

Econ 323

Economic History of the U.S.

Prof. Eschker

Spring 2016

Today's Topics

- Gordon reading for next Monday
- Essays
- Income Inequality
 - Data
 - Lindert findings Colonial Times to Present
 - Explanations
 - What is “best” distribution?
 - Social Mobility

What does Inequality Look Like in the U.S.?

- Not looking at wage differences by race, sex, or age
- Looking at distribution of income

What does Inequality Look Like in the U.S.?

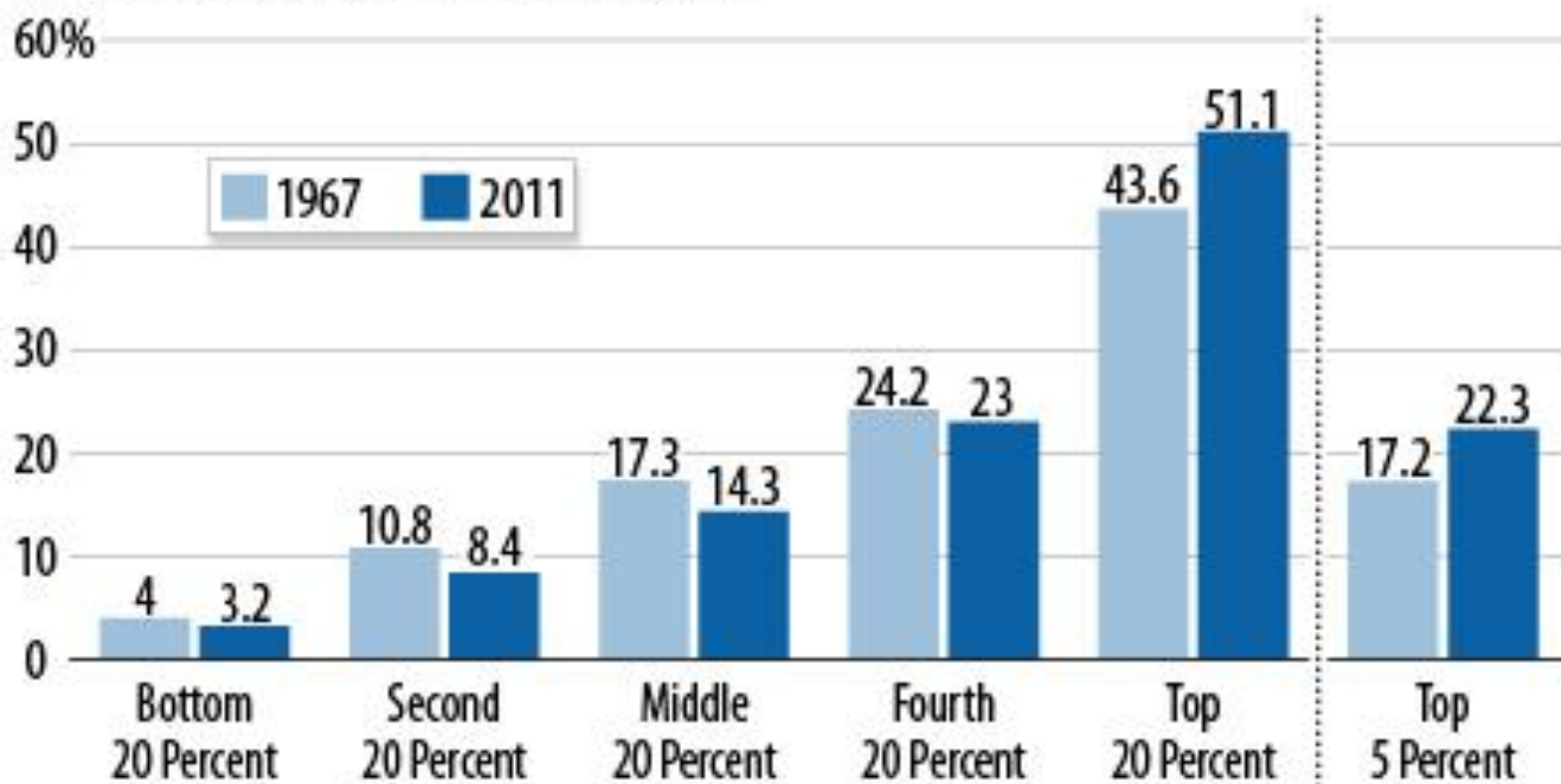
Example: \$30 total

Which distribution has *greater inequality*?

	Chris	Pat	Jerry
distribution#1	\$5	\$10	\$15
distribution#2	\$5	\$6	\$19

Income Shares Growing at the Top, Falling Everywhere Else

Share of household income, 1967 and 2011



Source: Census Bureau.

Top income shares. United States. 1913-2012

Sources: The World Top Incomes Database. <http://topincomes.g-mond.parisschoolofeconomics.eu/>

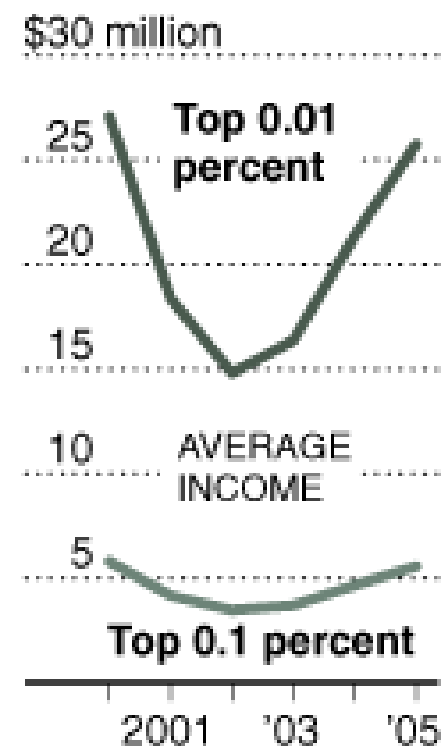
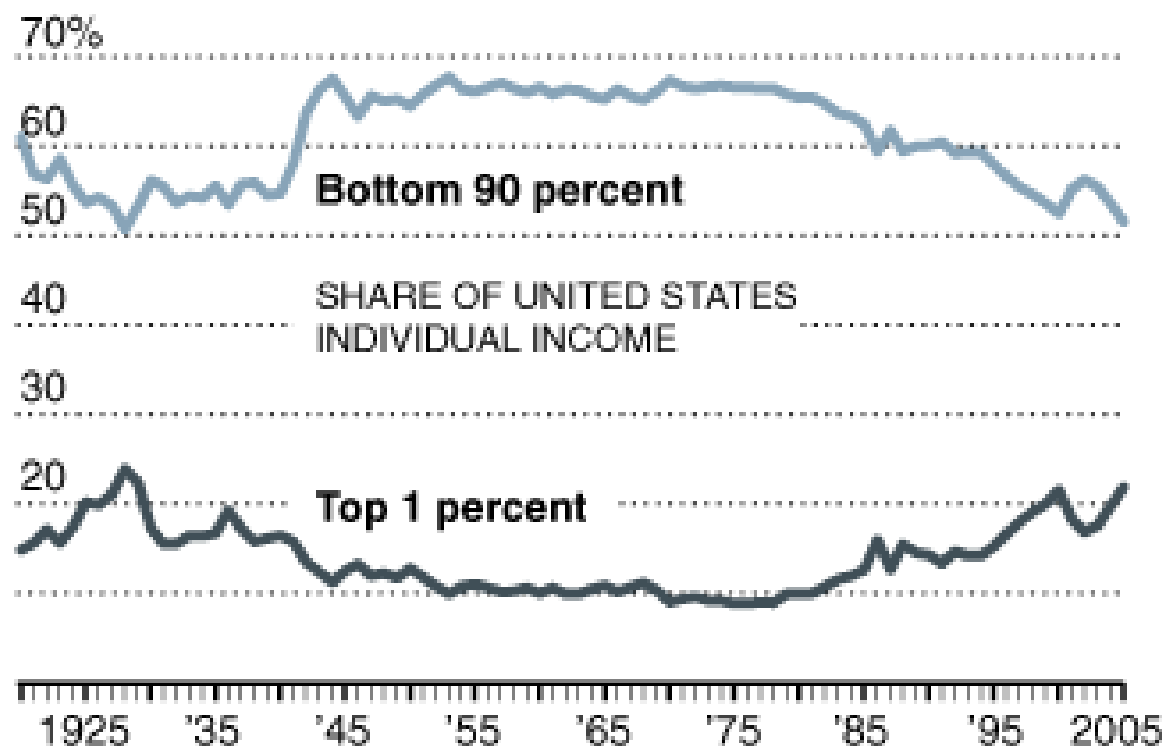
Piketty & Saez (2007)



✓ Top 0.1% income share

The Roaring 2000s

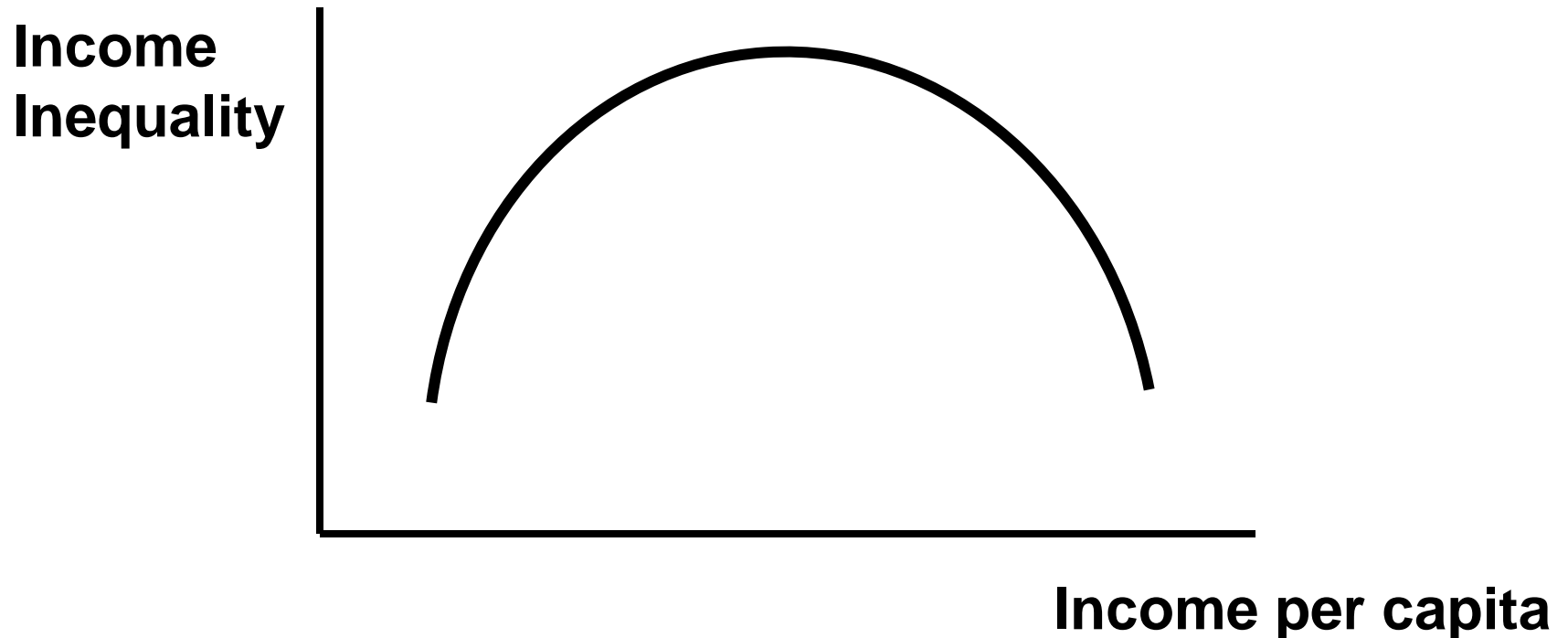
After a brief dip in the early 2000s because of a decline in the stock market, the share of the nation's income that goes to those at the top has begun to climb again, hitting a level not seen since the 1920s.



Sources: Thomas Piketty, Paris School of Economics,
and Emmanuel Saez, University of California, Berkeley, from I.R.S. data

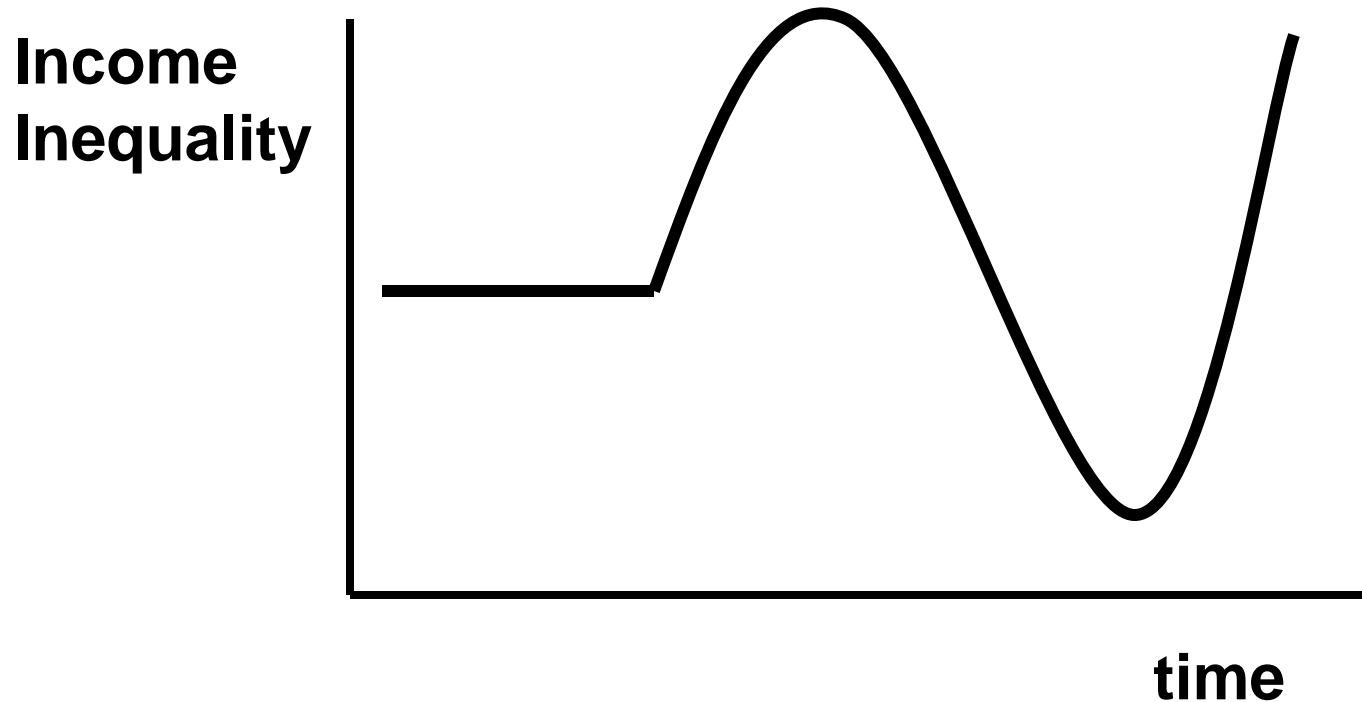
Kuznets Curve

Income inequality tends to rise then fall as a country develops



U.S. History of Income inequality (from Lindert)

The U.S. has seen a recent rise in inequality



- Lindert looks at “Pre-fisc” which is income distribution BEFORE the government redistributes with transfer programs like welfare and foodstamps.

4 periods of changing inequality

- Colonial
- Industrialization
- Post-Great Depression
- Since 1975

Explanations for Inequality Changes

1. Population growth

Baby boomers entered the labor force in 1970s, and young workers earn less. Also more immigrants.

2. Changes in skills level of workers

More people getting an education may decrease inequality.

3. Biases in technological change

Robots seem to replace low skilled workers, not highly skilled.

Explanations for Inequality Changes

4. Product demand shifts

With globalization, U.S. exports high tech that rewards high income workers and agriculture exports falling

5. Labor market institution changes

Unions are weaker

6. Government fiscal redistribution

Government taxes rich which may level playing field for future generations

Last thoughts on Income/Wealth Inequality?

Is Income Inequality a Problem?

Distribution vs. Efficiency

(how pie sliced) vs. (size of pie)

Doesn't any **change** in inequality make some people worse off?

Jerry doesn't want to go from distribution #2 to #1, but Pat does

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What's the “best” income distribution?
Depends on what makes “society” happiest

Social Welfare Function:

A function that combines the utility functions of all individuals into an overall social utility function.

$$SWF = \text{Function } [U_1, U_2, \dots, U_N]$$

where U_1 is the utility of person 1, etc.

$$\textit{Utilitarian SWF} = U_1 + U_2 + \dots + U_N$$

total sum of utility matters

Government should help everyone

$$\textit{Rawlsian SWF} = \min (U_1, U_2, \dots, U_N)$$

Only the least well off person matters

Government should help those at the bottom

$$\textit{Egalitarian SWF} = \frac{1}{U_{\text{richest}} - U_{\text{poorest}}}$$

Better off with no extreme differences

Government should take from the rich and give to the poor

Decreasing marginal utility of income

- As your income rises, each additional dollar gives you a smaller amount of happiness
- This implies that for in general, a redistribution of dollars from rich to poor increases social welfare
- This is true of all three of the above SWFs, as long as it is costless to redistribute dollars

How easy is it to move up the income ladder?

- THE TRUTH ABOUT SOCIAL MOBILITY
- Gregg Clark
- <https://www.thersa.org/discover/videos/event-videos/2014/03/the-truth-about-social-mobility-/>