

# *Osher Lifelong Learning Institute, Fall 2024* **Contemporary Economic Policy**

University of Massachusetts, Boston  
Sep-Oct, 2024

**Geoffrey Woglom Ph.D.**  
National Economic Education Delegation



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## **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
- US Social Policy



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## Course Outline

- **Contemporary Economic Policy**

- Week 1 (10/1): Economics of Immigration (Robert Gitter, Ohio Wesleyan Univ.)
- Week 2 (10/15): Federal Debt (Kathryn Wilson, Kent State University)
- **Week 3 (10/29): Economic Inequality (Geoffrey Woglom, Amherst College)**



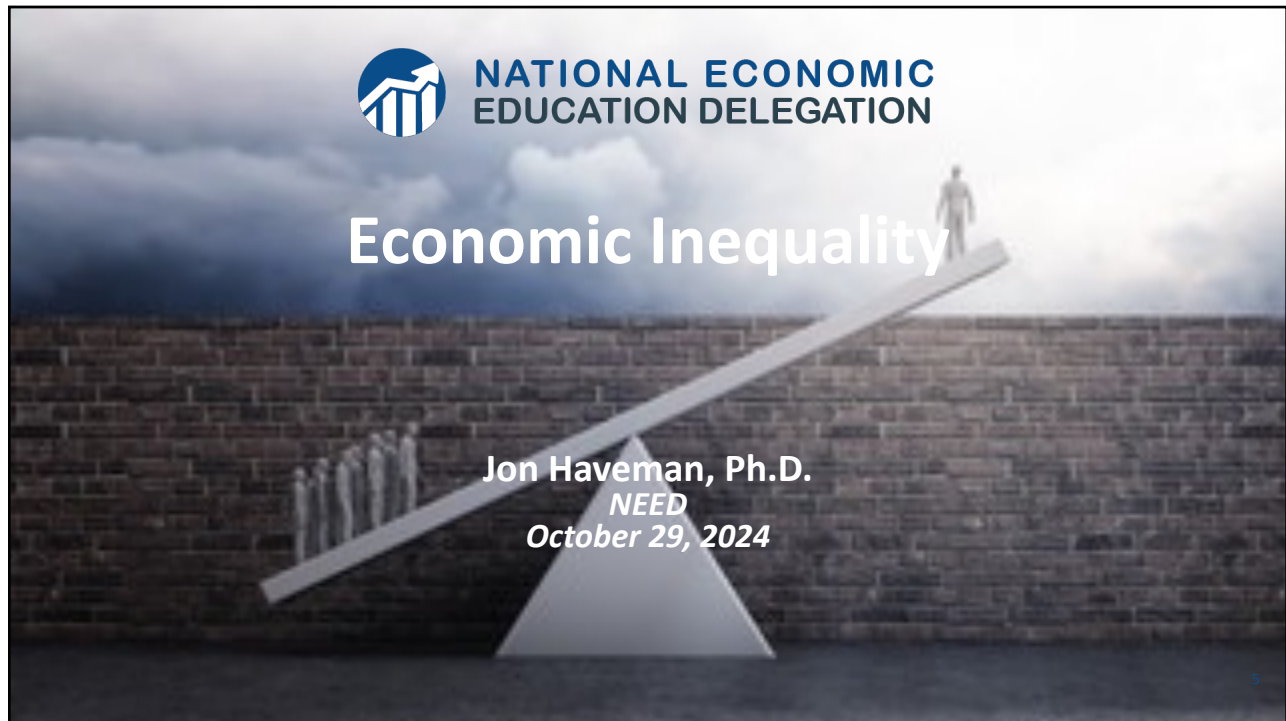
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## Submitting Questions

- **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.**
- **Slides will be available from the NEED website shortly ([https://NEDEcon.org/delivered\\_presentations.php](https://NEDEcon.org/delivered_presentations.php))**




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

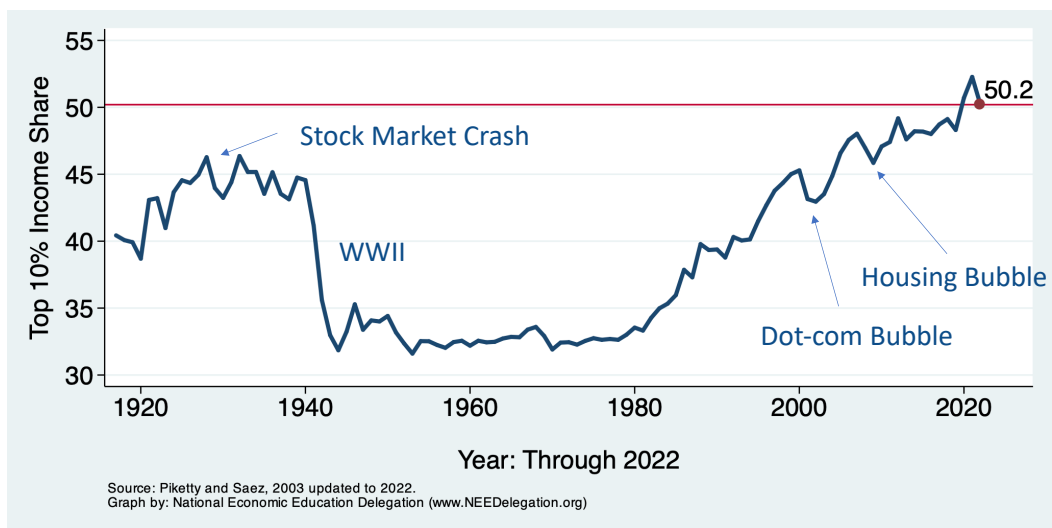
- **Income Inequality**
  - Before taxes and transfers
  - After taxes and transfers
- **Wealth Inequality**

**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%



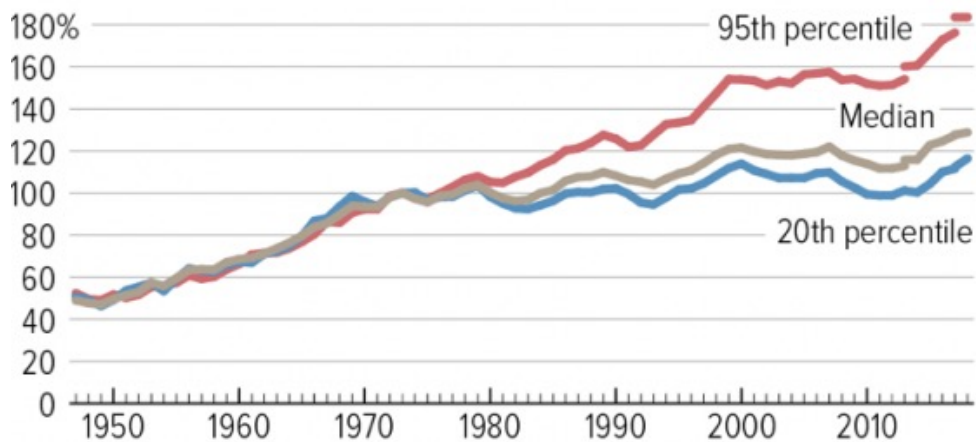
## Recent Facts on Income Inequality

- **Beginning in the 1970s, income gaps widened.**
  - Income growth in the middle and lower parts of the distribution slowed.
  - Incomes at the top continued to grow strongly.

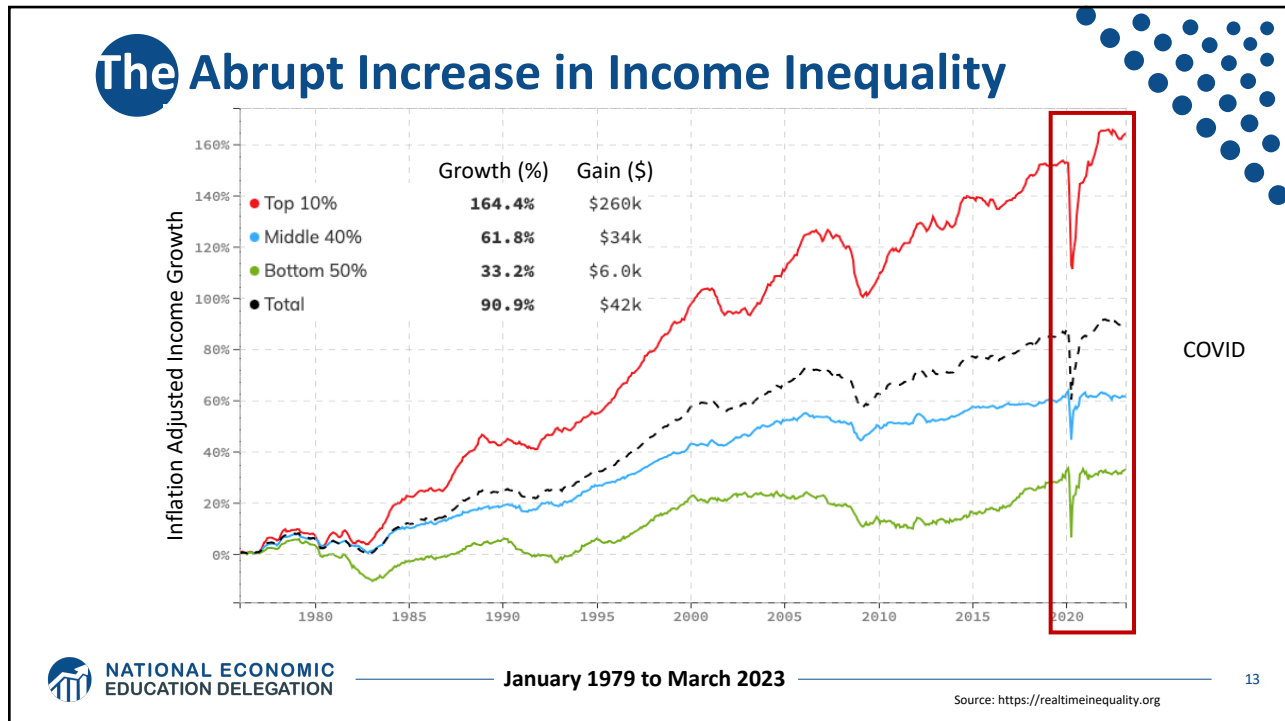
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## The Abrupt Increase in Income Inequality

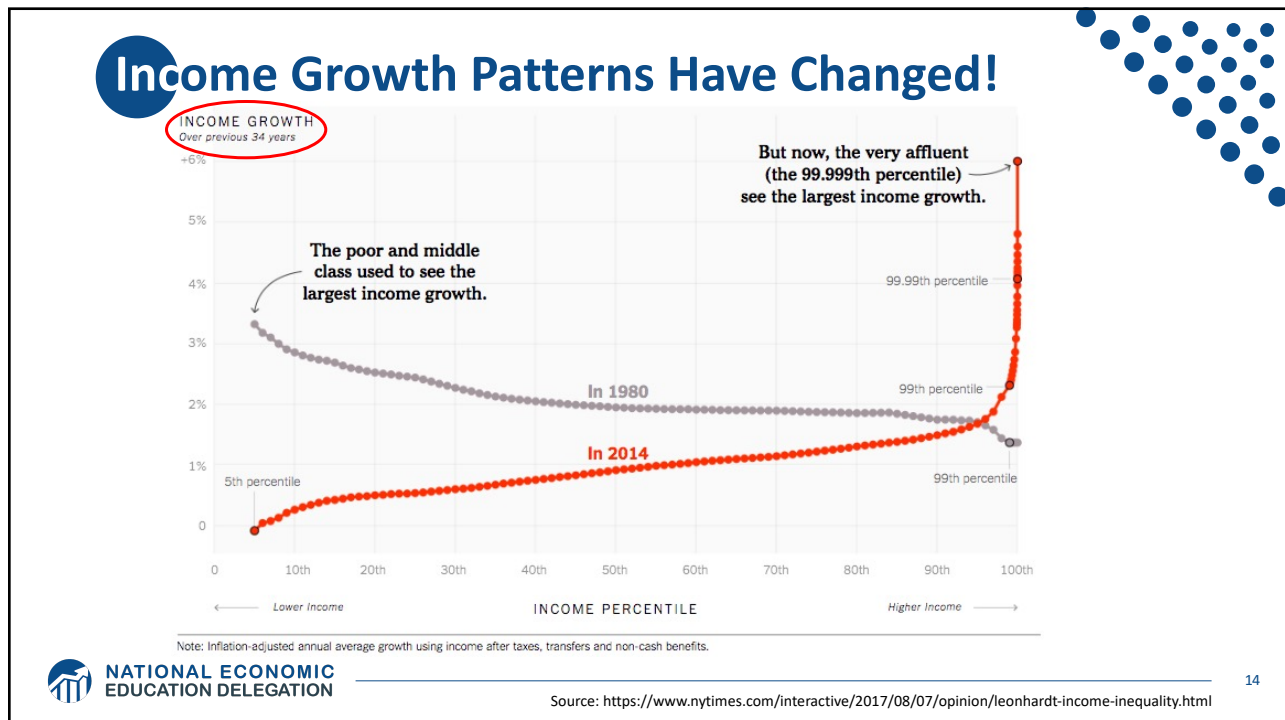
Real family income between 1947 and 2018, as a percentage of 1973 level



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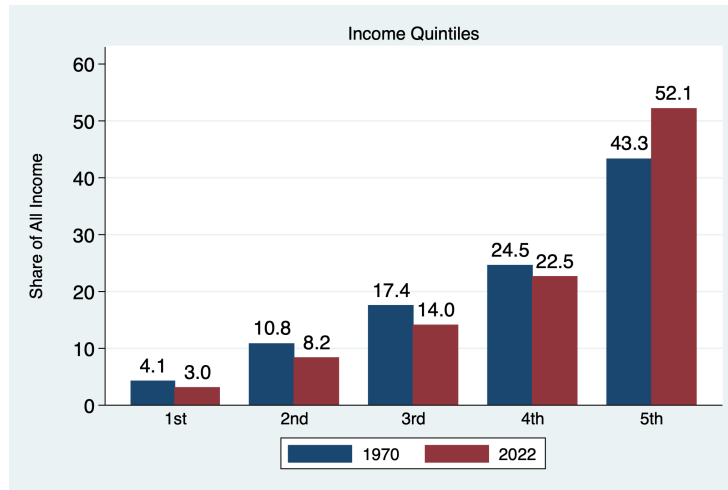


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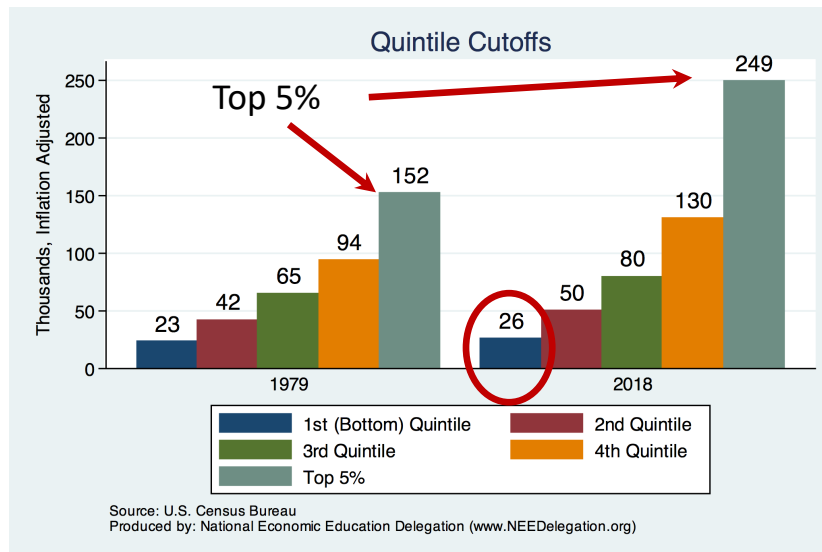
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# Income Share Changes Between 1970 and 2022



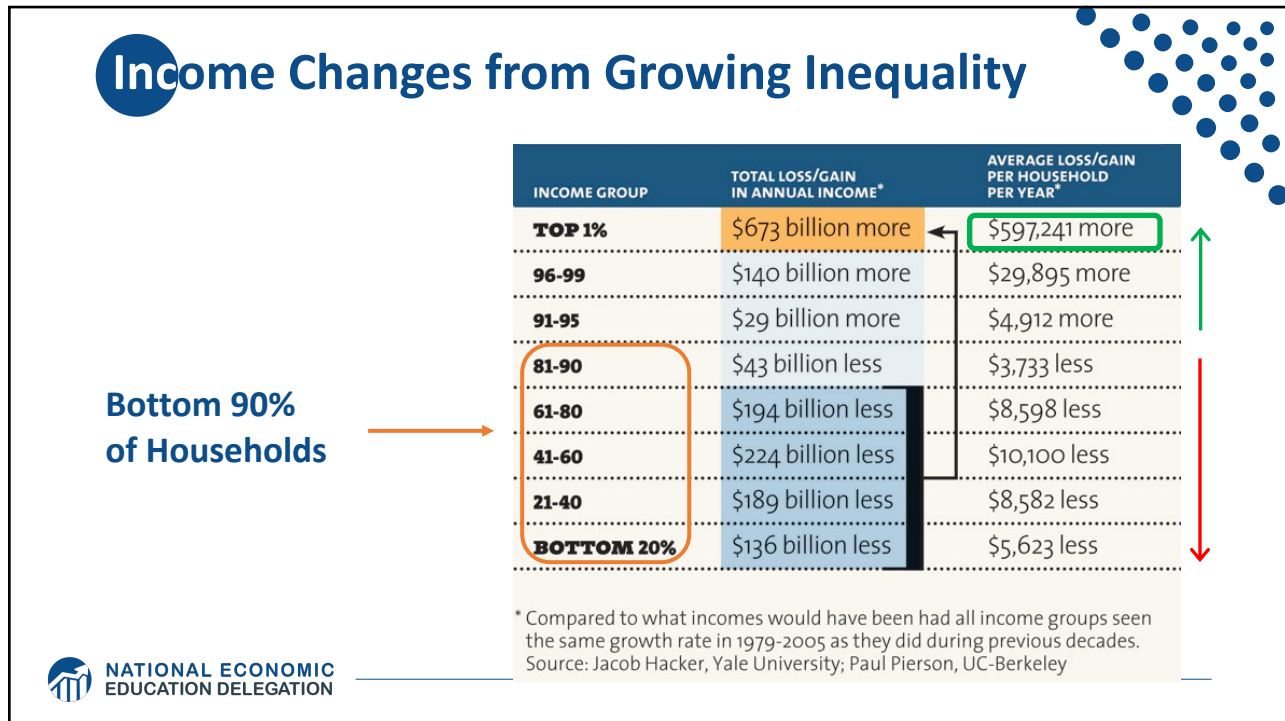
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# Quintile Income Cutoffs

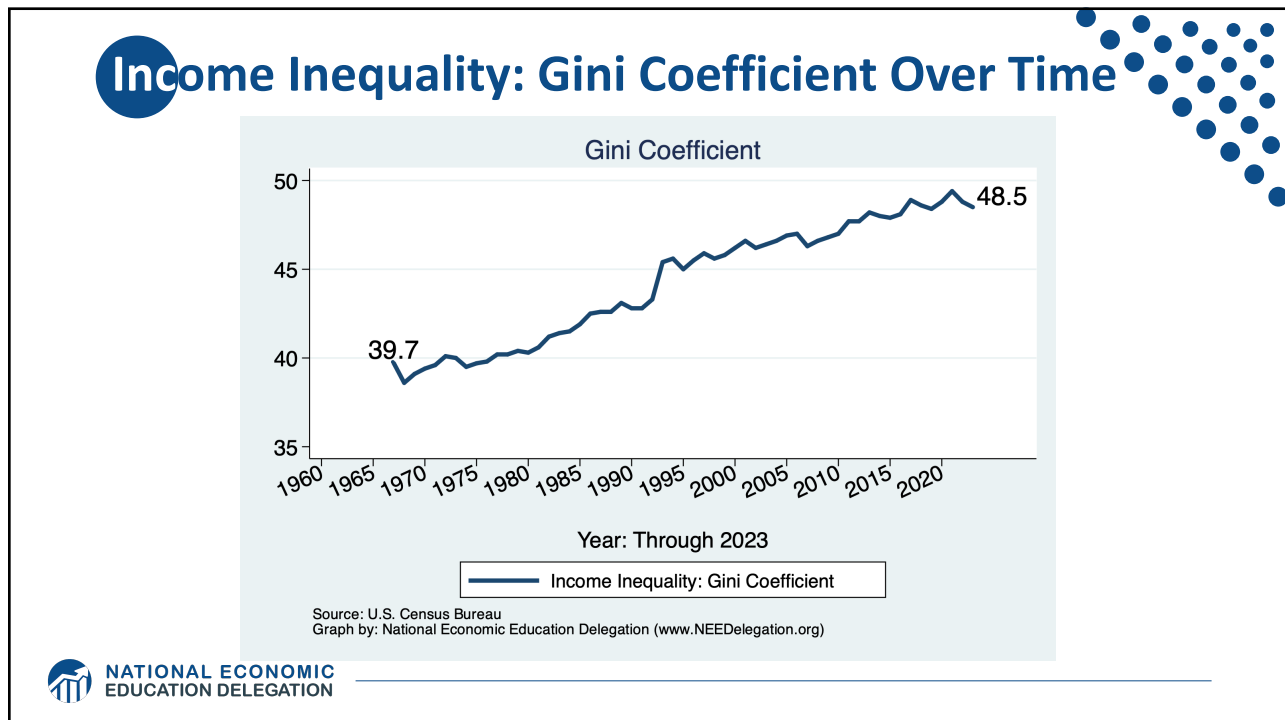


Source: U.S. Census Bureau  
Produced by: National Economic Education Delegation ([www.NEEDelegation.org](http://www.NEEDelegation.org))

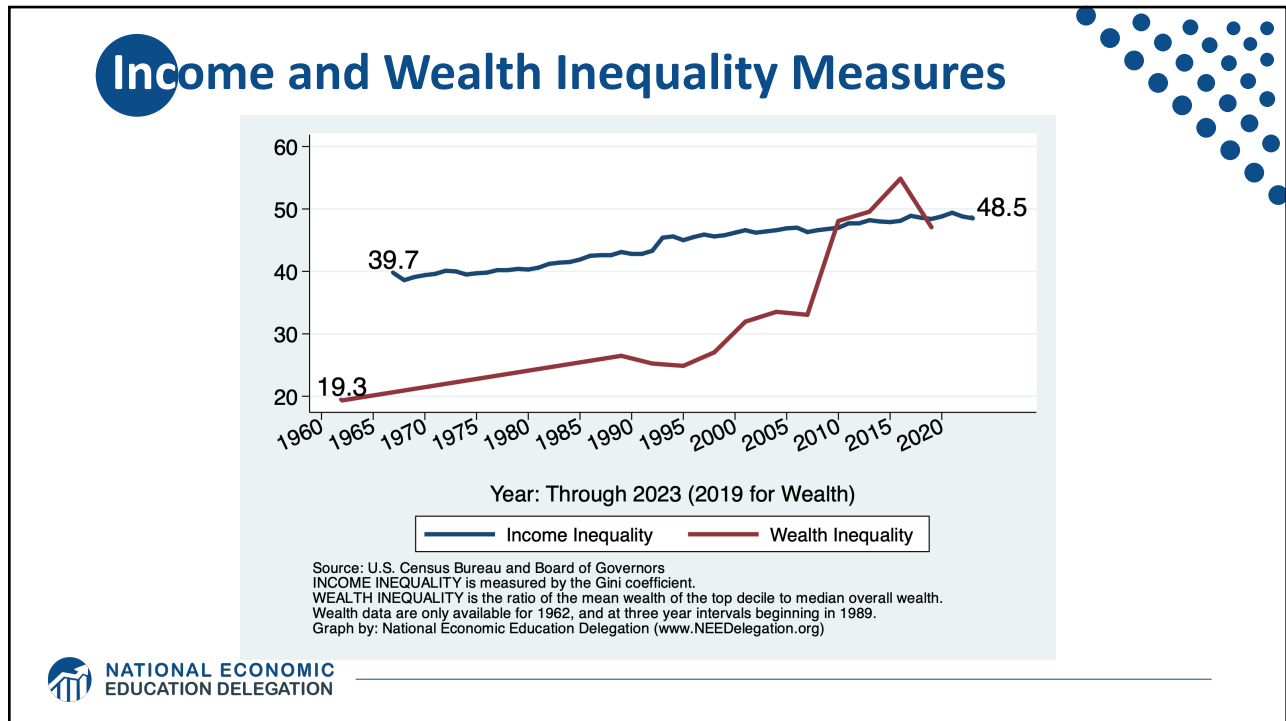
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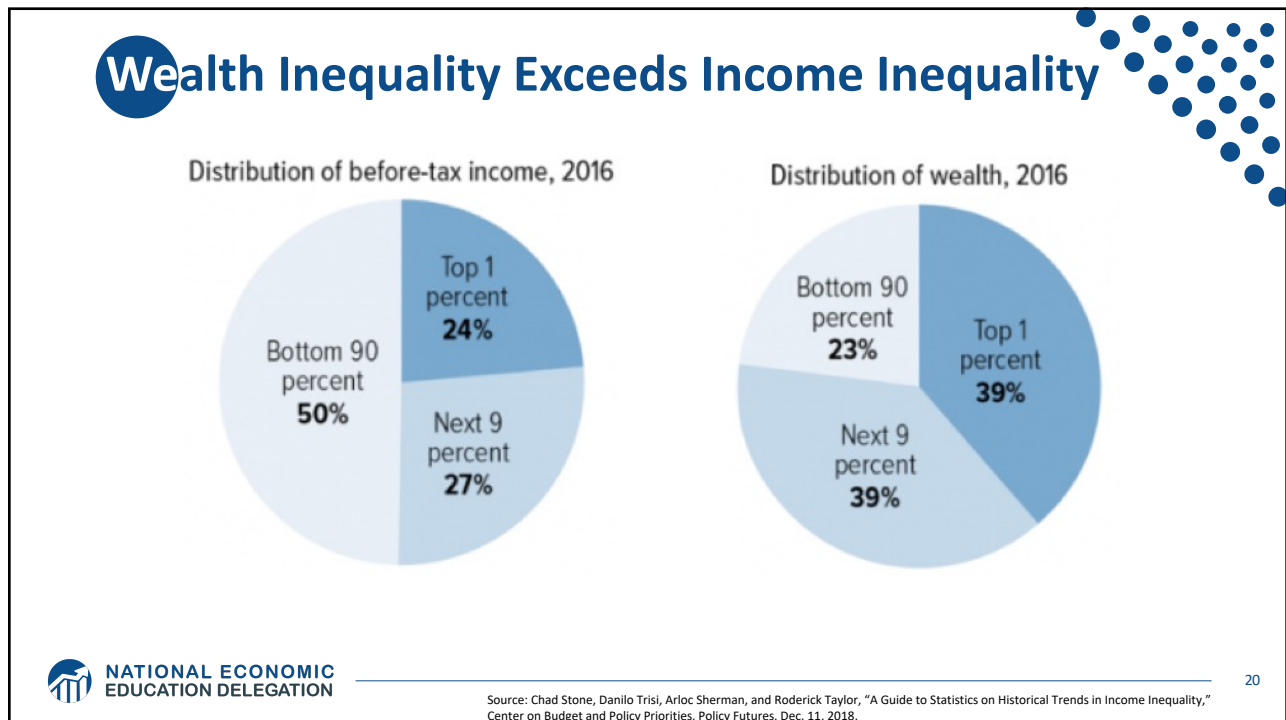
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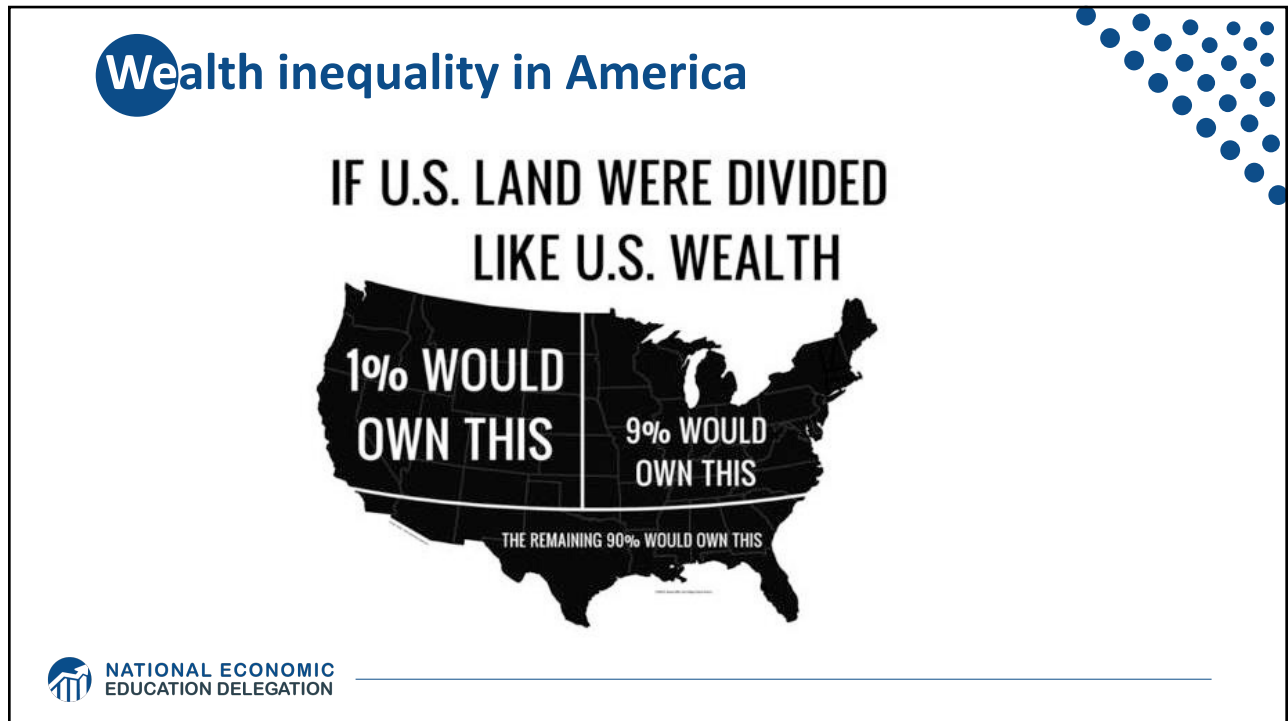
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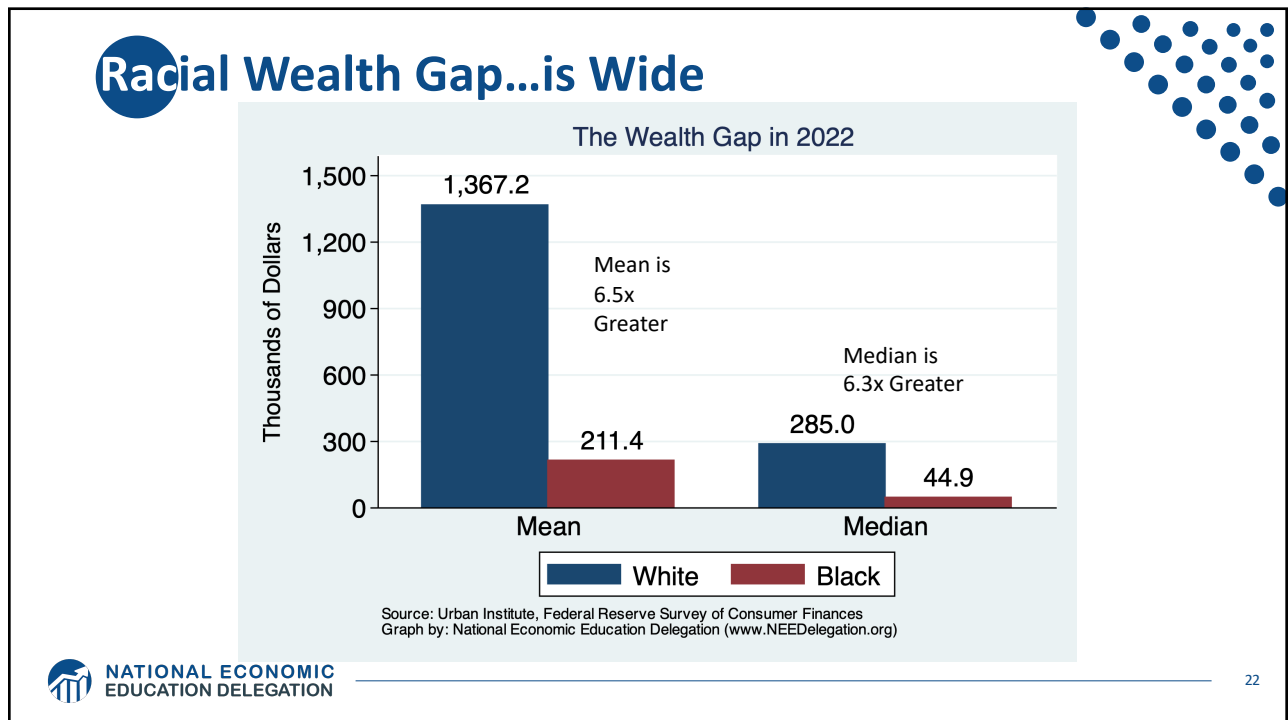
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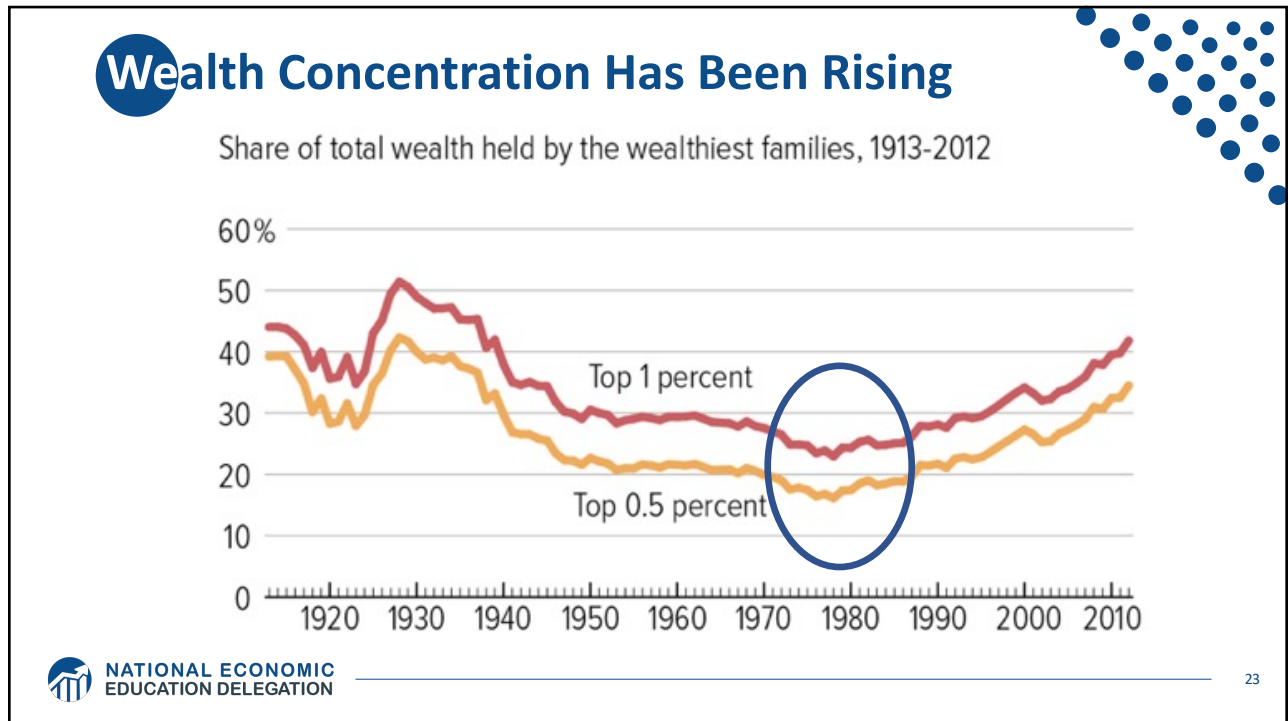
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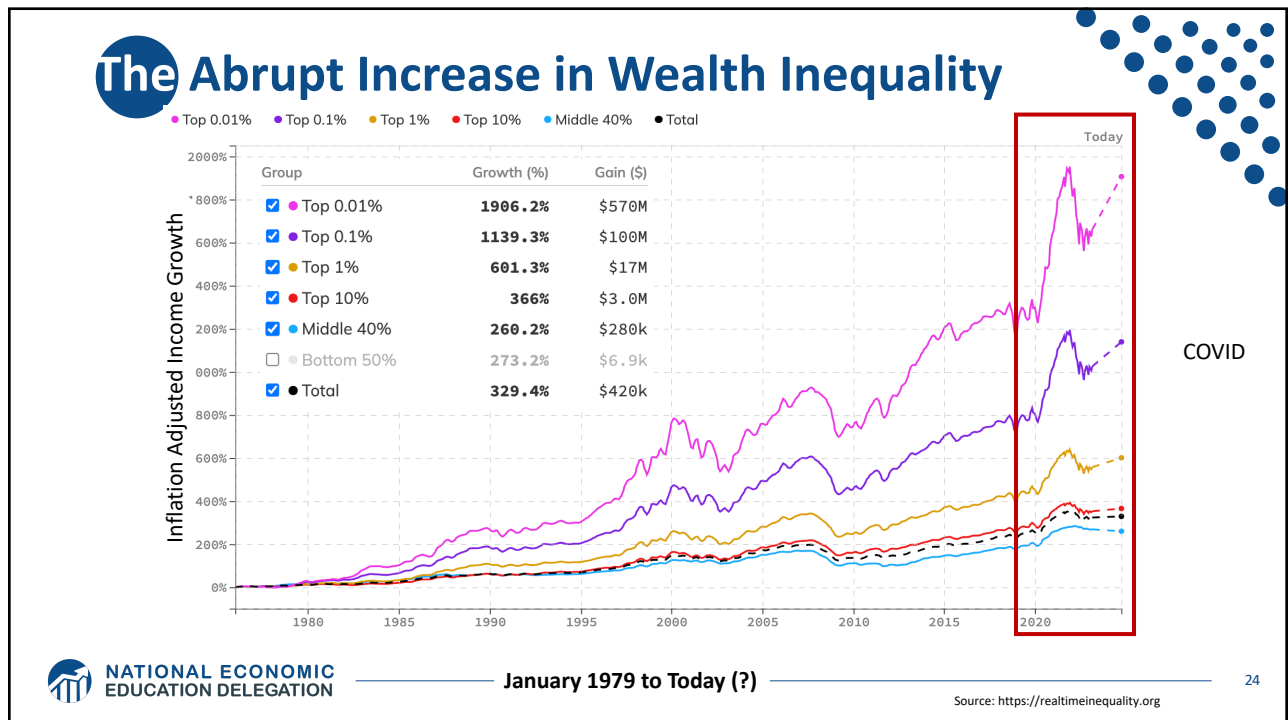
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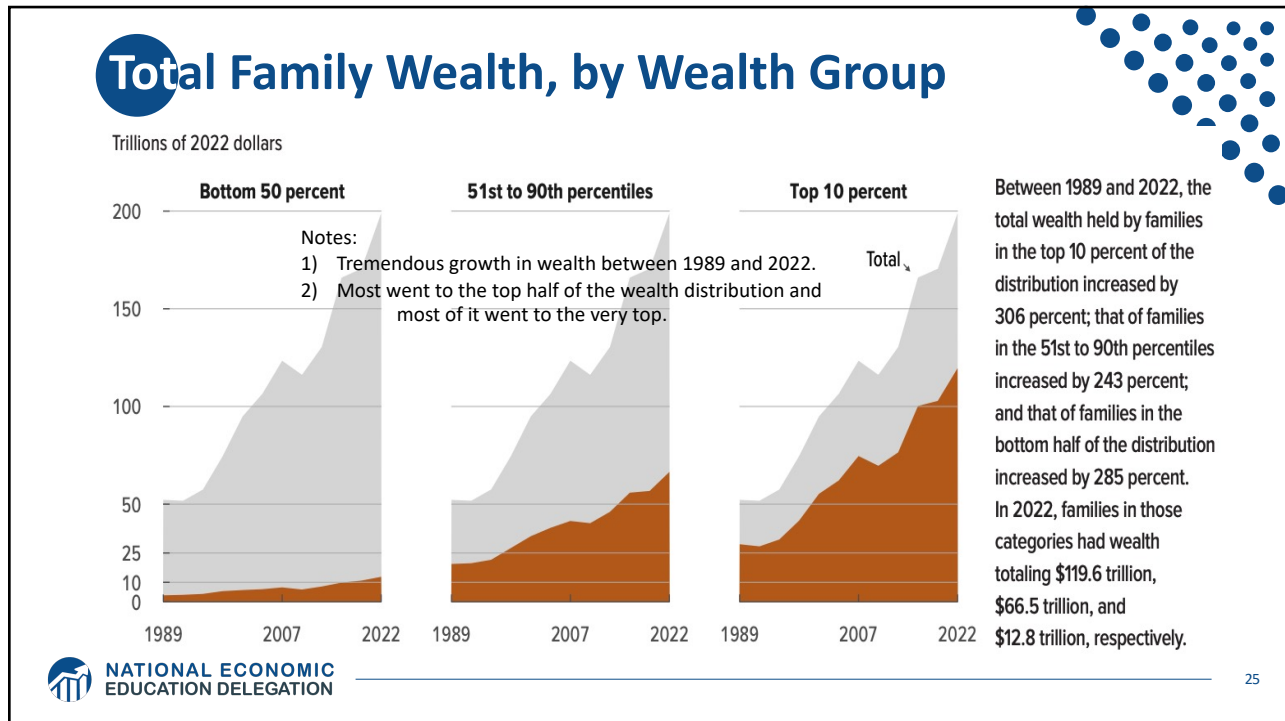
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## Where Does Income Inequality Come From?

- **Labor Characteristics**
  - Demographics
    - o Age distribution
  - Personal Choices
    - o Educational attainment
    - o Effort & Priorities
  - Immigration and Emigration
- **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

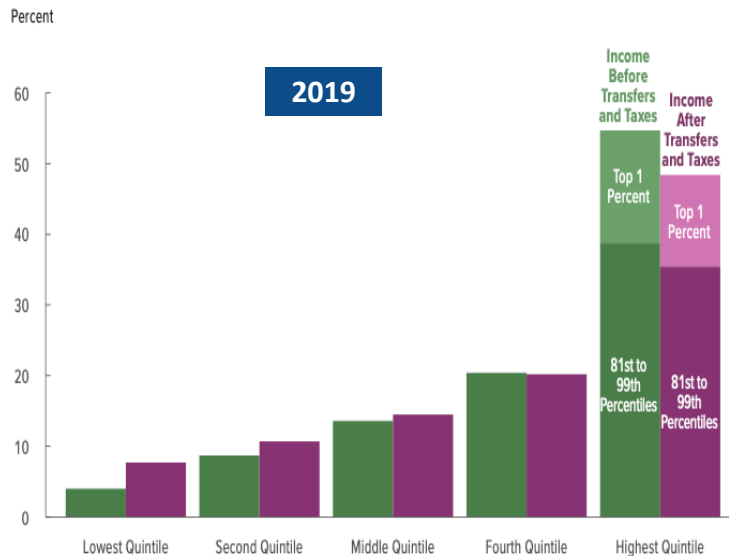
- Characteristics of labor
  - o Access to education
- Effects on labor demand
  - o Market regulation
    - Competition policy
  - o Labor regulations
    - Minimum wage, overtime, health insurance, union regulations, etc.

## • RE-distribution

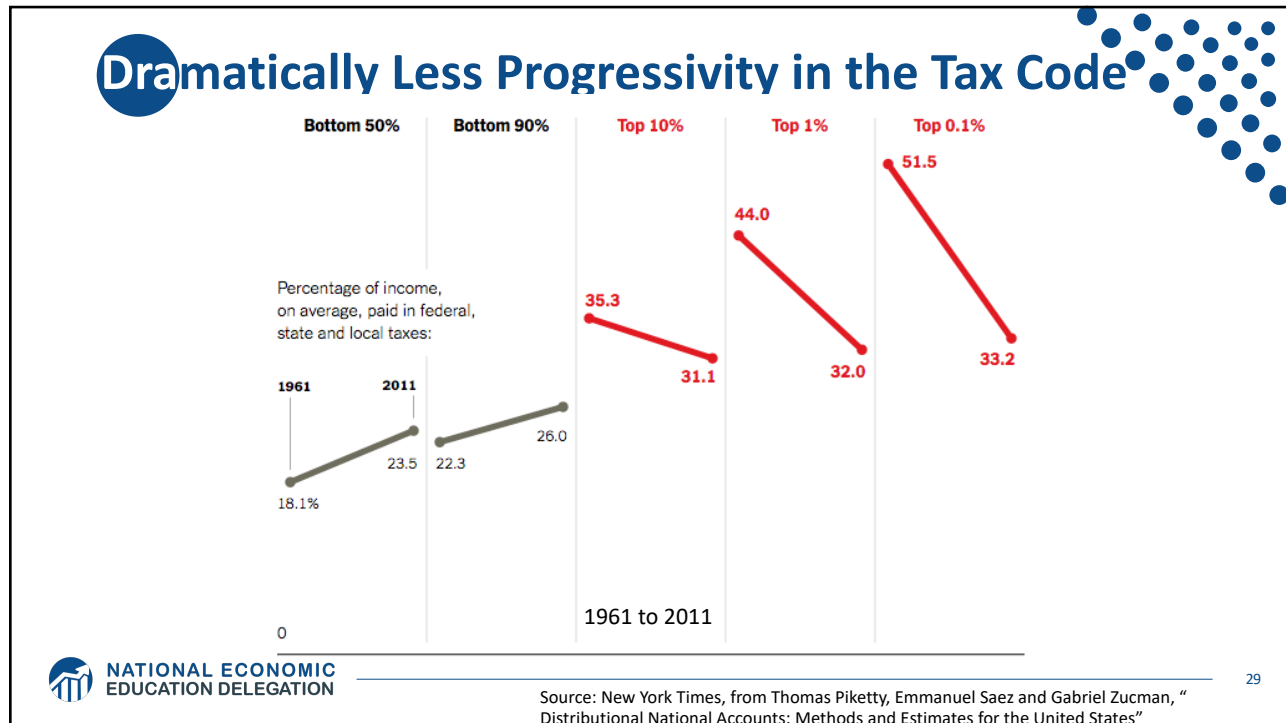
- Tax Rates
- Income support
  - o Direct aid
  - o Food stamps

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# Tax and Transfer Programs and Inequality



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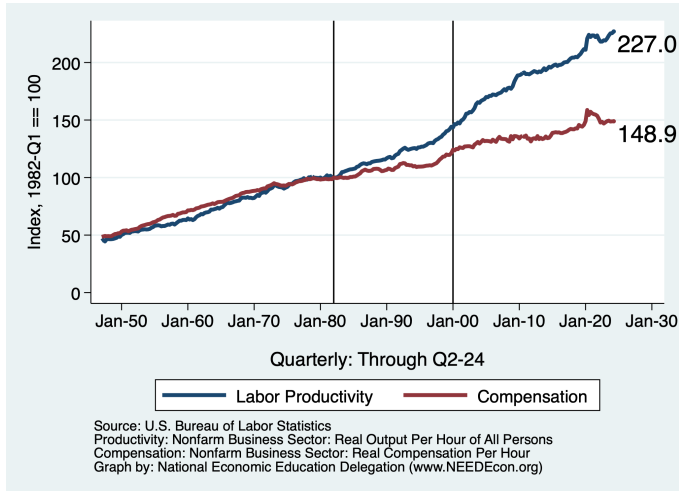
## Market Forces and Inequality

- **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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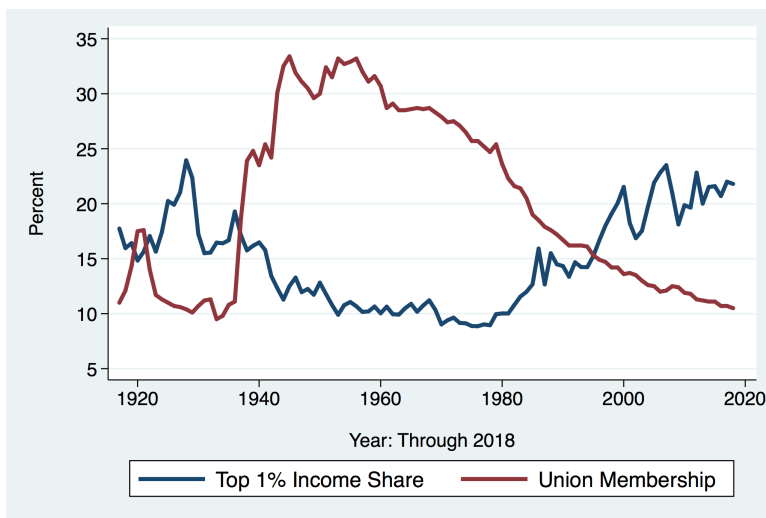
# Labor Income is Unhinged from Productivity



## Why? Some theories:

- Declining unionization
- Competition policy
- Technological change
- Globalization

# Declining Unionization



## Unionization Rates

- **1983:** 20.1%
- **2023:** 10.0%

## Unionization Rates

- **Public:** 32.5%
- **Private:** 6.0%

## 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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## Technology Effects on Low Income Workers



Technology can improve worker productivity and create jobs



But technology can also displace jobs



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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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## 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.



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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
- Affect public goods spending and distribution
  - o Education
  - o Environmental protections



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## Addressing Inequality: Is It A Problem?

- **Why might it be a problem?**

- Economic issues (*Efficiency*)
  - o Inequality can misallocate resources and slow economic growth.
  - o Maybe not a problem? Inequality can concentrate resources with investors.
- Noneconomic issues (*Equity*)
  - o Values, ethics, and morals will drive individual evaluations of inequality.
  - o Depends on personal beliefs about origins and consequences of inequality.

- **Suppose you think it's a problem. How might it be addressed?**

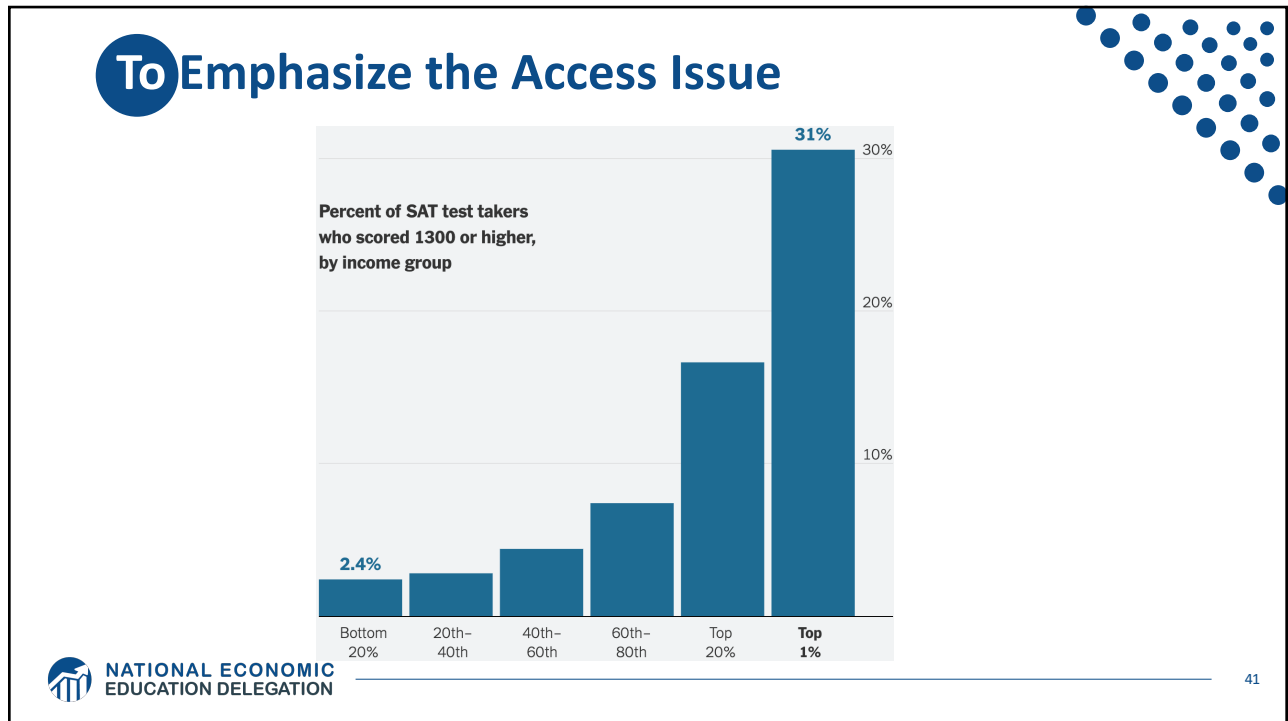


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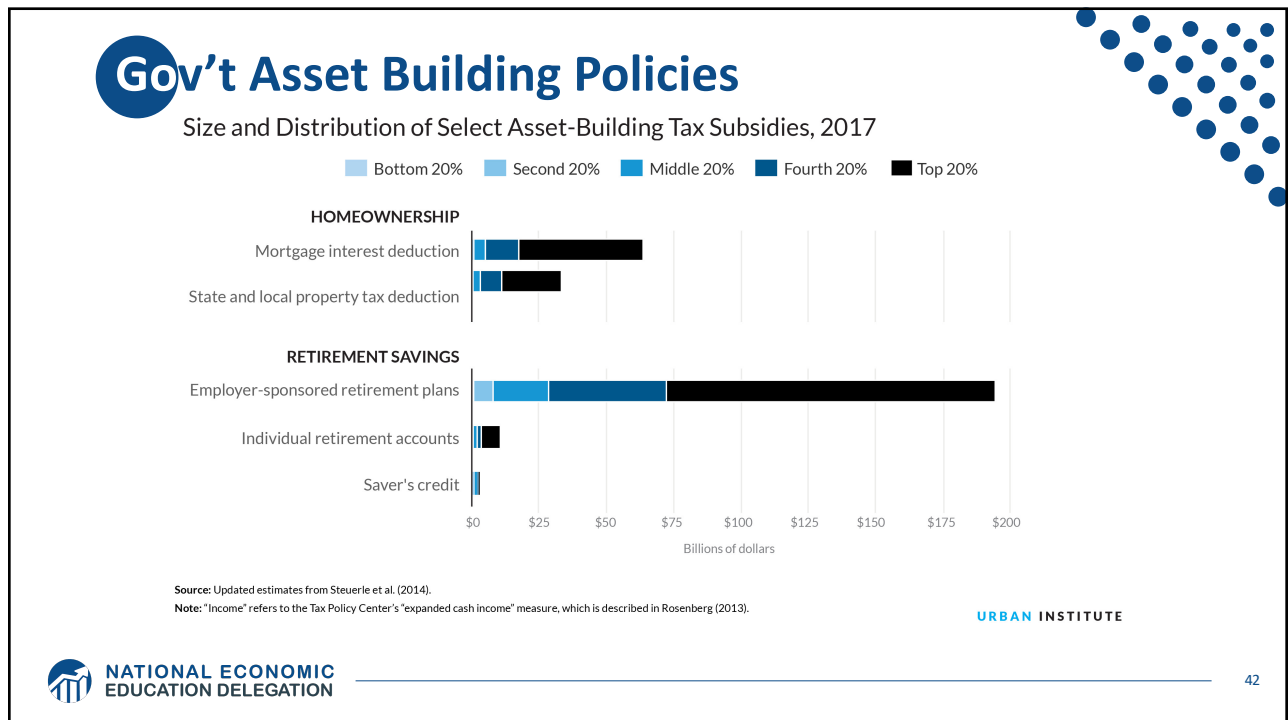
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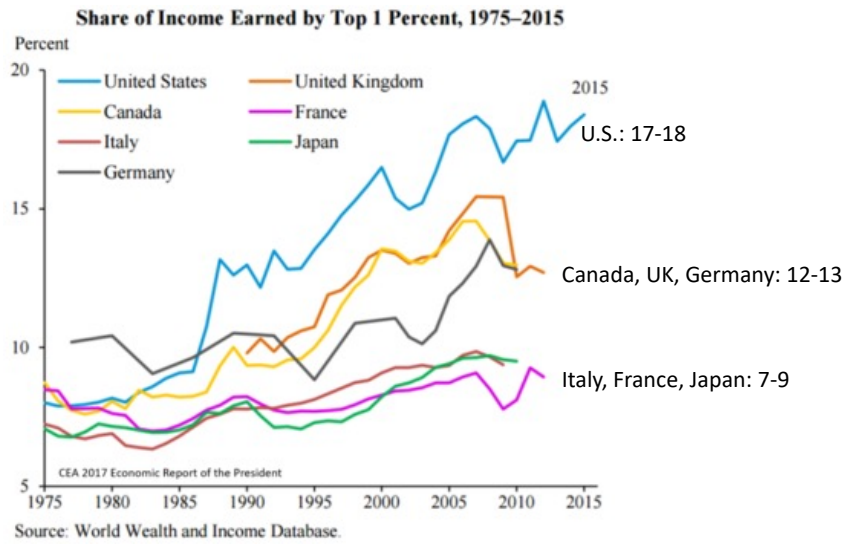


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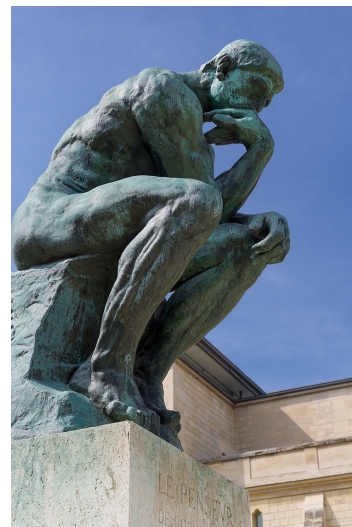
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# An International Perspective: Comparables



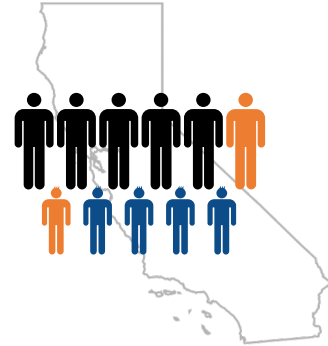
# What to do About Inequality?

- 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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## Thank you!

# Any Questions?

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Jon Haveman, Ph.D.

Jon@NEEDecon.org

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