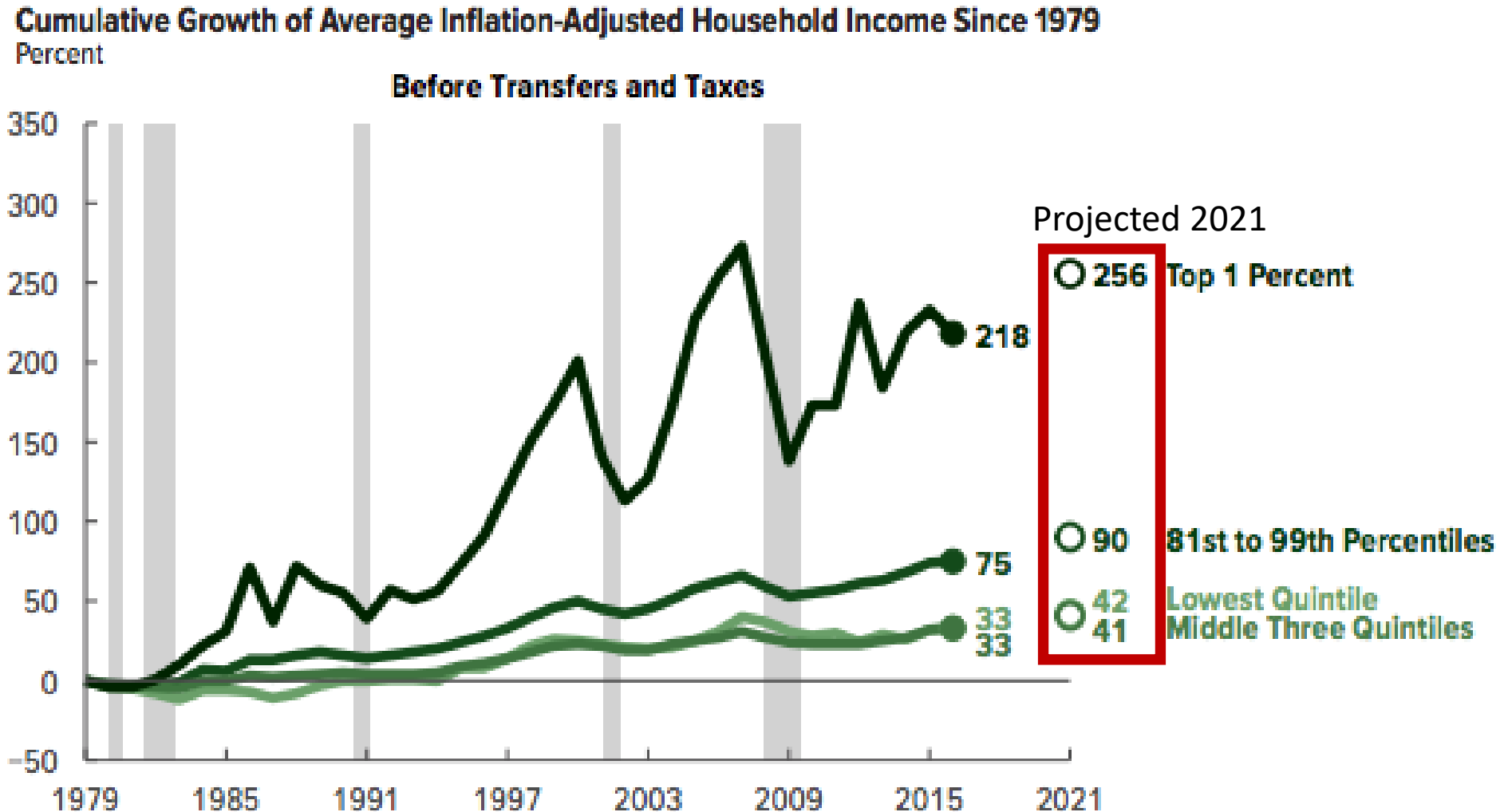
- **Beginning in the 1970s, the income gap widened.**
  - Income in the middle and lower parts of the distribution slowed
  - Incomes at the top continued to grow strongly
  - Income shares at the very top of the distribution rose to levels last seen more than 80 years ago



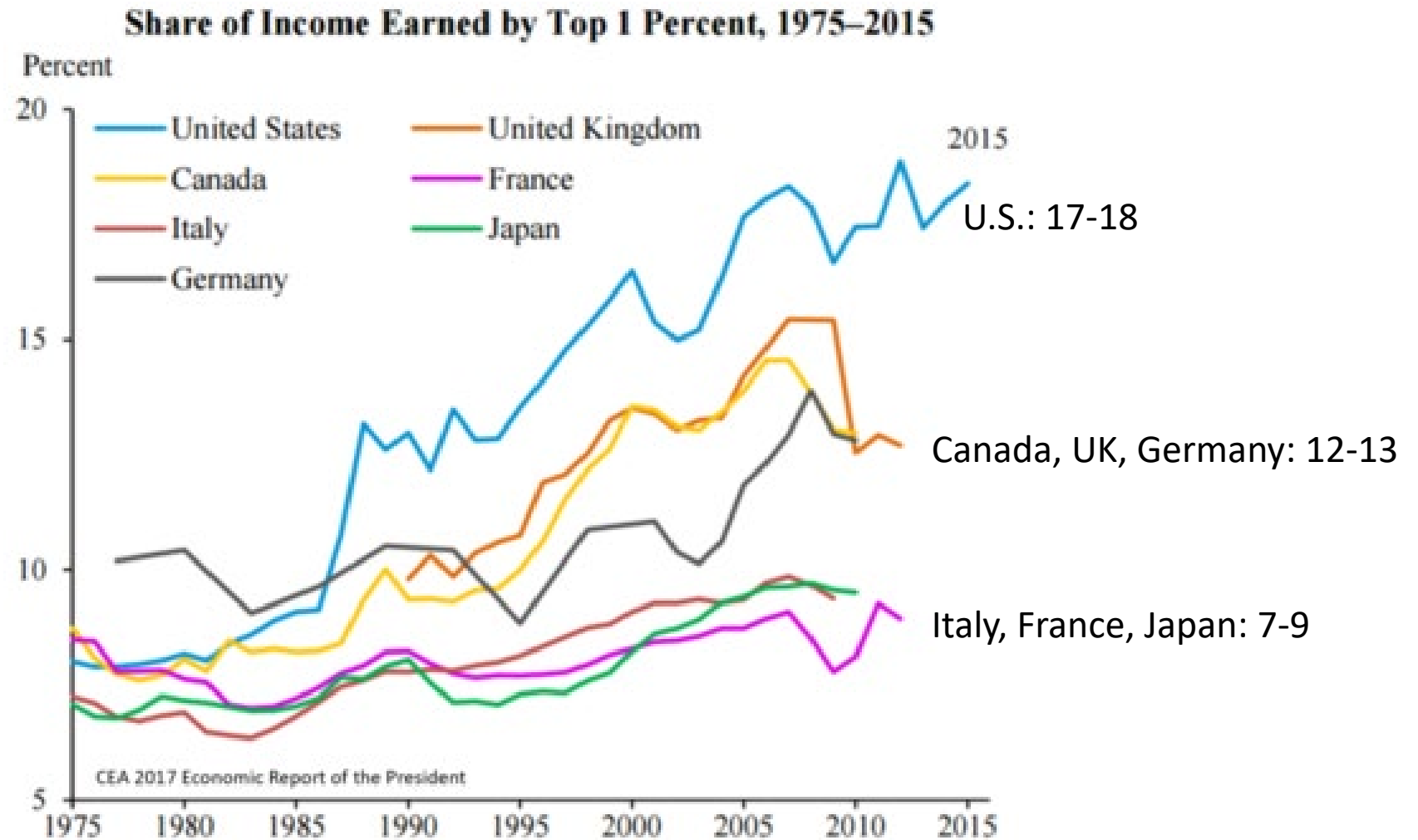
# The Abrupt Increase in Inequality



# Most of the Action is at the Top: Pre-Tax



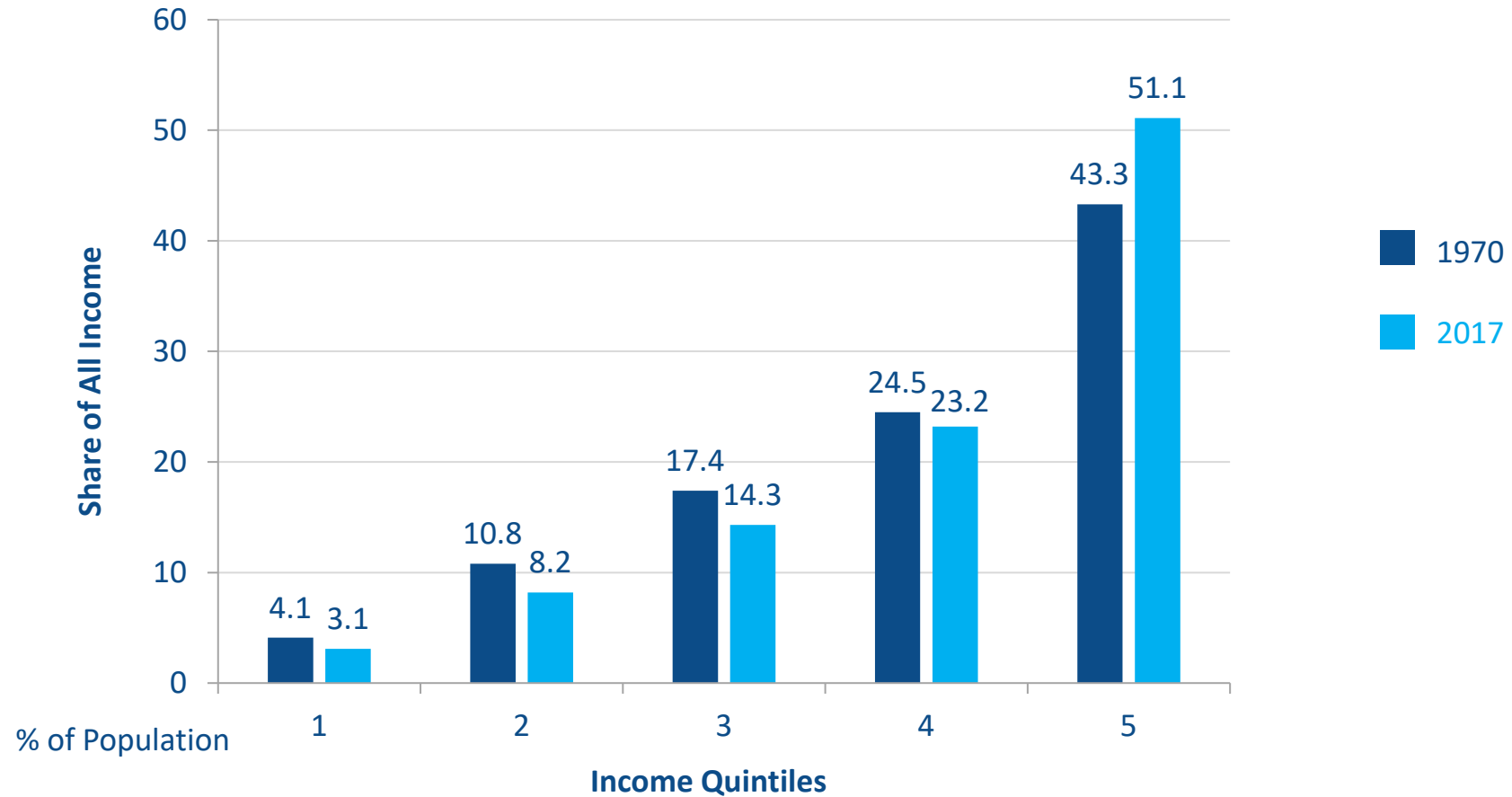
# An International Perspective: Comparables



Source: World Wealth and Income Database.



# Income Share Changes Between 1970 and 2017



# Quintile Income Cutoffs



# 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



# Income Changes from Growing Inequality

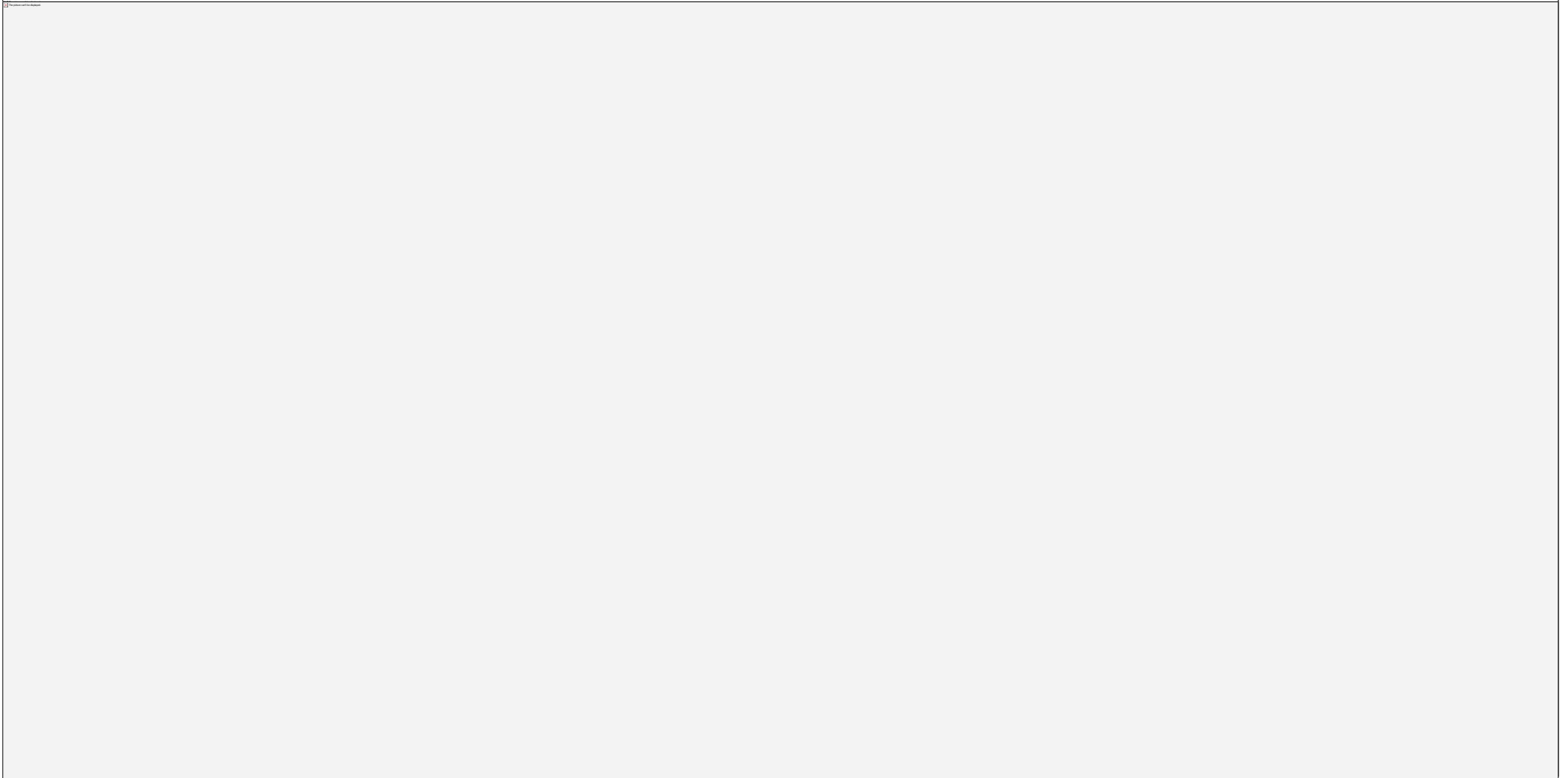
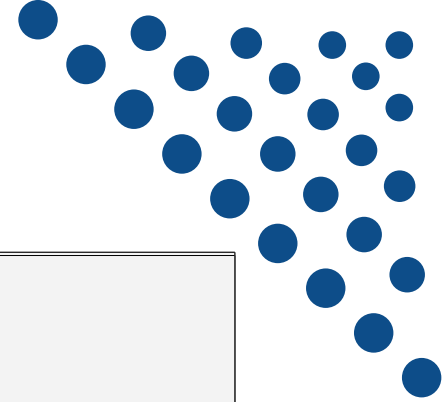
Middle class hit hardest

INCOME GROUP	TOTAL LOSS/GAIN IN ANNUAL INCOME*	AVERAGE LOSS/GAIN PER HOUSEHOLD PER YEAR*
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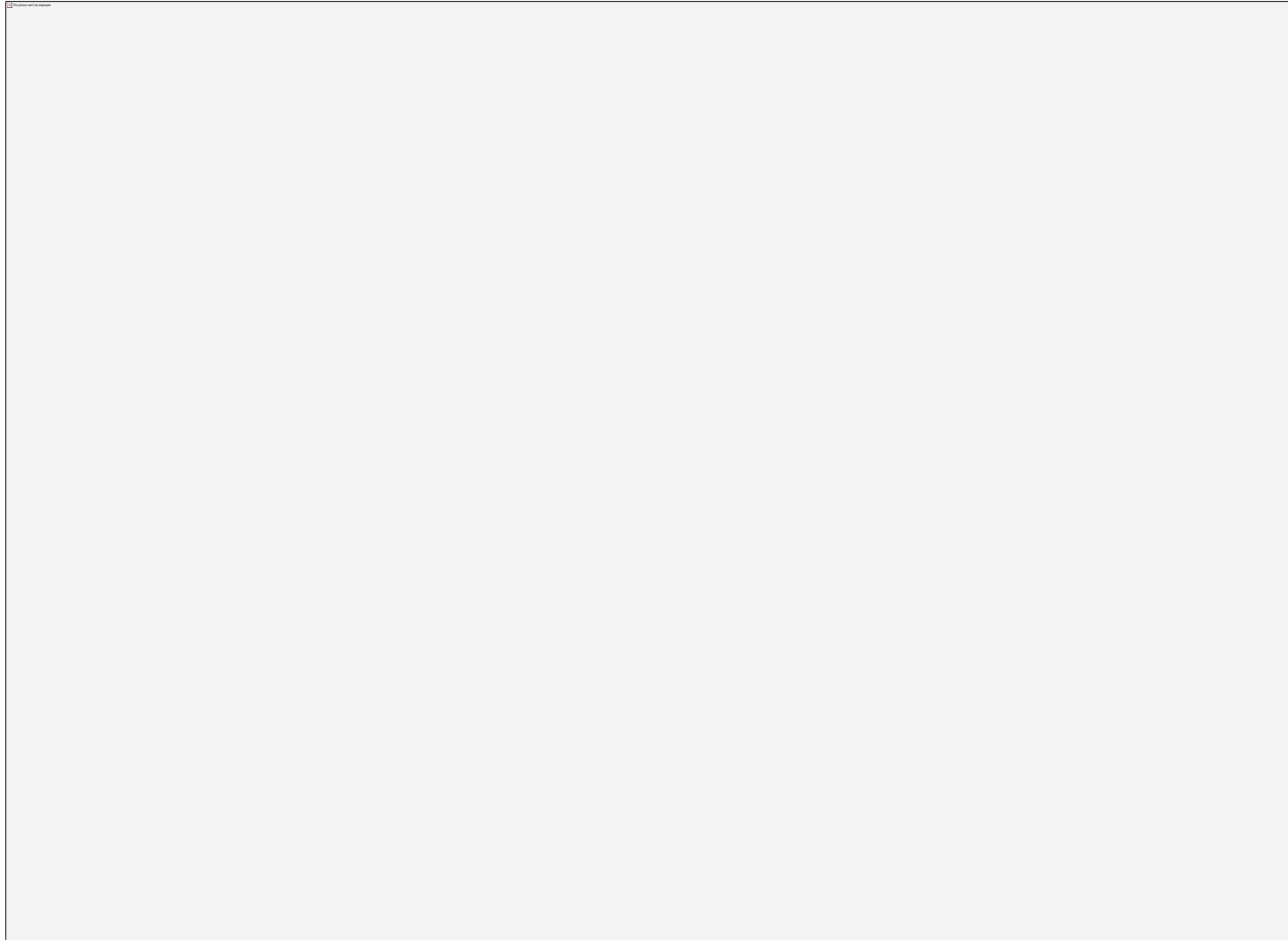
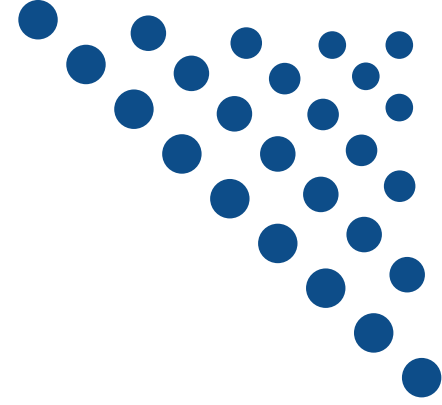
\* Compared to what incomes would have been had all income groups seen the same growth rate in 1979-2005 as they did during previous decades.  
Source: Jacob Hacker, Yale University; Paul Pierson, UC-Berkeley



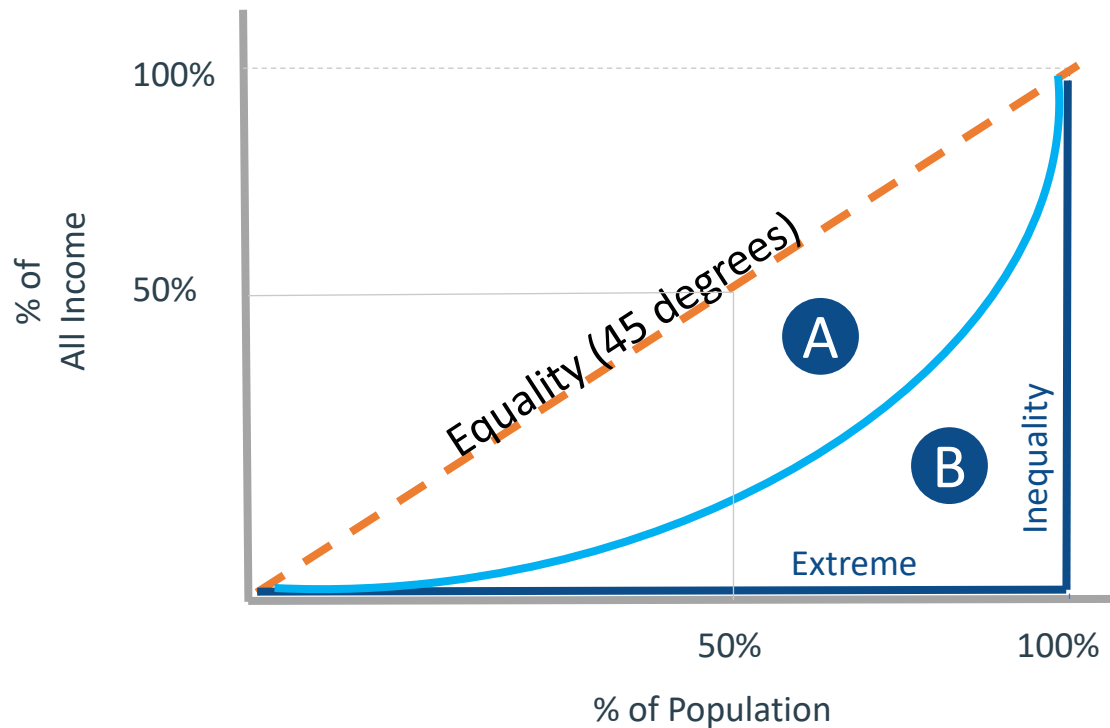
# How Has Inequality Influenced Incomes?



# Growth Has Been Primarily at the Very Top



# The Gini Coefficient

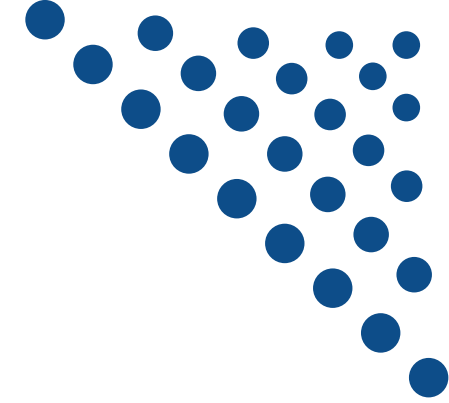


$$\text{Gini} = \frac{A}{A + B} \times 100$$

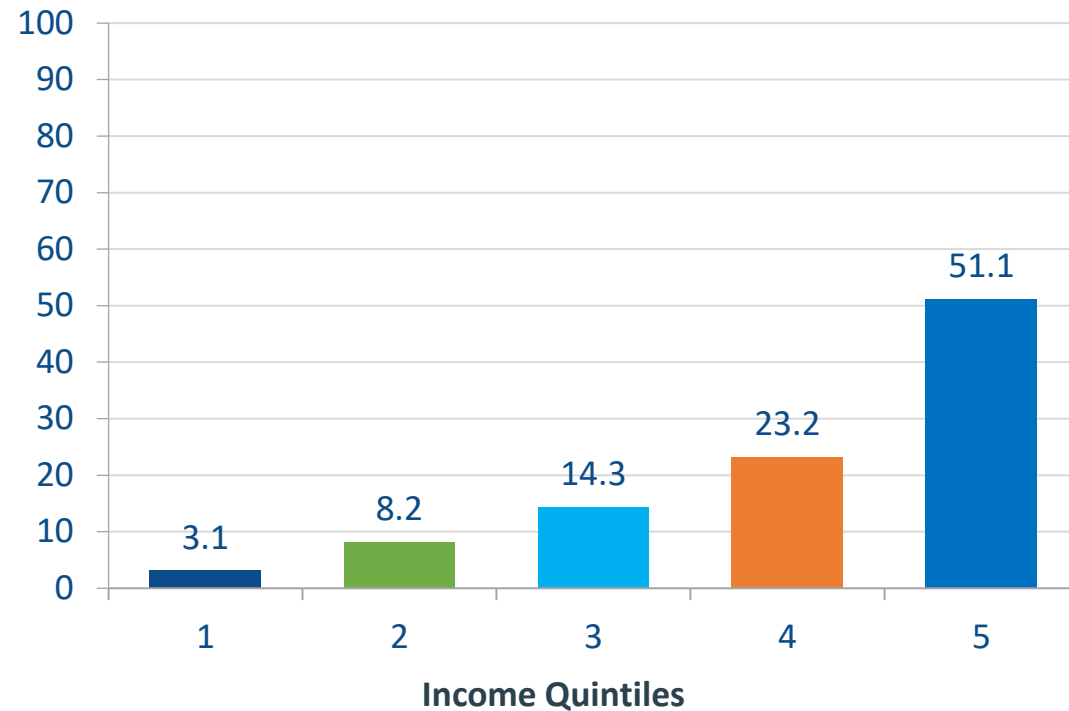
Bigger A: More inequality  
Smaller A: Less inequality



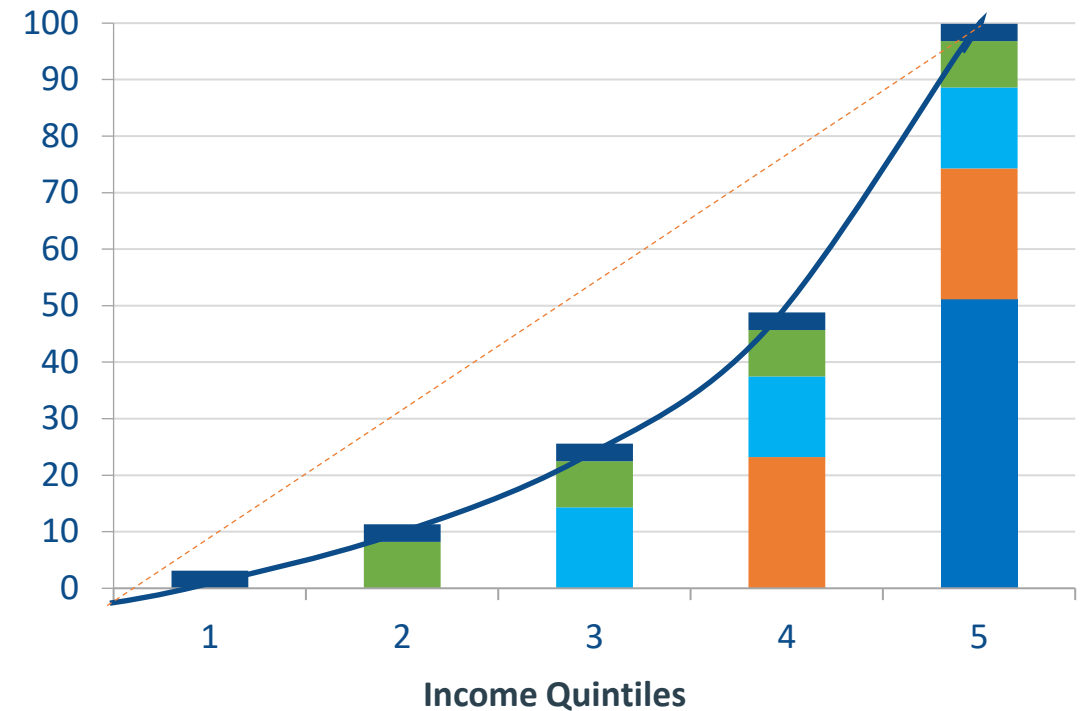
# Forming the GINI Coefficient: 2015



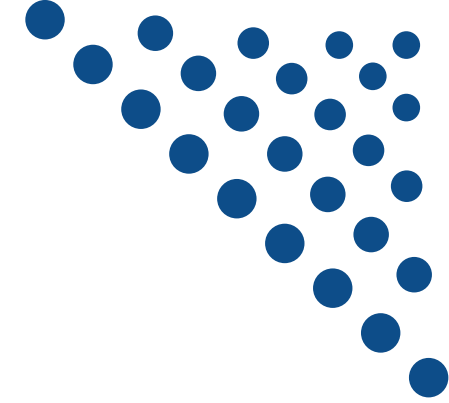
Quintile Shares of Income



CUMULATIVE Quintile Shares of Income



# Income and Wealth Inequality



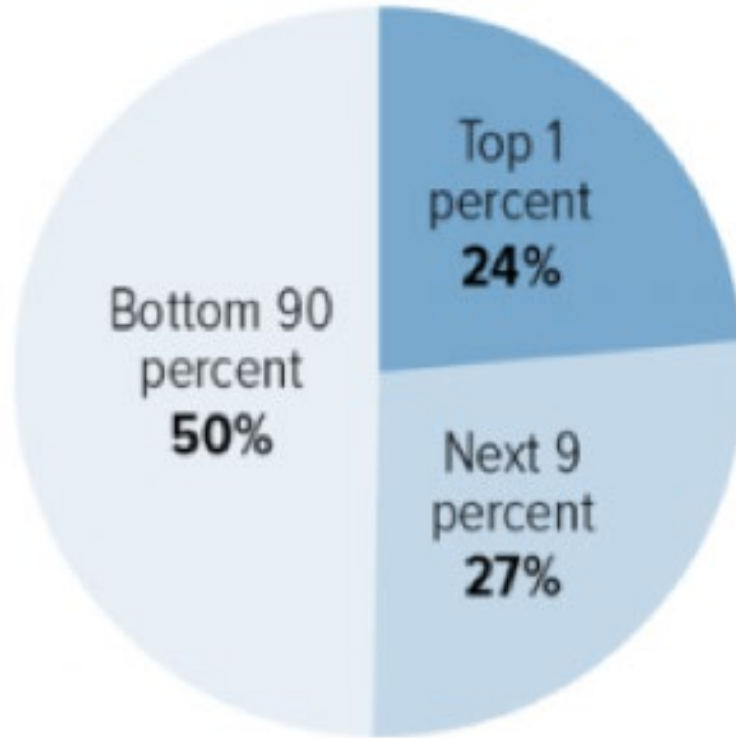
## Income Inequality (Gini)

- US: 48.4%
- DC: 54.2% (in 2017)

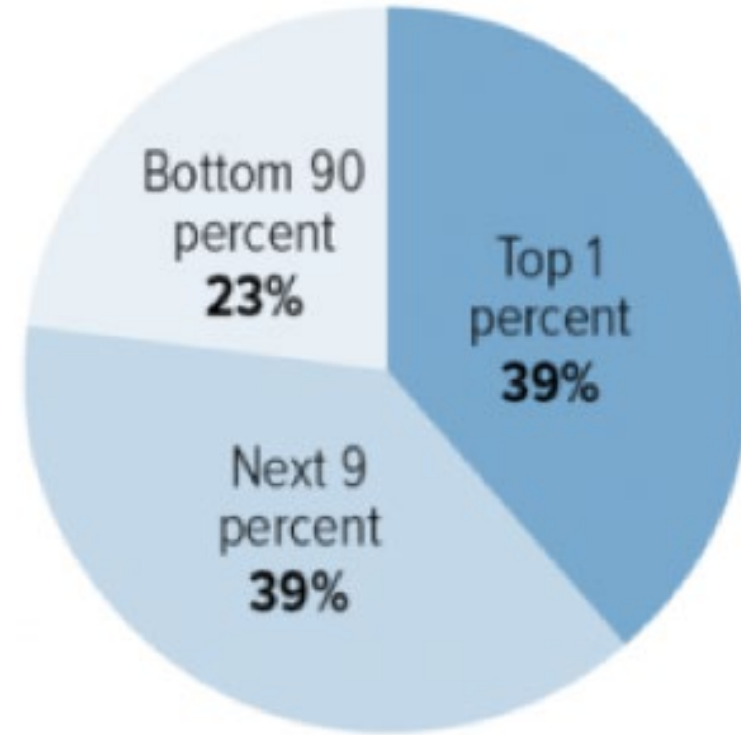


# Wealth Inequality Exceeds Income Inequality

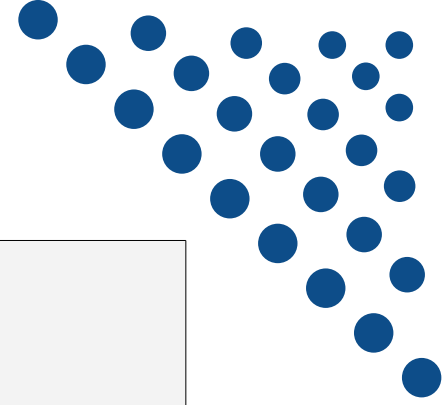
Distribution of before-tax income, 2016



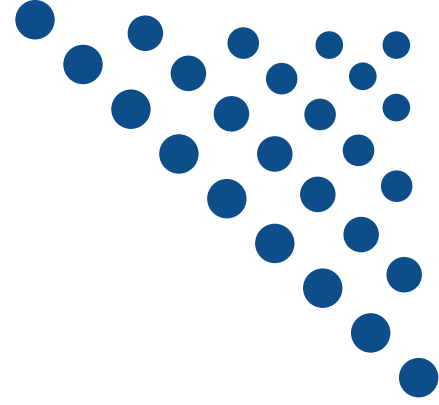
Distribution of wealth, 2016



# Wealth Concentration Has Been Rising



# Where Does Inequality Come From?



- **Labor Characteristics**

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

- **Market Forces**

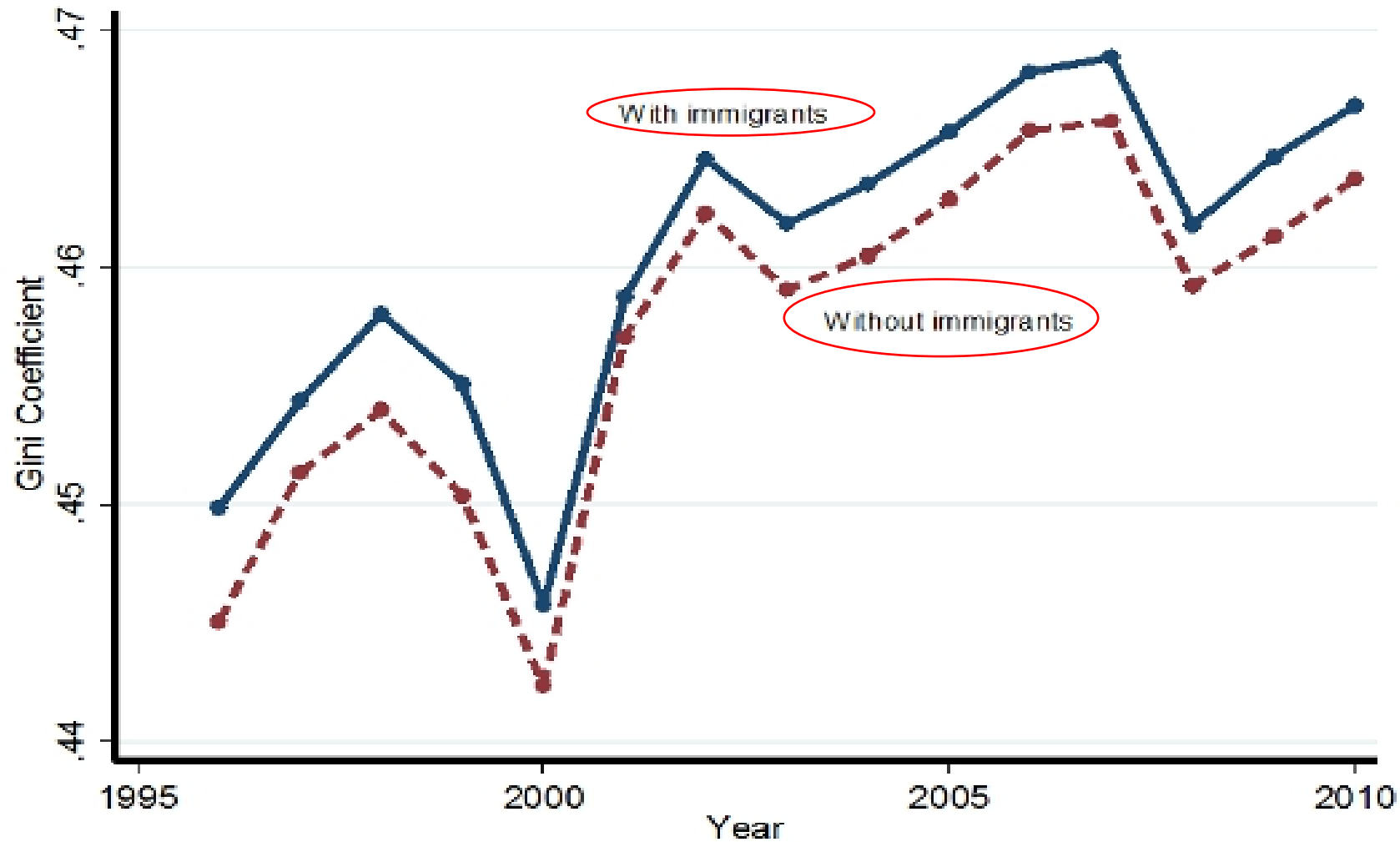
- Technology
- Changing demand patterns
- Competition for labor

- **Government Policy**

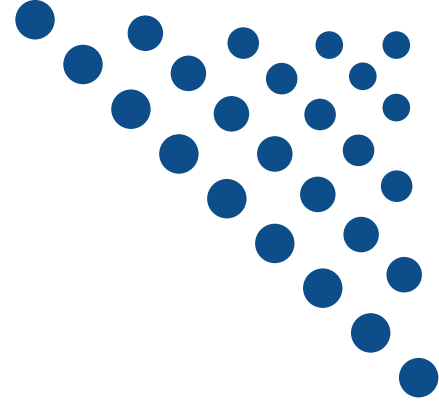
- Market influence
- Redistribution



# Immigration and Inequality



# 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**

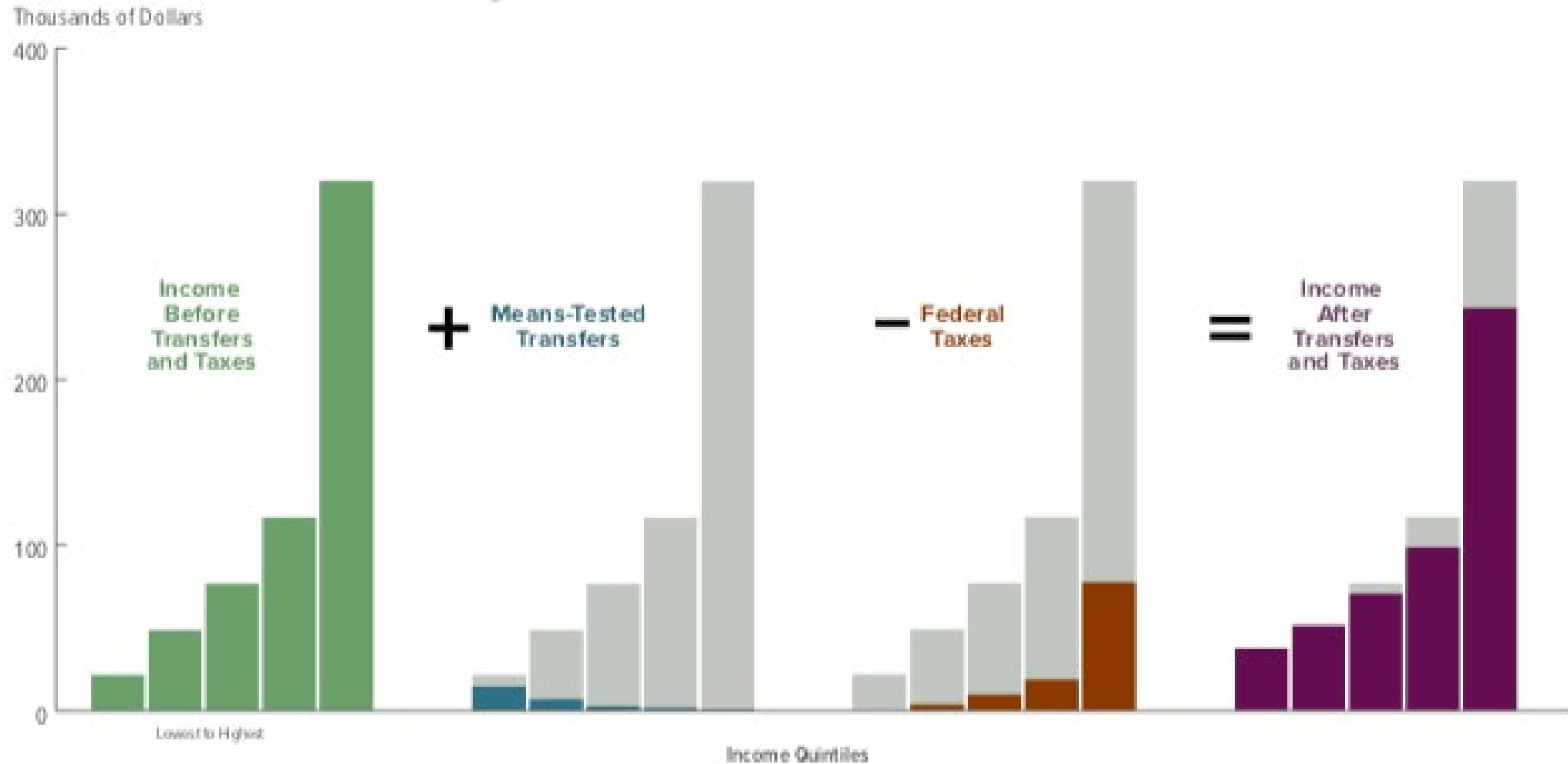
- Tax Rates
- Income support
  - Direct aid
  - Food stamps



# Taxes, Transfers, and Income: 2018



Average Income, Means-Tested Transfers, and Federal Taxes



# Tax and Transfer Programs: Income Shares

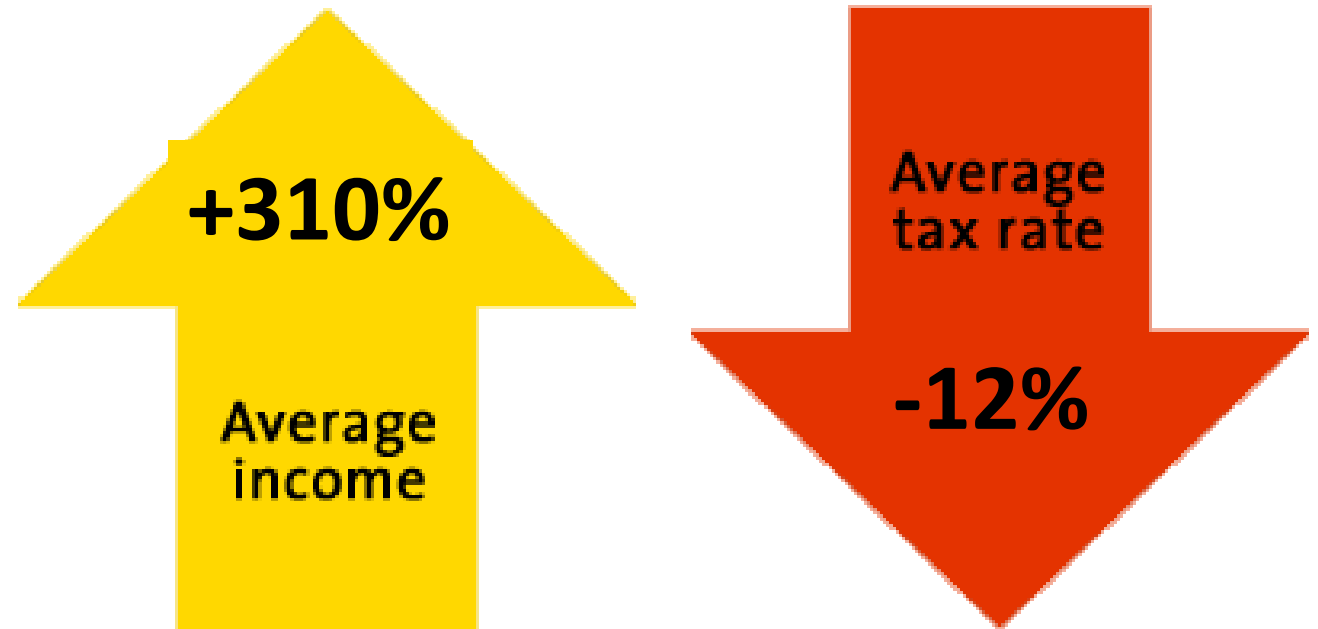
2018



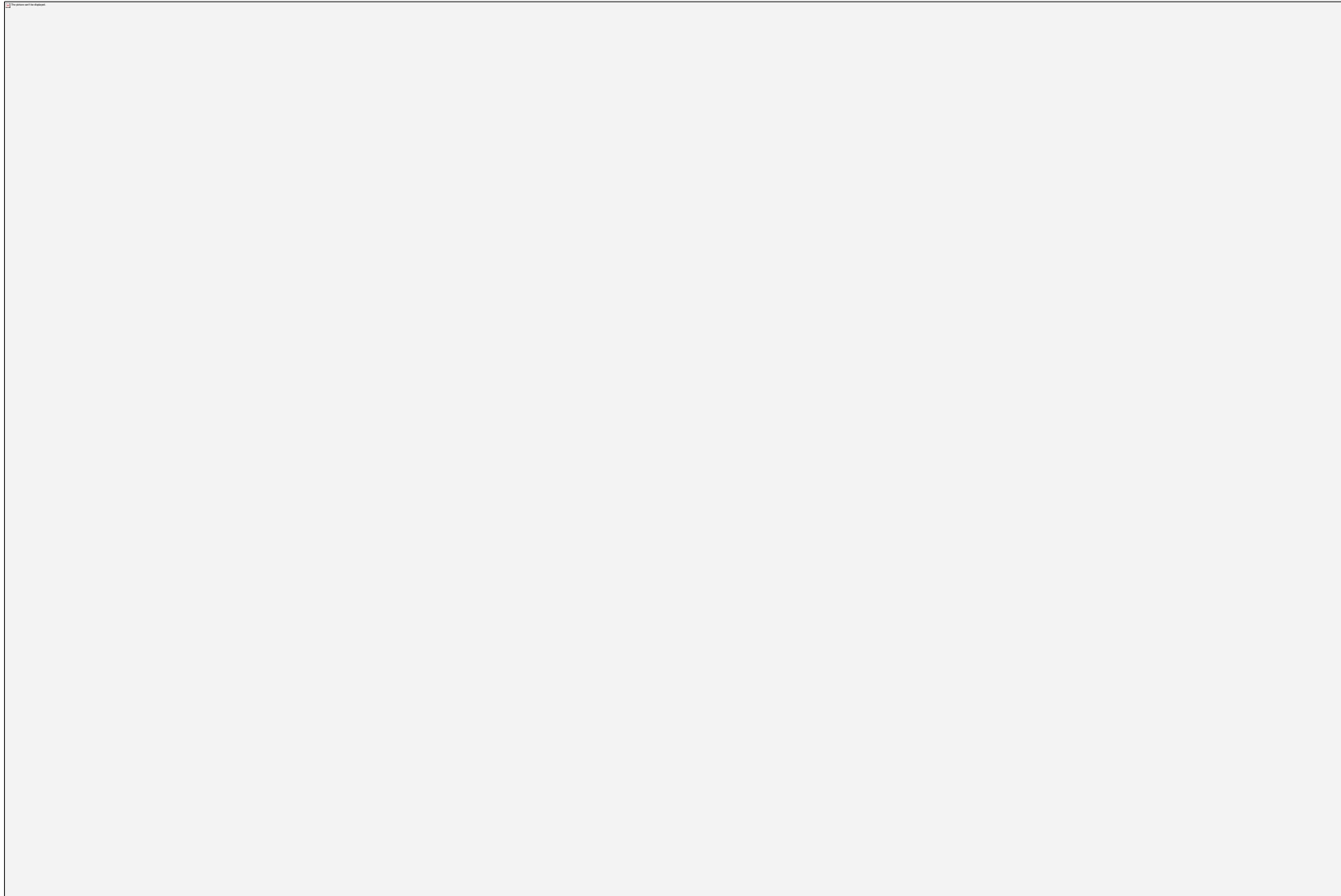
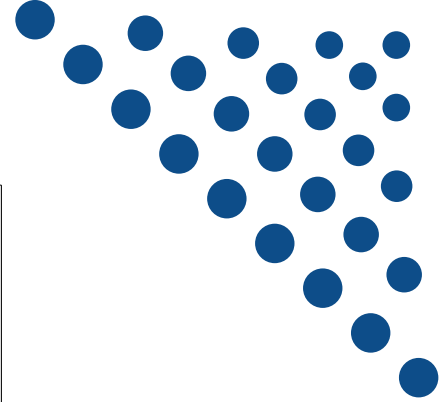
# What About Tax Rates?

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

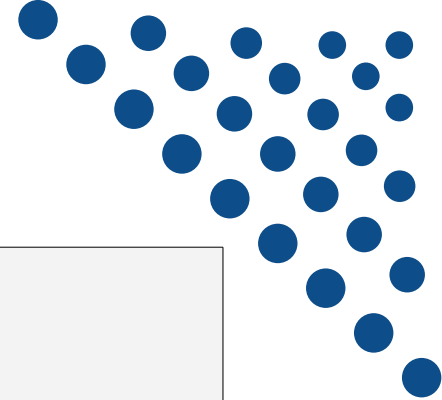
**400 TAXPAYERS WITH HIGHEST INCOMES**  
1992-2014



# Tax Rates Over Time



# The Top Tax Rate and Income Cutoff



Massive tax cut for those with  
More than \$4 million in income.

And for those with more than  
About \$200,000 in income.



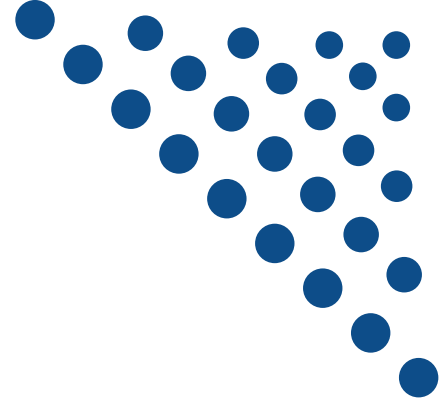
# Dramatically Less Progressivity in the Tax Code



1961 to 2011



# 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



# 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



# Labor Income is Unhinged from Productivity



## Why?

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



# Declining Unionization



## Unionization Rates

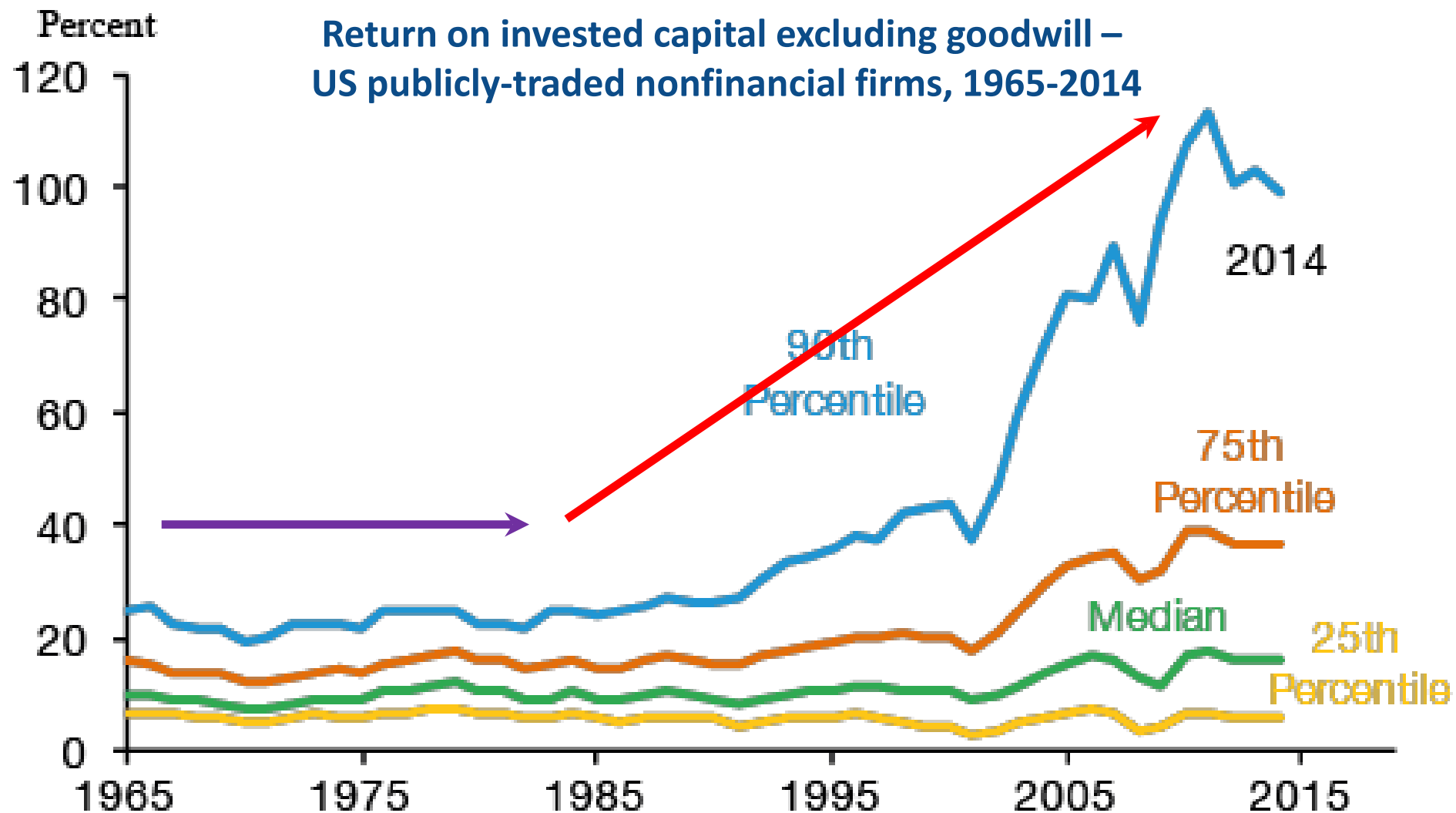
- **1983:** 20.1%
- **2021:** 10.3%

## Unionization Rates

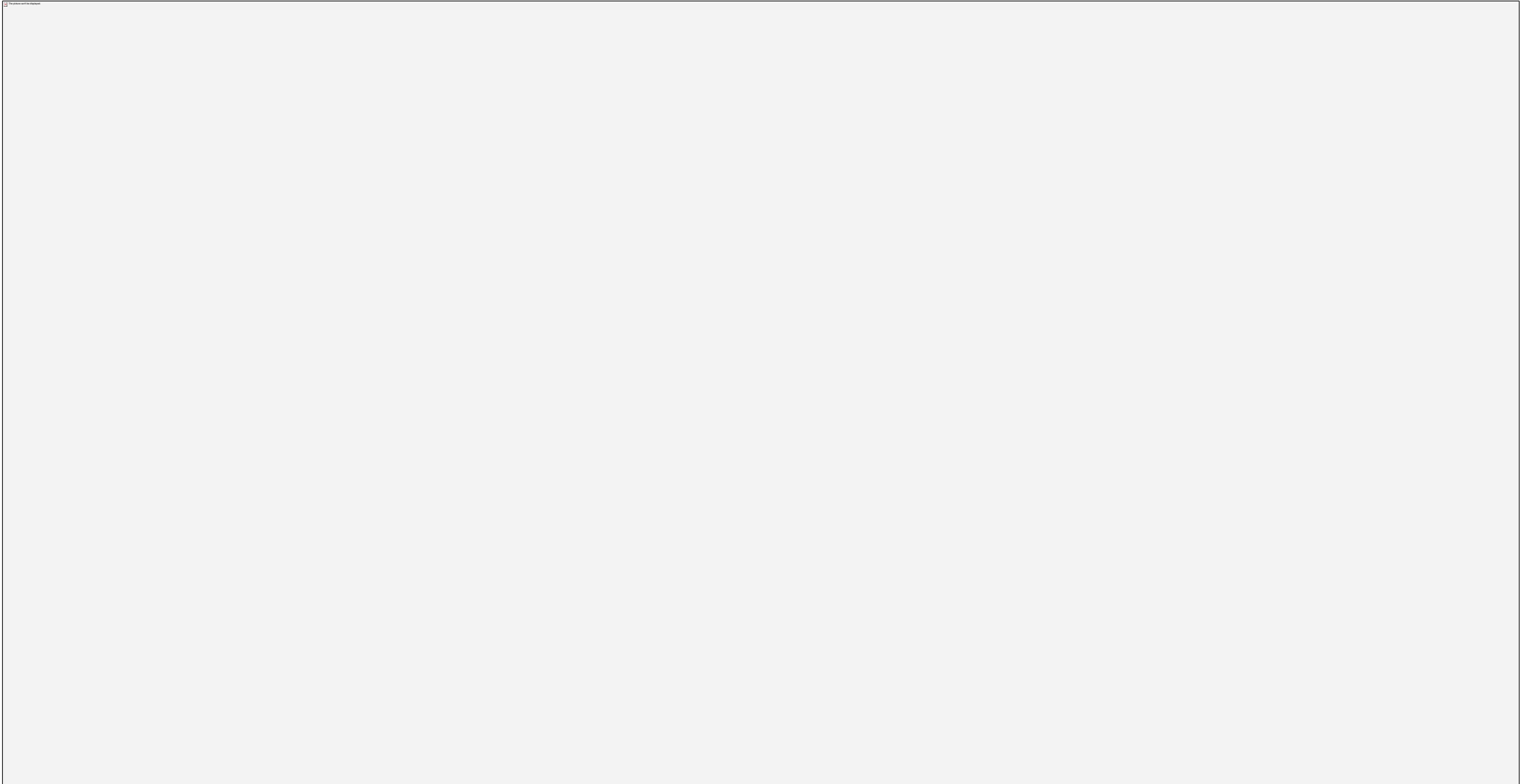
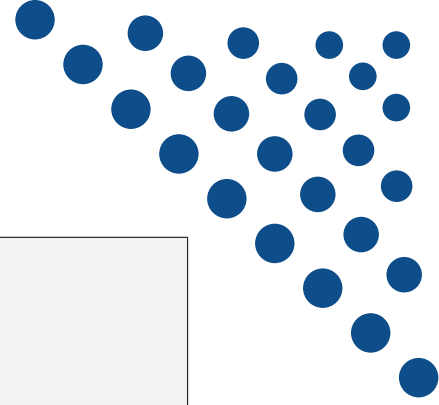
- **Public:** 33.9%
- **Private:** 6.1%



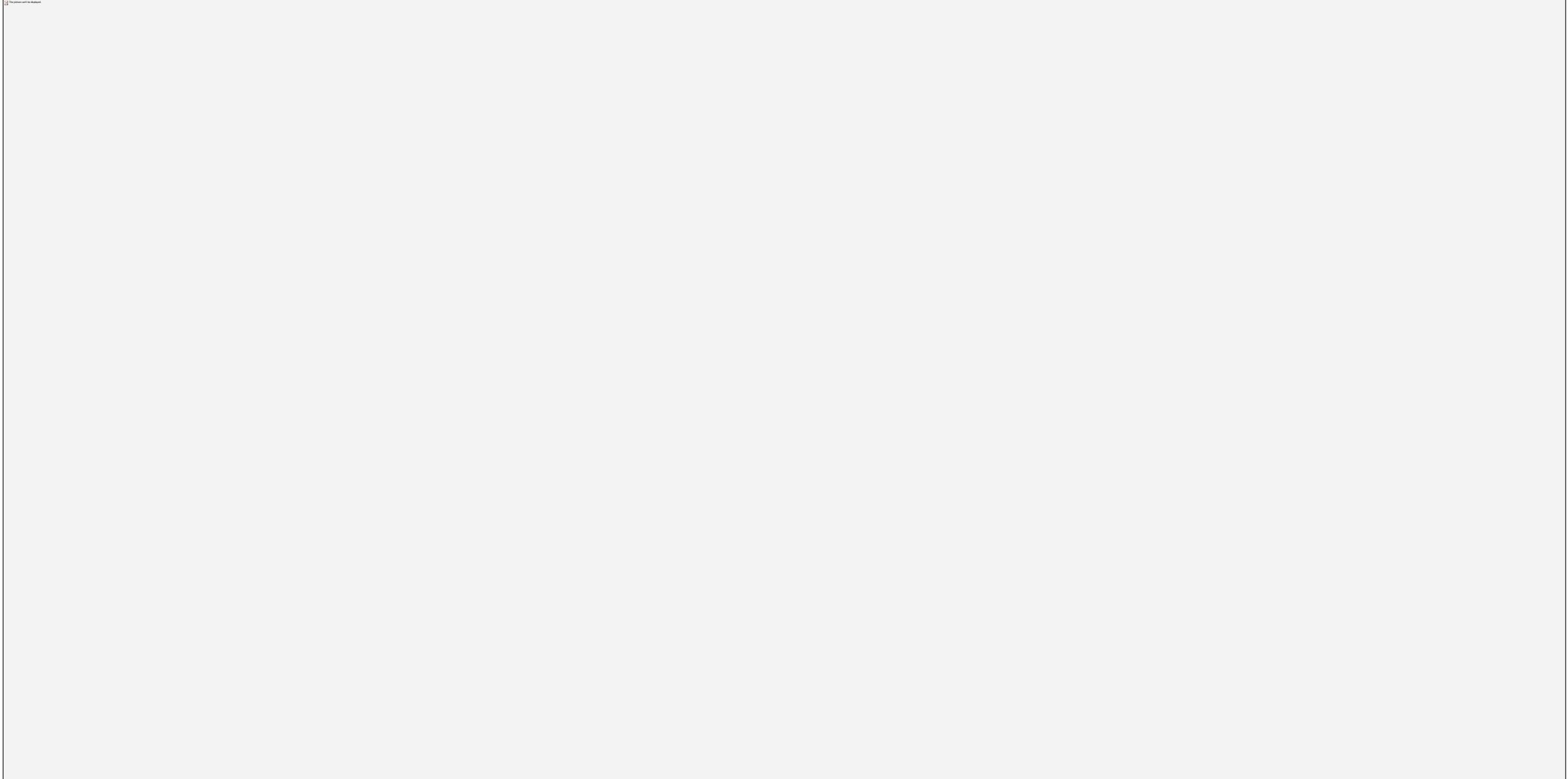
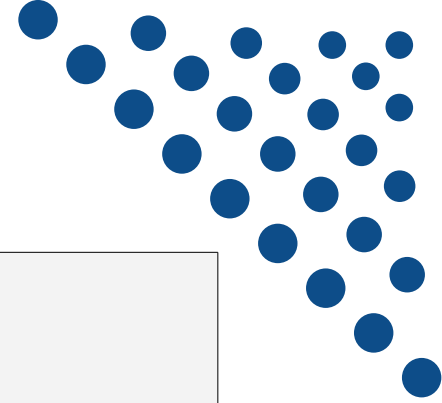
# Competition in the Economy



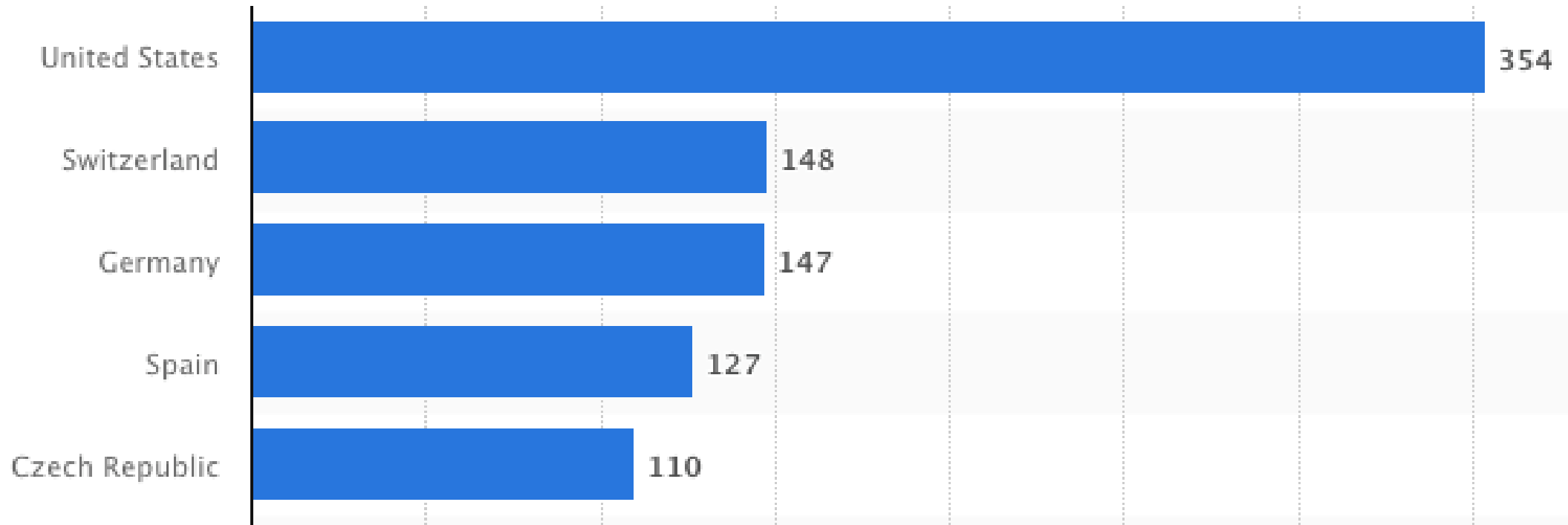
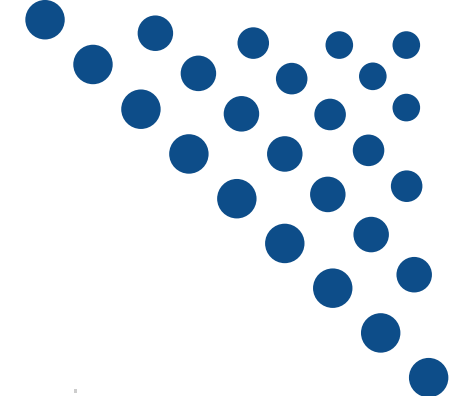
# Growing Revenue Concentration



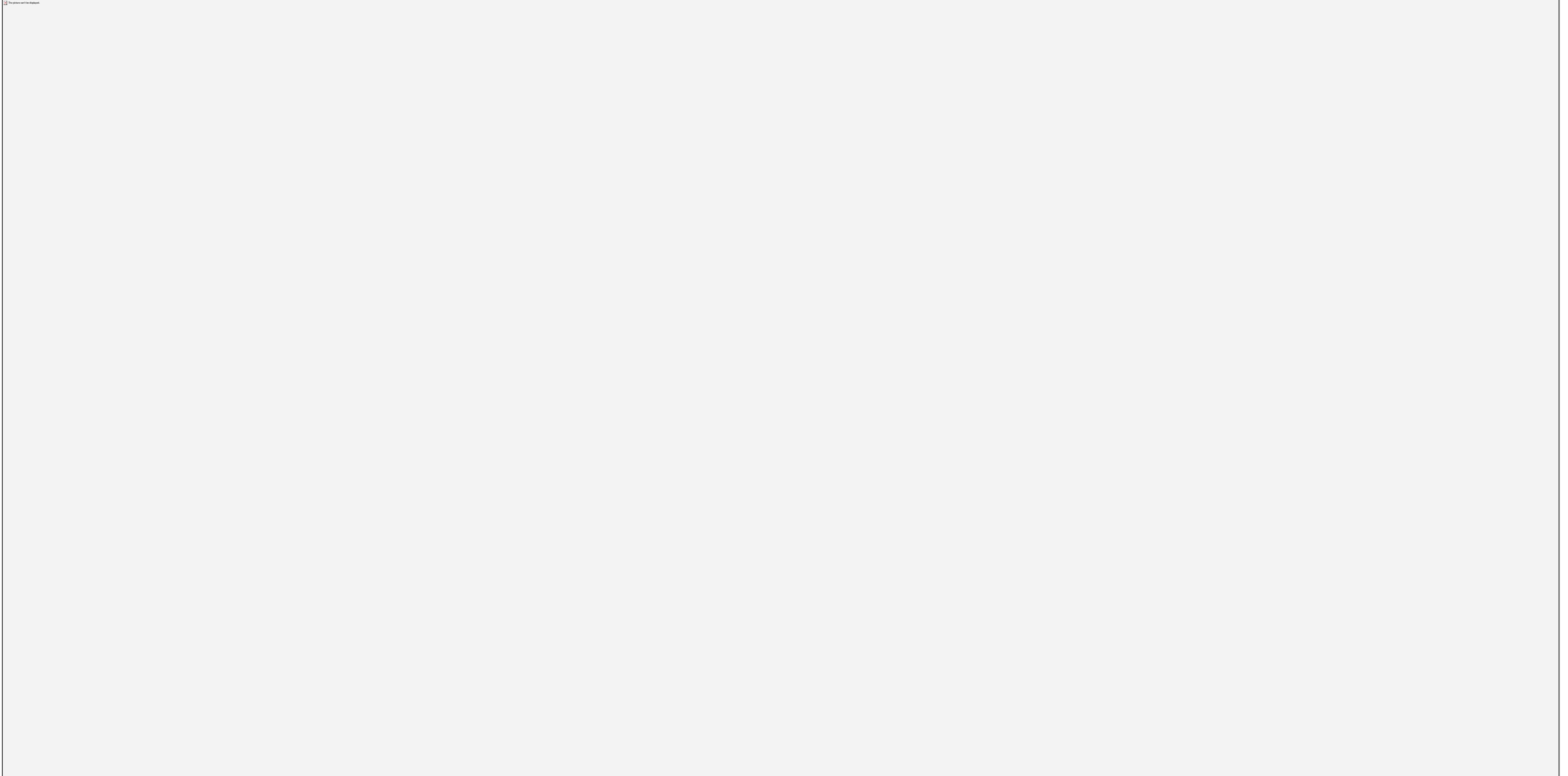
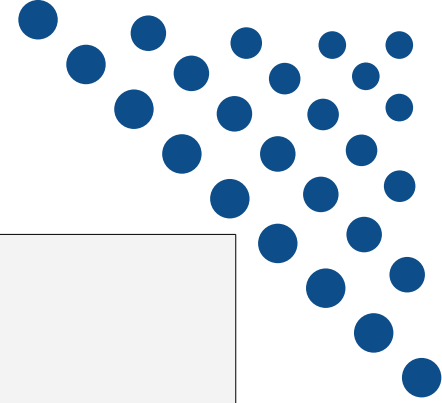
# CEO Pay Has Been Growing Rapidly



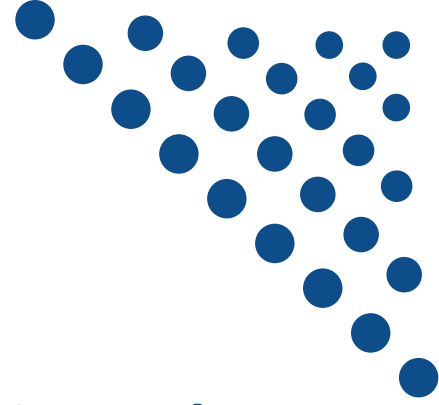
# CEO Pay Has Been Growing Rapidly



# CEC Compensation – Tied to Stock Prices



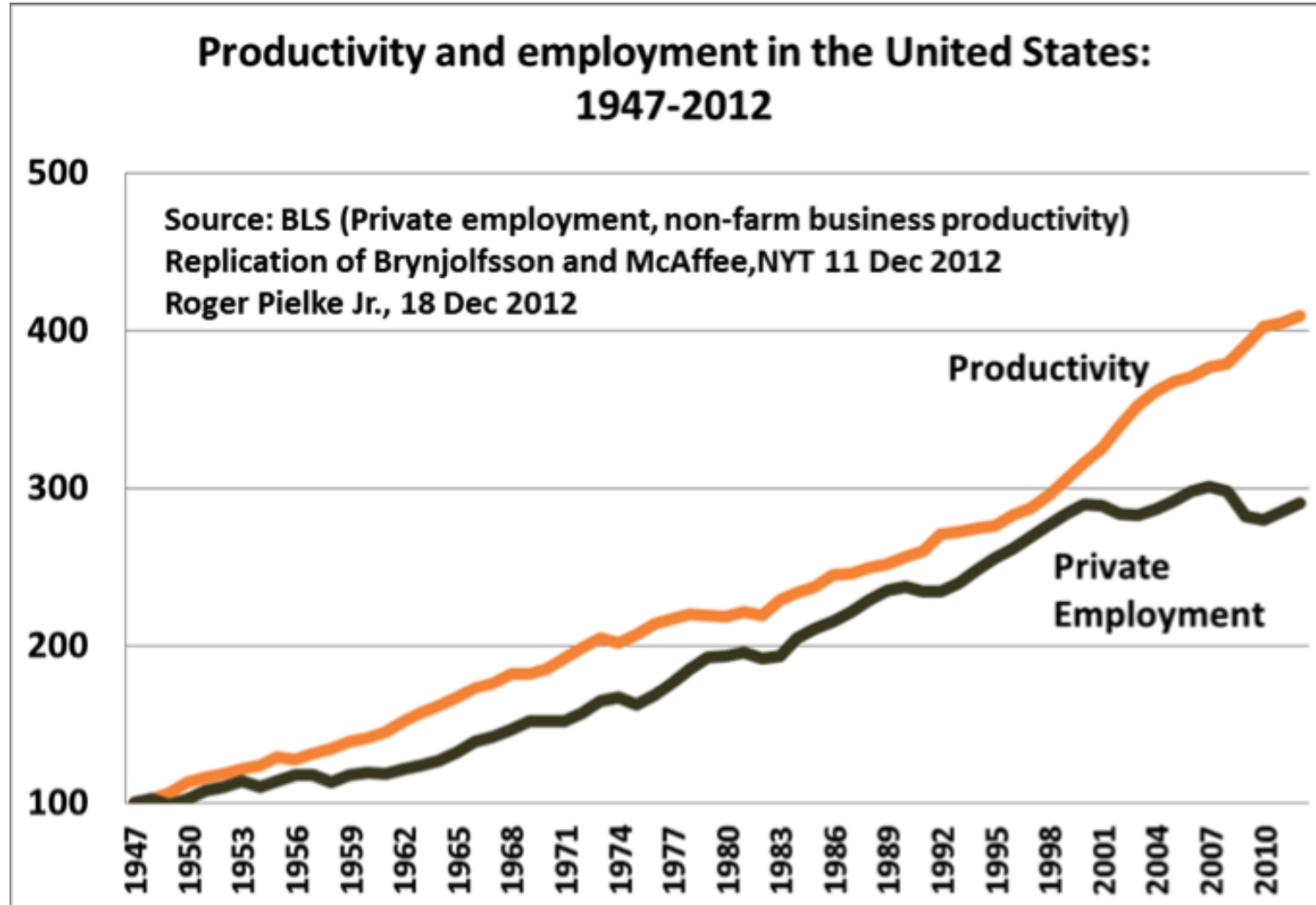
# Technological Change and Inequality



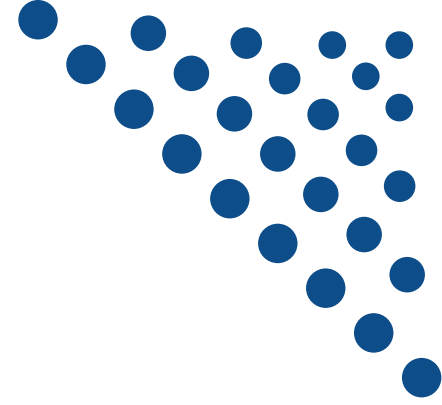
- **Much of the technology adopted in the last 30 years has eliminated low-skill or low-wage jobs.**
  - Computers, advanced manufacturing equipment, steel mini-mills, automation
- **There is a “winner take all” aspect of the technology-driven economy.**
  - This likely favors a small group of individuals.
- **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:**

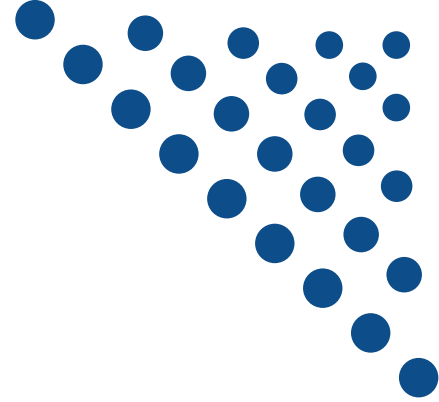
- Facilitates market power for owners.
- Reduces bargaining power for labor.
- Shifts costs of doing business onto labor.

- **Modern day Robber Barons?**

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



# 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

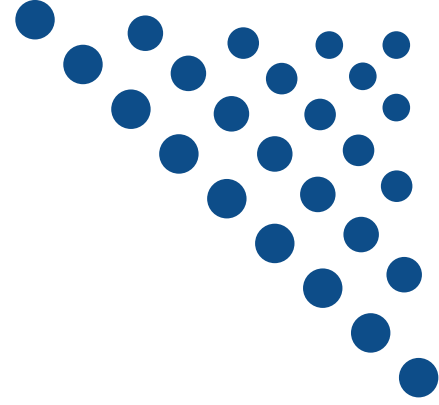
- **Trade in services**

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

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



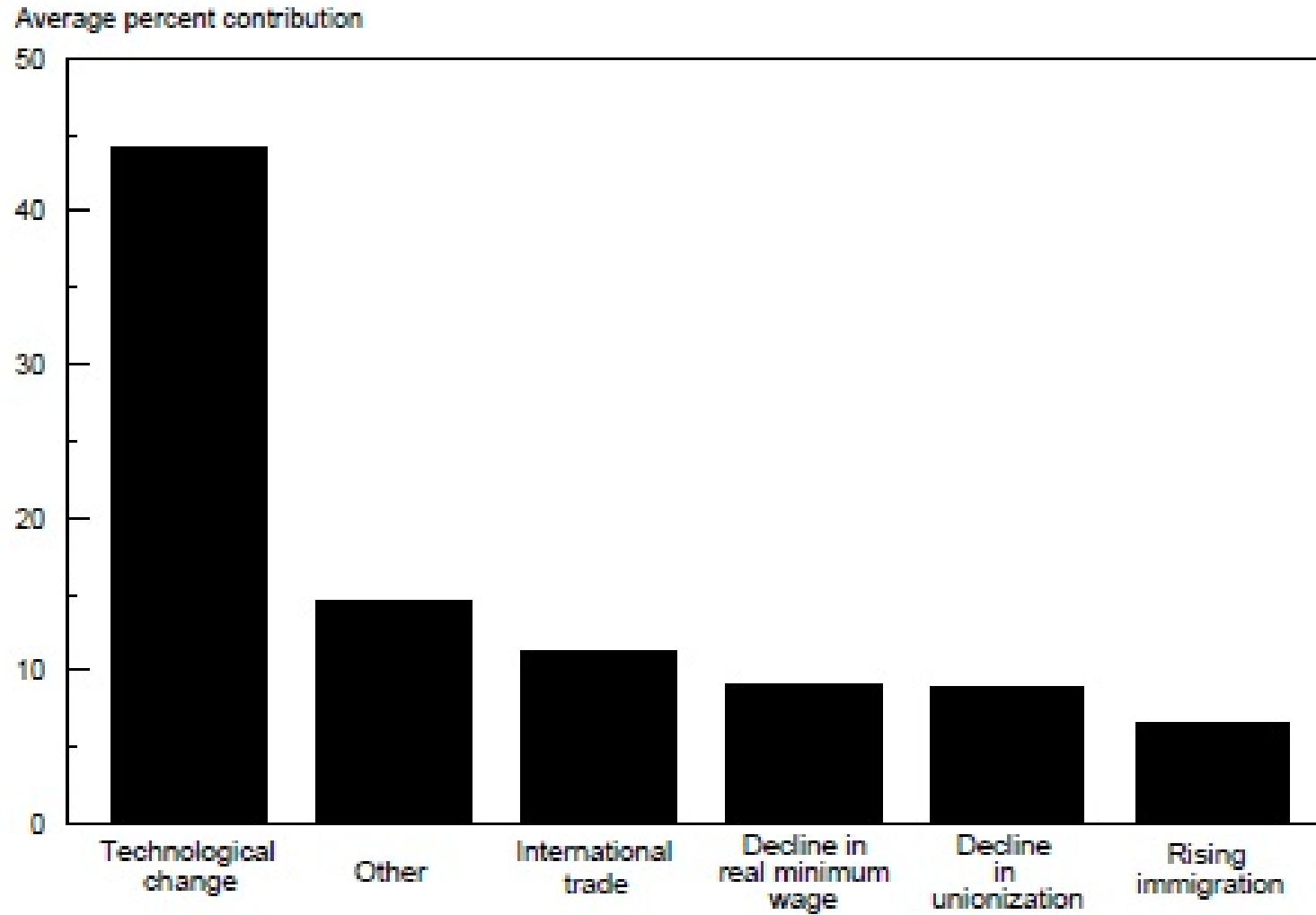
# What is driving increasing inequality?



- **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



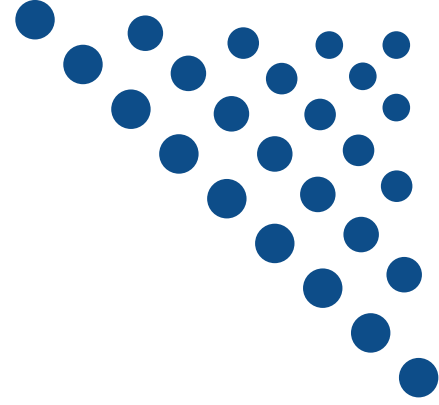
# Sources of Inequality Through Late 1990s



Source: Federal Reserve Bank of New York.



# 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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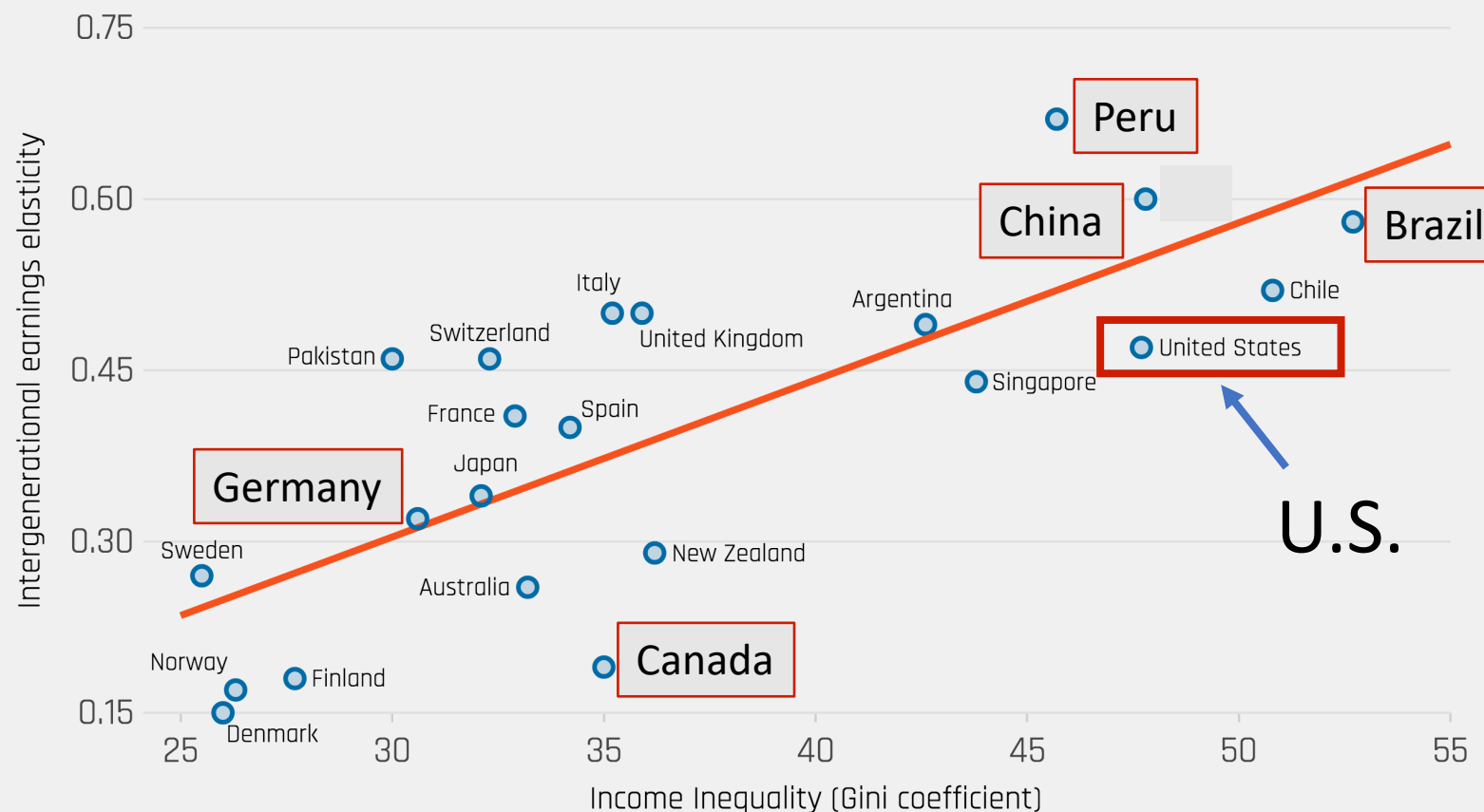
- **Too much inequality may also:**

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

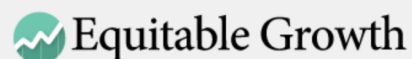


## The Great Gatsby Curve: high inequality tends to mean low mobility

More inequality is associated with less mobility across generations

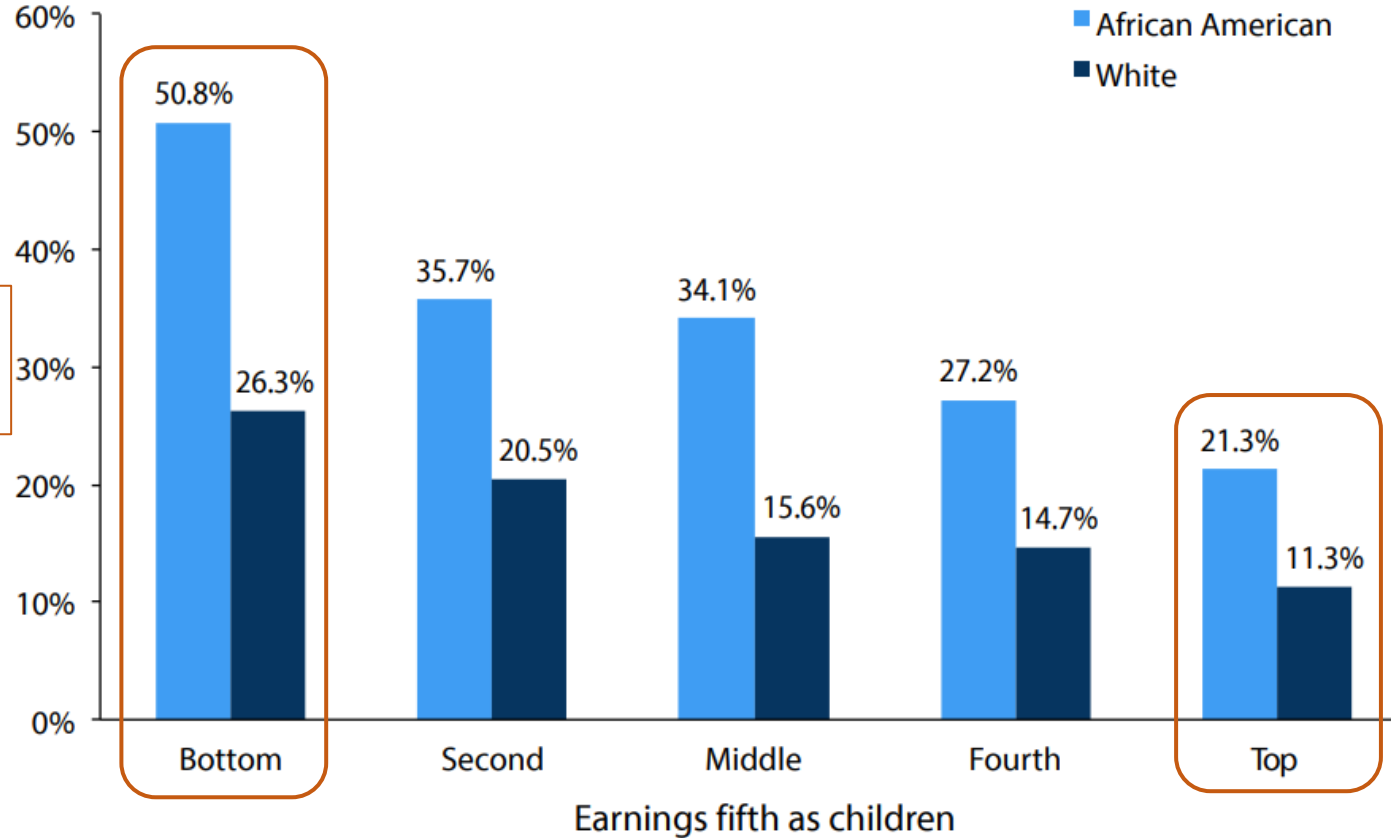


Source: Miles Corak, "Income Inequality, Equality of Opportunity, and Intergenerational Mobility," Journal of Economic Perspectives 27 [3]: 79-102; "All the Ginis," available at <http://www.worldbank.org/en/research/brief/all-the-ginis> [last accessed 9/28/2018]



# U.S. – Racial Differences

**Figure 3L** Share of children from various earnings fifths ending up in the bottom fifth as adults, by race



Odds of staying poor, if born poor

Odds of *becoming* poor, if born rich

Source: Authors' analysis of Mazumder (2011, Table 7)



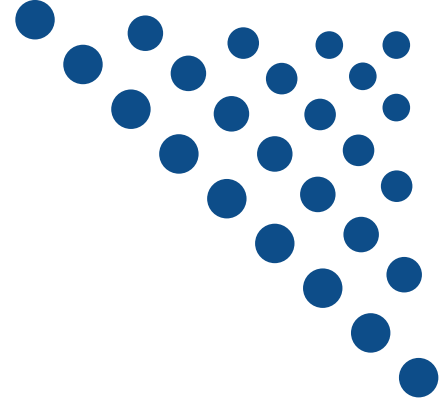
# Government Policy and Racial Inequality



- 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.



# Addressing Inequality: Is It A Problem?

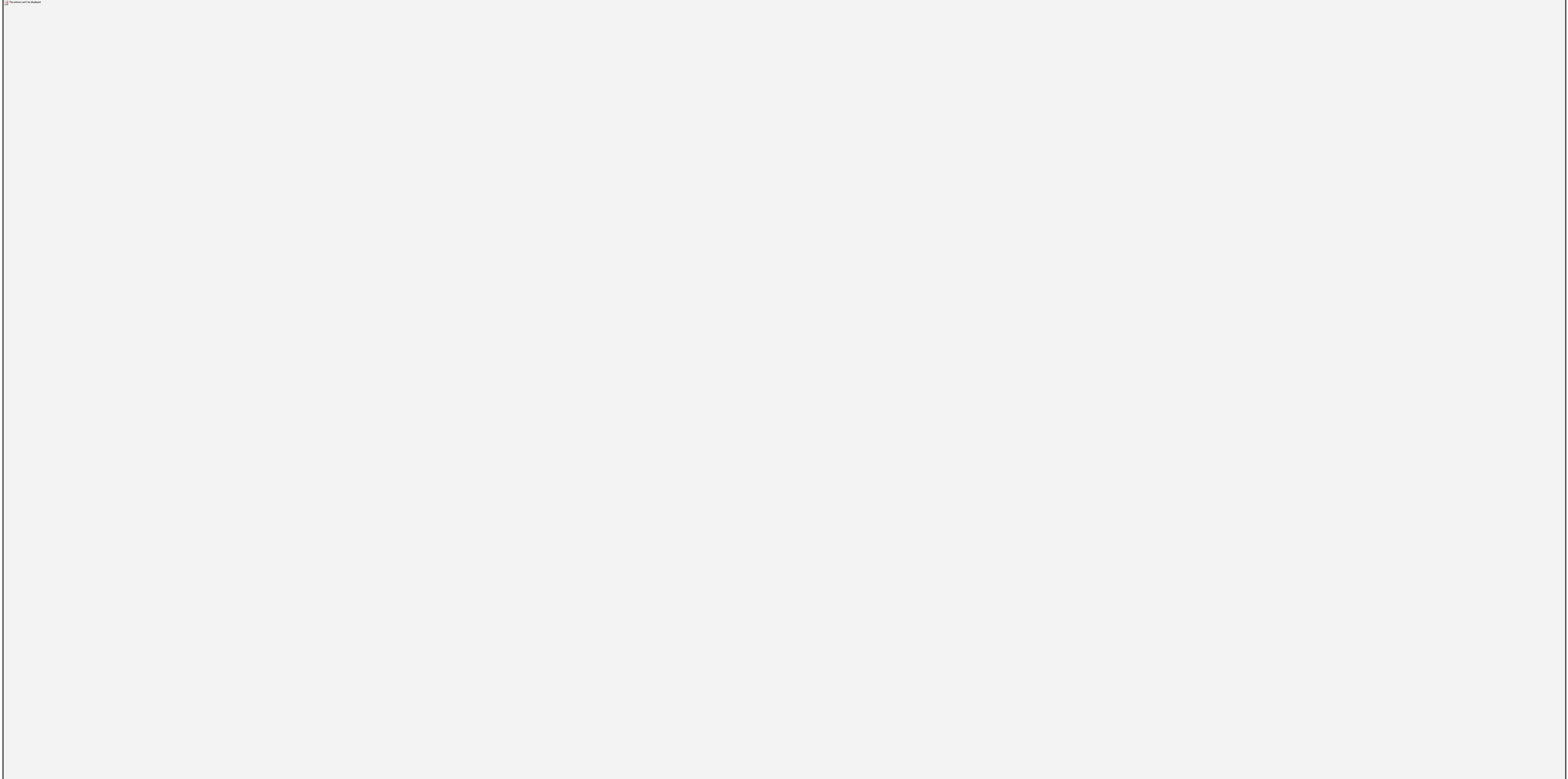
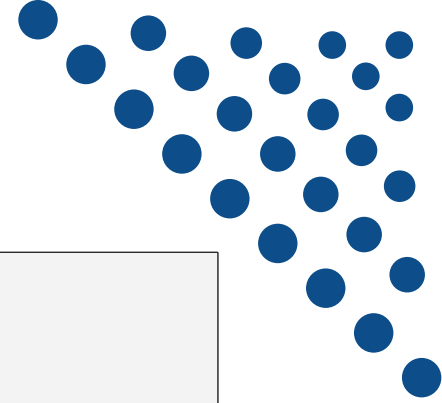


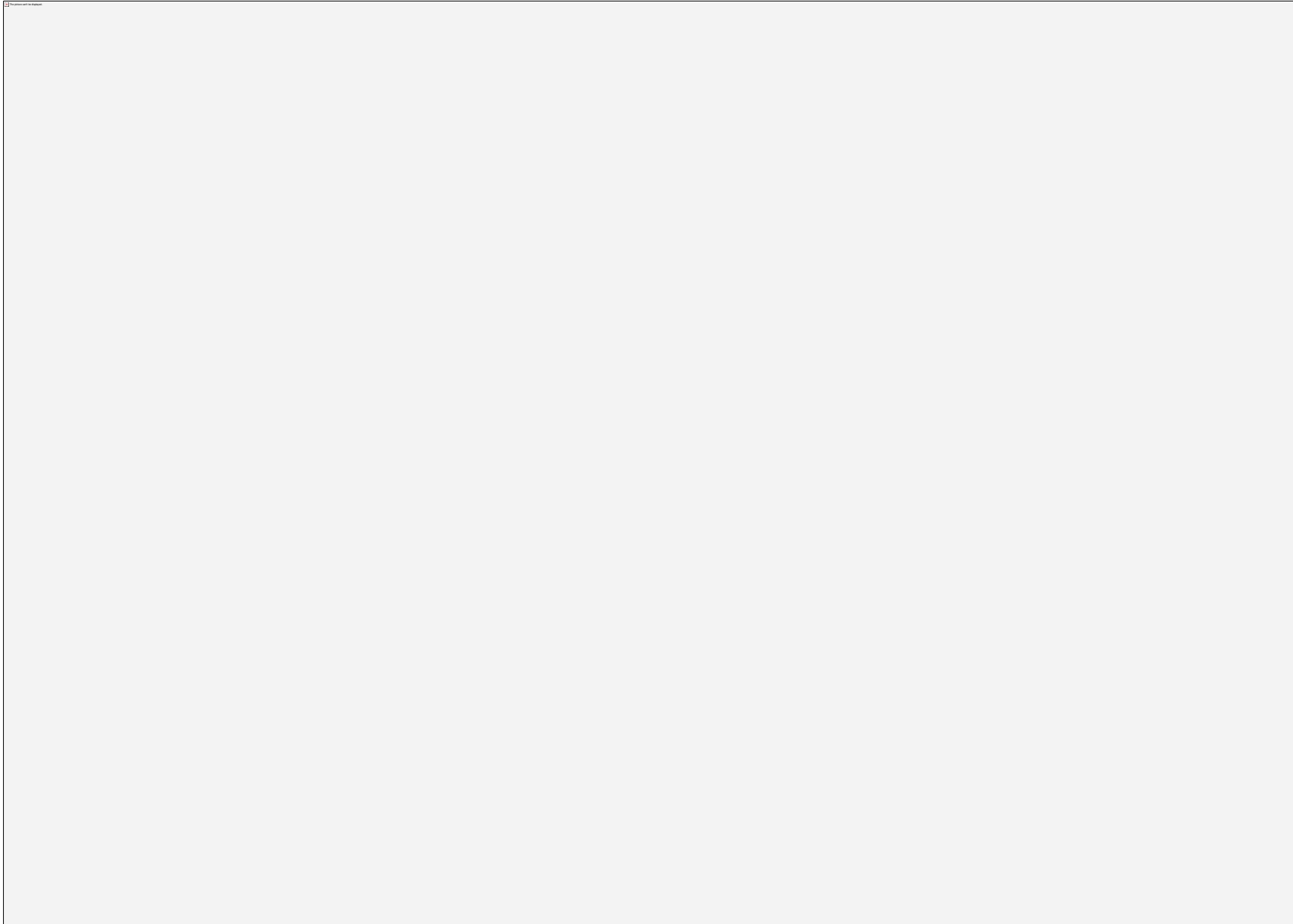
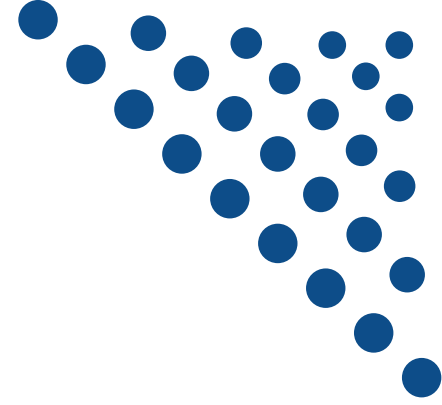
- **Why it might be a problem.**
  - Economic issues (*Efficiency*)
    - There is evidence that at some level, increased inequality slows economic growth.
    - Or, inequality concentrates resources among investors.
  - Noneconomic issues (*Equity*)
    - Values, ethics and morals will drive individual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





# History of the Federal Minimum Wage





# Addressing Inequality:

## Immediately Available Policy Solutions (2/2)

- **Other**

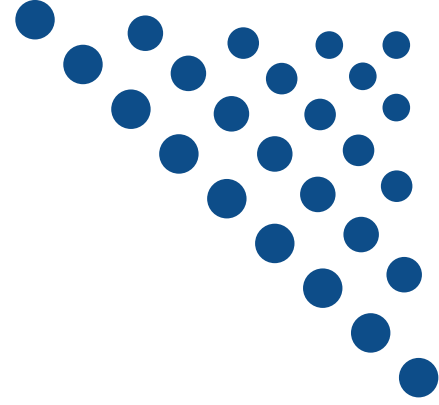
- Reverse trends in market power

- **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.



# Addressing Inequality: Long Term

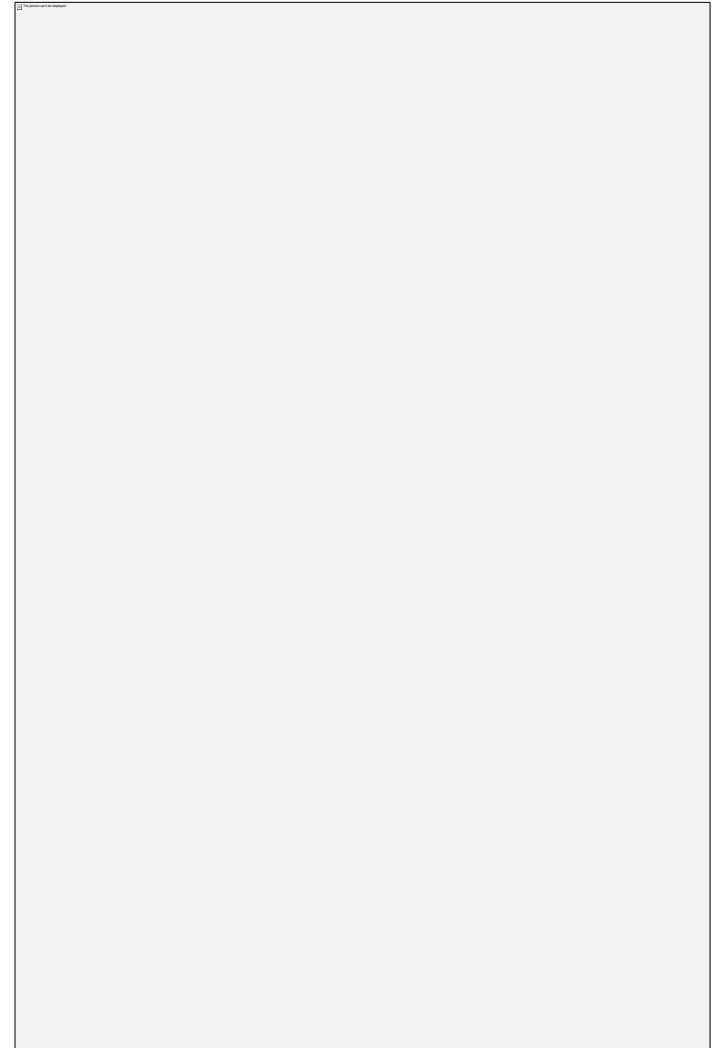


- **It's all about access to resources (*equality of opportunity*):**
  - Education, in particular
    - Improve public education
    - Reduce disparities in quality of public education
    - Improve counseling in low-income schools
      - With respect to college – paths to success and funding
    - 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.

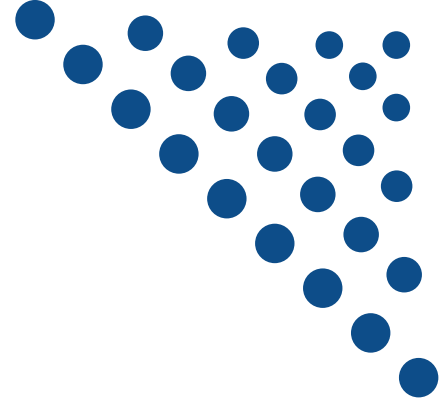


# What to do About Inequality?

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



# Tension in Policy Solutions



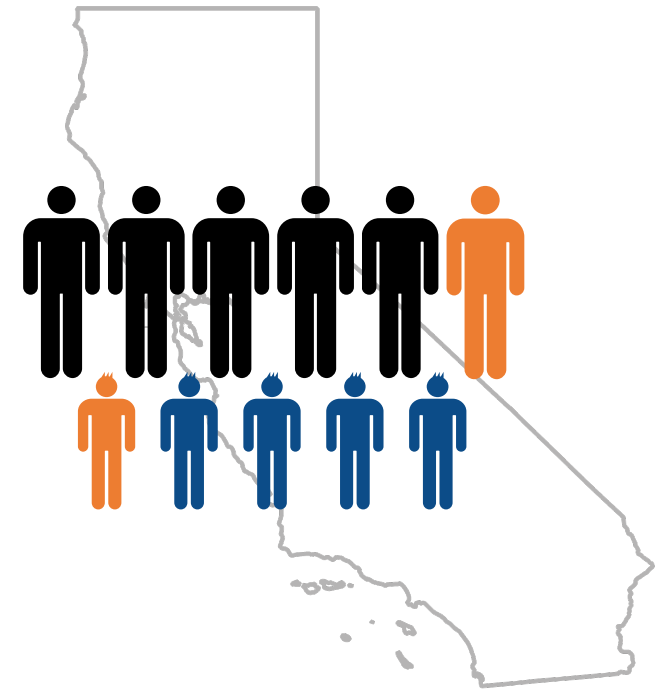
## Is it possible to increase growth and reduce inequality?

- 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



# 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.**



**Thank you!**

# Any Questions?

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

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