Inequality

income inequality := inequality across the money people receive in a given period of time

wealth inequality := inequality across all the assets (savings, cars, houses, etc) that people currently have

} wealth inequality > income inequality

permanent income inequality := inequality across average lifetime incomes (# may be a better measure of living standards)

spending inequality := inequality across spending (generally lower bc rich ppl save)

intergenerational mobility := the extent to which the economic status of children is independent of their parents (inequality of opportunity)

Trends

- top 20% of people earn ~50% of income $\frac{1}{2}$ this is <u>increasing</u>
- average incomes for the richest are skyrocketing ... the top 1% specifically see astronomical richness
- avg adjusted (real) wages have not really changed

Causes of Inequality in US

- difference in wages/salaries
- life cycle
- living / working arrangements
- stock market / property

Gini Coefficient

- 0 = everyone has same income
- 1 = one hh has all the income

} ↑ Gini => ↑ inequality

Stock Market

- ~50% of hhs own any stock
- top 1% of earners own over 50% of stock

} stock market ≠ economy

Poverty

- absolute poverty : are you in danger of dying?
- relative poverty : are you poor relative to living standards of contemporary society?

} absolute poverty level < relative poverty level

- US poverty line is relative to reflect US as a high income country but absolute in that it is not updated much
- more than 50% of Americans will experience poverty at some point   BUT the US poor are not globally poor.

Government Redistribution of Income

- Through progressive tax, the government raises funds to fund social insurance $\frac{1}{2}$ the social safety net

  ↳ percentage ↑ as income ↑

  same tax on same dollar earned

  · avg tax < marginal tax

  social security,
  unemployment insurance,
  disability insurance,
  MEDICARE

  ↳ cash assistance, tax breaks, income assistance

  means tested := eligibility based on income

  MEDICAID

- Sales tax is generally regressive $\frac{1}{2}$ therefore necessities are sometimes exempt from sales tax

  ↳ percentage ↓ as income ↑

- other taxes are proportional (neither progressive nor regressive)
- Redistribution is costly => trade off between equity $\frac{1}{2}$ efficiency