

Measuring Inequality

1. Gini Coefficient

- (a) A measure of how much of the income each fraction of the population holds.
- (b) The higher the number, the more unequal the distribution of income.

2. 90/10 income ratio

- (a) Measures the ratio of the income going to the 90th percentile of the income distribution to the 10th percentile.
- (b) Good for understanding how the very rich compare to the very poor.

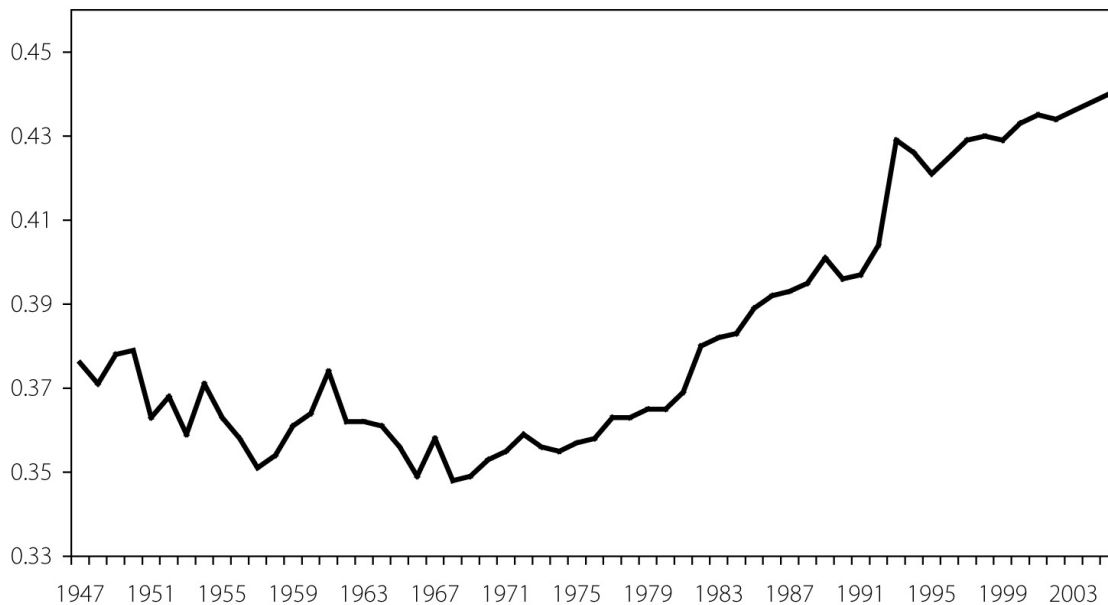
3. 90/50 and 50/10 income ratio

The U.S. in International Comparison

1. Brazil
2. Nicaragua
3. South Africa
4. Russian Federation
5. USA
6. UK
7. Latvia
8. Germany
9. Italy
10. Sweden
11. Japan
12. Denmark
13. Hungary

Inequality

Family income inequality, Gini coefficient, 1947-2005



Note: A 1993 survey change led to a one-year jump in inequality.

Source: U.S. Census Bureau.

Figure 1L from: Mishel, Lawrence, Jared Bernstein, and Sylvia Allegretto, *The State of Working America 2006/2007*. An Economic Policy Institute Book. Ithaca, N.Y.: ILR Press, an imprint of Cornell University Press, 2007.



Distribution of Income by Households versus Individuals

1. Individual income is less unequal than household income.
2. Assortative mating
3. Discrimination
4. Variations in household size and number of earners.

Why has income inequality increased?

1. Less progressive tax structure
2. Decline in the real value of the minimum wage
3. Decline in unionization
4. Foreign trade and outsourcing
5. Changes in demand for labor

Changes in the demand for labor.

- Skill-biased technical change.
 - This is the idea that skill requirements for most jobs have changed.
 - As demand for certain skills increased, so did income for people with those skills.
 - The problem is that supply of those skills also increased.
 - It is still an open question whether demand increased enough to generate this effect. It seems unlikely.

Poverty and Inequality

1. Although inequality increased, poverty decreased.
2. This is true despite the fact that incomes for the poor did not increase at all since 1980.
3. This happened because of a failure to update the poverty standards.
4. The income associated with poverty status rose slower than prices.

Persistence of Poverty in the U.S.

- This is different than what the book calls persistence of poverty.
- This is the degree to which the child of a person in poverty will also end up in poverty.
- The U.S. has one of the lowest rates of upward mobility in the developed world.
- Only 1 in 20 people born in poverty will move above average income.
- In Europe, this number is closer to 1 in 8.
- Why is upward mobility so low in the U.S.?
 1. High variance in the quality of schools.
 2. Cost of higher education.
 3. Social barriers.
 4. Perceptions about potential success.

Policies to reduce poverty and inequality

1. Minimum and Living Wages
2. Unemployment Insurance
3. Antidiscrimination and job security policies
4. Transfer programs.

The Earned Income Tax Credit

- Many believe that transfer programs provide an incentive to not work
- The EITC is a transfer program that only takes effect if the person is working
- It is a transfer that decreases with the amount of money a person makes.
- It is supposed to provide an incentive to work because it effectively increases your wage.
 - Assume the EITC is 40%
 - This means that for every \$1 you earn, the government gives you an extra \$.40
 - If your job pays \$6 per hour, you actually earn \$8.40.
 - As you wage increases, the subsidy decreases.