

LS C180U: Wealth and Poverty Lecture Notes

Week 1: Lecture 1 Wealth & Poverty (1/20)

The paradox

- Real US GDP Growth Adjusted for inflation has grown exponentially
- Gap increased post 1979 between productivity and typical worker's compensation gap
- Average hourly wages in the us seasonally adjusted
- Incomes of the top 1% have grown 7 times faster than the bottom 90%
- Income growth has changed a lot in the last 30 years
 - Growth is now within the majority of higher income
- Share of total
- Examining why and policy

Note on income and wealth

- Income is a flow of earnings over a certain time period, usually a year
- Wealth results from that flow, measured as total assets at a particular time
- Income also flows from wealth
- Increasing share of wealth from income
- 400 of wealthiest americans hold 20% of the US GDP

Economic Inequality by Race

- Women have been having higher income compared to 1979

Mobility

- Americans raised at the top and bottom are likely to stay there as adults
- Less mobility down or up

Should we care?

- The rewards of great wealth fuel entrepreneurship from which we all benefit
- It's not a zero-sum game
- Targeting the rich is socially divisive
- How is it not zero sum game

Week 4 Discussion: Technological change and Globalization (2/6)

Increased access of nondomestic goods

Impact of Globalization

- Employment at US textile plants have fallen by $\frac{2}{3}$ over the past 20 years
- Negative impact of globalization
- Stratification between those who can adapt and those who cannot
- Government's role in insulating certain groups of impacts of globalization
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Impact of technological change

- 70% of robots are used for manufacturing jobs

- Workers are replaced on average by 1 robot from 1990 - 2007
- Year when jobs lost to automation stopped being replaced by an equal number of similar workplace opportunities

Who benefits

- Symbolic analysts
 - Creative, engineering managerial
 - More production from fewer people

Who is hurt

- Skills biased change
- Routine production

Policy Changes

1. Government provided
 - a. Lifetime training accounts
 - b. Expanding technical trade schools
 - c. Tuition free community college
2. Employer provided
 - a. Retraining workshops
 - i. Coal workers -> renewable energy

Wealth Regulation

- Trade adjustment assistance
- Stricter wealth/estate taxes
- Intellectual property
- Earned income tax credit
- Supportive safety net
- Wage insurance UBI
- Universal healthcare, childcare
- Dignity
 - Strengthen unions

Memo 1

1. Frame your problem
 - a. Income or wealth inequality
 - b. Don't complete your whole analysis within your problem frame
 - c. Do not embed your solutions
 - d. Don't expand or confine the scope of your problem excessively
 - e. Too much income inequality
 - f. Don't use a solution in your problem frame
2. Quantify the problem with
 - a. Concrete data driven measures that describe the nature
 - i. What is the size of the problem
 - ii. Is that a big problem

- iii. Is the problem increasing over time
3. Diagnose your problem by asking
 - a. Considering critically evaluation arguments and evidence about driving factors/causes
4. Rationalize government intervention to address the problem by
 - a. What is the geopolitical scope of this problem
 - b. Why is your problem a public problem
 - c. Justify using
 - i. Market failure
 - ii. Shared social preference
 - iii. Unacceptable institutional/distributional outcomes
 - d. Respond to counter arguments
 - i. Why are they wrong
5. State objectives for your policy analysis by asking
 - a. Objectives should be concrete and limited
 - b.

Week 4: Lecture 4 Widening Inequalities of Place (2/10)

People are more dependent on

ALL states

- States provide nearly half of school funding

California

- K-12 funding sources
 - 58%
- Public-private school or private public schools
- Oakland vs Piedmont
- How much public service depends on local taxes \
- More wealthy places have more and more amenities

"Why should we share our money with *them*"

- How much is class, race,
- We (who have more money) don't to share our tax revenue

Difference in race by location

- Laws and regulations and legacy of laws and regulations
- 1916: St. Louis enacts ordinance that bars blacks where 75% of residents are white
- 1930s: WPA builds segregated public housing
- Redlining for mortgage loans
- FHA loans: guarantees only on white neighborhoods
- 1950s-1960s "urban renewal"
- Federal highways cut through and fence in black neighborhoods
- 1968: developers receive federal tax credits to build low-income housing
 - States decide which projects get the tax credit

- Texas department of community affairs vs inclusive community project, policies that have the effect of increasing racial segregation violate act
- Racial gap over generations
- 1. Rental units don't get the benefits of raising house prices
- 2. Racial gap over generations
- 3. Isolation And perpetuating poverty

Racial discrimination geographically

- Old assumptions
- 1. Most racial segregation results from personal choices
 - a. Most from legacy of laws and regulations
- 2. Black population inhabit urban cores, whites inhabit suburbs
- 3. Geographic is dependent on wealth

Education sorting

- Wealthy places can't get the service workers they need
- Berkeley is one of the most unequal in the

Major legal actions

- 1870s bans on criminals, polygamists, anarchists, and importers of prostitutes
- 1882: chinese exclusion act
- 1921 and 1924: country quotas
- Income and wealth
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Week 5 Discussion: Inequalities of Place (2/10)

Over the past fifty years, America has geographic divergence based on income

Scale

- Within nations,
- within regions
- Within cities

Drivers

- Zoning, redlining, subprime lending, blockbusting
- Creation of new local governments within the goal to exclude
- Blockbusting: white suburban communities, moving black families in to convince white people to sell their homes for cheaper, selling them at a higher rate

Case study: detroit & Grosse Pointe park, MI

- Physical barriers that are built up

Inequalities of Place: within nations

- Drivers
 - Deindustrialization
 - In-country effects of globalized cities
 - Reduced population mobility

Week 6 Discussion (2/10)

How Amazon Fends off unions

- Undertake to provide services
- Salaries of union workers

National labor protection acts

6.5% workers are unionized down from $\frac{1}{3}$

- Difficult to innovate
- Everything must be negotiated with union

Employer decides whether or not

- Unions are banned from a year
- US has low rate of 10% unionized workers

Week 6 Lecture: Interaction of Wealth and Political Power (2/24)

Outline

1. How the market is organized
2. The vicious cycle
3. The vicious cycle in action: taxes
4. The vicious cycle in action: property, contract, default, enforcement
5. How do we end the vicious cycle

Instead of free market vs government

- Who or what has the most influence on the officials who decide on the laws and regulations and how they're enforced
- Market constituting laws and regulations pre-distribute income and wealth
- Certain government programs that redistribute it

Preferences of the average American appear to have a only a miniscule near zero statistically non-significant impact on public policy

Much political power through

1. Keeping issues off the public agenda
2. Blocking proposed laws
3. Interpreting laws
4. Not enforcing laws
5. Framing the choice while hiding the others

The vicious cycle

1. Concentrated wealth at the top provides more clout to get changes in laws and regulations
 - a. Power: zero sum game at the top means less at middle and bottom
2. These changes in laws and regulations increase wealth at the top
3. Generates more wealth and more power at the top

Corporate spending on election rose

Taxes

- Donation becomes corporate investments

Cannot have a market without these basic building blocks

1. Property
 - a. What can be owned, and for how long
2. Contract
 - a. What can be sold, and under what terms
3. Default
 - a.
4. Enforcement

Idea of property changes over time

Increasing intellectual property protection

- Patent protection originally 14 years for new and useful machines. Now 20 years for broad array of ideas and often renewed
- Copyright protection: 14 years before now of any original visual, musical, software, for 95 years

How to enforce

- Plea bargaining

What can be done to end the vicious cycle of wealth and power

- Easier for low income people to vote?
- Will any measure work if income and wealth are concentrated at the top
- America has a choice, either we have great concentrations of wealth in the hands of a few or we have a democracy. WE can't have both
- 1930s to 1970s: virtuous cycle, growing middle class, more support for social supports, more voting rights
- 1970s-1980s: vicious cycle set in
- How do we reset, how to regain a virtuous cycle
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Week 7 Discussion (2/27)

How economic power can influence public opinion and policy outcomes

- Tools of political power
 - Lobbying
 - Dark money
 - Revolving door hiring
 - Buying access
 - Advertising
 - Think tanks
 - News /media
 - Philanthropy

Building blocks of capitalism

Week 8 Discussion (3/6)

Progressive Tax

- Where tax rate increases as the taxable base amount increases

Marginal vs effective tax rate

- Increases based on how much additional income is earned, marginal rate applies onto the income above the threshold

Effective Tax rate

- Total percentage of your income that you pay in taxes

Tax Expenditures

- Encourage tax payers to take certain actions in exchange for a break on their taxes, taxable revenue that is NOT collected by the state or federal government
- Employer provided health care and pensions

Tax Deductions

- Expenses that can be subtracted from a taxpayer's total income to reduce the amount that is taxable

Tax Credits

- Applied after income has been calculated for the purpose of taxes
- Credits over deductions

Define the tax

- 110%
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Commonly Used Criteria

- Effectiveness
 - How well does it meet the state policy objective
- Efficiency
 - Cost benefit analysis
- Equity/Justice
 - How will it impact different groups of people
- Political Feasibility
 - How likely is this policy likely to pass, who's supporting it \
- Freedom, community, economic freedom, privacy, safety, transparency
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Use a ranking evaluation matrix

- alternative

Week 8 Lecture: Tax Expenditures (3/10)

Tax Credits most valuable

Spending through the tax code skews towards the top

2. Inflation and REcession – the business cycle

- Inflation followed by recession
- More demand than capacity: prices rise (inflation)
- Less demand than capacity: recession
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3. Fiscal policy

- In recessionary periods with high unemployment, need for expansive fiscal policy , increase spending and lower taxes

Week 9 Discussion: Federal Reserve (3/13)

What is Federal Reserve

- Influence growth by setting interest rates
1. Keep the economy growing
 2. Keep prices stable
 3. Limit unemployment
- Fed uses interest rates to balance growth
 - Expansionary or contractionary

Boom and Bust Cycles

- Expansionary v contractionary fed policy
- Fed lends to banks at lower interest rate

Hawkish vs dovish

- Hawkish: High interest rates -> lower demand -> low inflation
- Dove: Low interest rates -> high demand -> high inflation

Inflation

- Examining price changes in a basket of the same or similar goods over time

Unemployment & Inflation NAIRU

- Theoretical link between inflation and unemployment
- Wages are key determinant of prices while interest rates determine total economic activity
- If lower unemployment increases wages

Debt Deficits, and macro policy

- Fed is trying to get inflation under control
- People are at odds with fed board members about how much / whether to increase interest rates
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Week 10 Discussion: Racial Equity (3/20)

Week 12 Discussion: Social Equity (4/3)

Government assistance programs

- Income support
 - Social Security
 - TANF
 - EITC
 - Unemployment Insurance (UI)
- Health
 - Medicare
 - Medicaid
 - CHIP
- Food Assistance
 - SNAP
 - WIC
- Housing
 - Public Housing
 - Section 8

Welfare vs. Entitlement Programs

- Welfare programs
 - Government programs in which person must meet eligibility criteria and income requirements
- Entitlement programs
 - Certain qualified individuals are entitled to by law regardless of need
 - Medicare, Social Security, Unemployment insurance

Social Insurance vs Public Assistance

- Social Insurance
 - Purpose is to provide insurance against adverse events
 - Triggered by insured event
 - Funded by individuals payroll taxes
- Public assistance
 - Means-tested programs: depend on current needs, benefits phase out
 - Funded through local, state, federal taxes

Welfare

- Aid to families with dependent children or AFDC
- Had provided matching federal funds for state welfare programs

Where the safety net fails

- TANF needed to be looking for jobs to get

Week 11 Lecture: Reducing Health Inequities (4/7)

Outlines

1. Health expenses and outcomes: how does the US compare
2. Income and health
3. Racial disparities

Comparative Health Spending and effectiveness

- Retail per capita is very high

Further away you are from the federal poverty level, the longer you live

- The gap widens
- Can't afford
- COVID 19 had different effects on different races

"Deaths of despair" college and non-college

- Non college are much higher death rates

Paying for healthcare: private for-profit health insurance

- Deductibles are rising even faster than premiums and wages
- Decline of employer provided health insurance (before covid) dramatically decline
- Sign up healthy people and avoid sick people

Concern about america being too powerful and physicians were opposed to government getting involved

- Truman pushed national healthcare pushed against pharmaceutical and physicians
- Need to come up with policies that can pass not just are good

Medicare and Medicaid

- More than half of state tax revenues fund education and health care

ACA provisions

- Subsidizes individuals and families up to 133% of poverty level in the states that expand medicaid
- Requires
- Paid for by higher medicare taxes on incomes over 200k single and 250k two earners
- 3.8% surtax on capital gains of high income individuals and families
- Administrative costs are very high

Smoking was victory in public health

- Smoking correlated with income
- Guns is now the highest cause of death in young people

Racial caused violence

- Much more black and hispanic feared for life with police than whites

- Understand the social context of the debates and why they are limited
- Looking at the individual and not the social context that the individual looks inside

Week 12 Discussion: Reducing Health Inequities (4/7)

Healthcare

- Premium: amount must be paid for enrollment in an insurance plan
- Deductible: amount an individual has to pay out of pocket before insurance will cover remaining costs
- Copay: specified amount an insured person pays toward healthcare services

Affordable Care Act

- Expand access to health insurance for 47 million uninsured americans
- ACA accomplished through medicaid expansion

Employer Mandate

- Over 50 full time employees
- 50 or less full time employees
 - Encouraged to use small business health options program market place to provide health insurance to employees

Individual Mandate

- Minimum coverage requirement or pay penalty
- Structured as tax and paid through tax returns

Parents health plan

- Until age 26
- No denial of coverage based on pre existing conditions
- Community rating
- Essential health benefits

Medicaid expansion

- Aca non-elderly, childless adults now eligible

Racial Differences in perceptions of safety

Defining health and health equity

- Not earning a livable wage, lack of transportation, mass incarceration, police brutality, systemic racism

Week 15 Lecture

Vicious cycle of widening inequality

1. People with the right assets
2. People without the right assets
3. Many face barriers of systemic racism
4. Others become angry at a rigged system
5. Some become susceptible to the politics of resentment – racism, xenophobia, demagoguery

6. Divisiveness increases

3 elements of positive social change

1. Growing dissonance between reality and ideals
2. Growing resentment
3. Change

Struggle against systemic racism

Work avoidance Mechanism #1

- Denial
- Will help people overcome the denial to do the work

Work avoidance Mechanism #2

- Escapism
- Doesn't affect me or anyone I love, can escape from it,
- Overcome their escapism, you cannot escape from

Work Avoidance Mechanism #3

- Scapegoating
- They brought it on themselves, their own problem

Work Avoidance Mechanism #4

- Cynicism
- Nothing can be done

Increasingly

- Need more self-knowledge
- Set your own hoops
- Find your own feedback
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