



Robert Fetry

Ronald Smith, 26
Blackjack dealer
Minot, N.D.
\$10,000



Feters/Retna

Lindsay Lohan, 18
Actress/singer
Los Angeles, Calif.
\$10 million



Kent Stevens

Brian Koonce, 39
Registered nurse
Omaha, Neb.
\$85,000



Kristine Pittner

Beth Wrege, 50
Water specialist
Garner, N.C.
\$75,000



Jose Arco

James Baker, 61
Mayor
Wilmington, Del.
\$91,500



Lloyd Cunningham

Leanne Kramer, 39
Dietitian
Hartford, S.D.
\$49,500



Romas Collado

Jen Kunishima, 31
Pet-boutique owner
Honolulu, Hawaii
\$105,000



Rony Yehli

Erica Eddings, 24
Executive assistant
Forest Heights, Md.
\$40,000



David Hollingsworth

Allen Esterman, 45
Short-order cook
Hampton, Va.
\$23,000



AP/Wide World

LeBron James, 20
Basketball player
Cleveland, Ohio
\$21 million



Courtesy of Z. Rasmussen

Zachary Rasmussen, 36
SFC, U.S. Army
Burley, Idaho
\$65,500

What People Earn

A SPECIAL REPORT



Jeff Miller

Joe Givens, 45
Transit operator
Snoqualme, Wash.
\$53,000



David Tang

Donna Tang, 63
College instructor
Tucson, Ariz.
\$80,000



Ron Amato

D.J. Paris, 31
Webmaster
New York, N.Y.
\$60,000



Chris Moore

Dot Baker, 55
Legal secretary
Sumter, S.C.
\$30,000



Jamie Charbonneau-Pruitt

Ana Hotaling, 39
Martial arts teacher
Ann Arbor, Mich.
\$12,000



Kyle Medina

Ron Harvey, 29
Barber/hairstylist
Indianapolis, Ind.
\$50,000



Carol/Times Herald

Lola Paterson, 53
Flower-shop owner
Carroll, Iowa
\$37,500



Jamie Oates

Dwayne Johnson, 37
Crawfish processor
Lake Charles, La.
\$30,000



AP/Wide World

Condoleezza Rice, 50
Secretary of State
Washington, D.C.
\$180,000



Court Leve

Jessica Sobolowski, 28
Professional skier
Cordova, Alaska
\$30,000



Shannon Griffin

Kamen Petkov, 37
Orchestra manager
Springfield, Ill.
\$24,500



Kelly Tippett

Priscilla King, 33
Insurance agent
Columbus, Miss.
\$150,000



Grant/Windage.com

John Travolta, 51
Actor
Ocala, Fla.
\$25 million



Johnny Miller

Wayne Burton, 64
NASA scientist
Mooresville, Ala.
\$79,600



Jacob Schrier

Nick Mamatas, 33
Horror writer
Berkeley, Calif.
\$18,500



Courtesy of N. Ruiz

Nicholas Ruiz, 25
Intern architect
Wilkes-Barre, Pa.
\$30,000

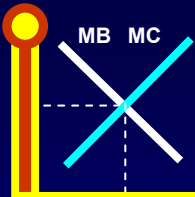
Chapter 13: Labor Markets, Poverty, and Income Distribution

G. Measuring inequality

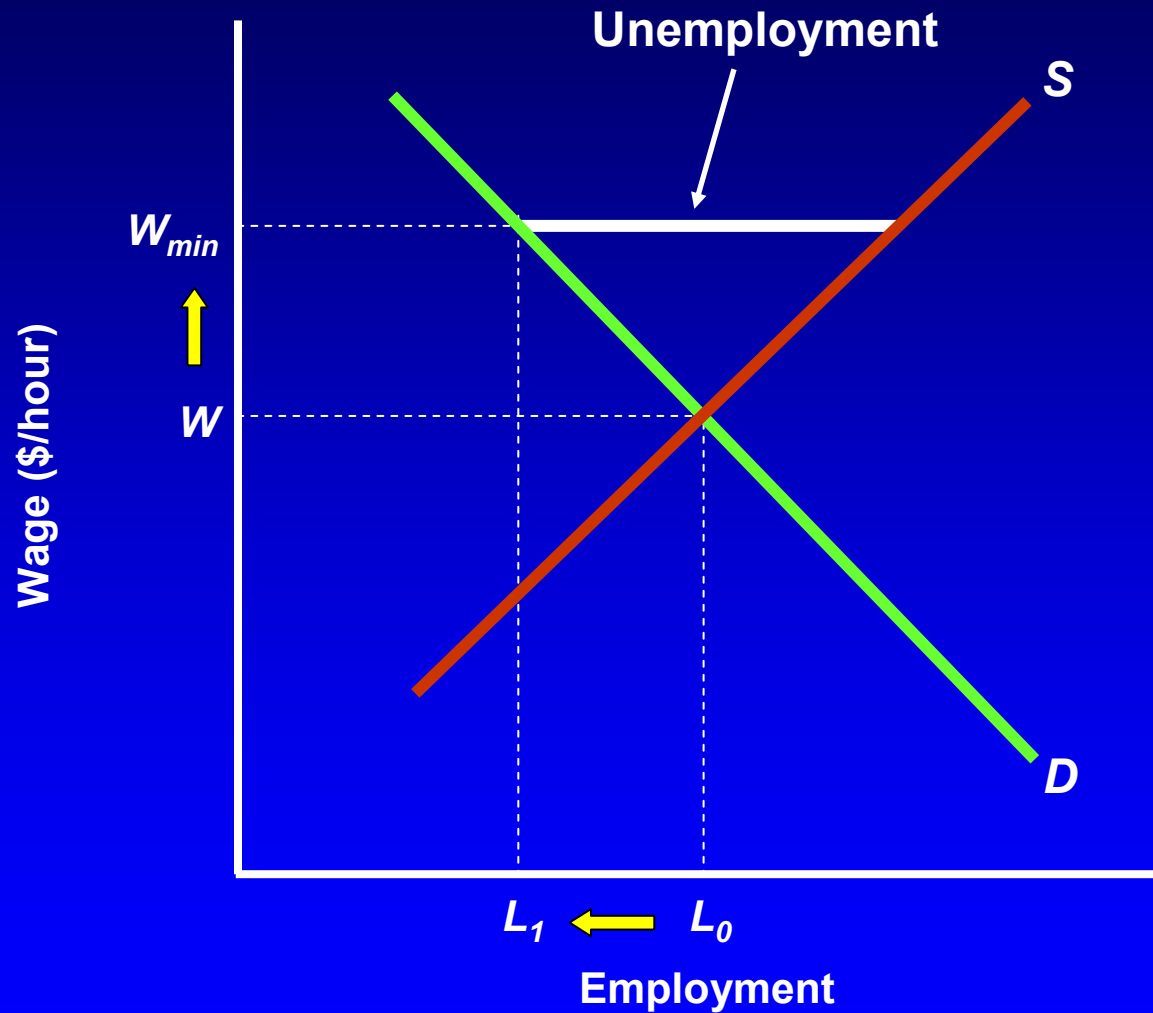
H. Trends in inequality

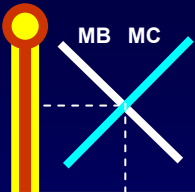
I. Policies for addressing inequality

1. Raising the minimum wage

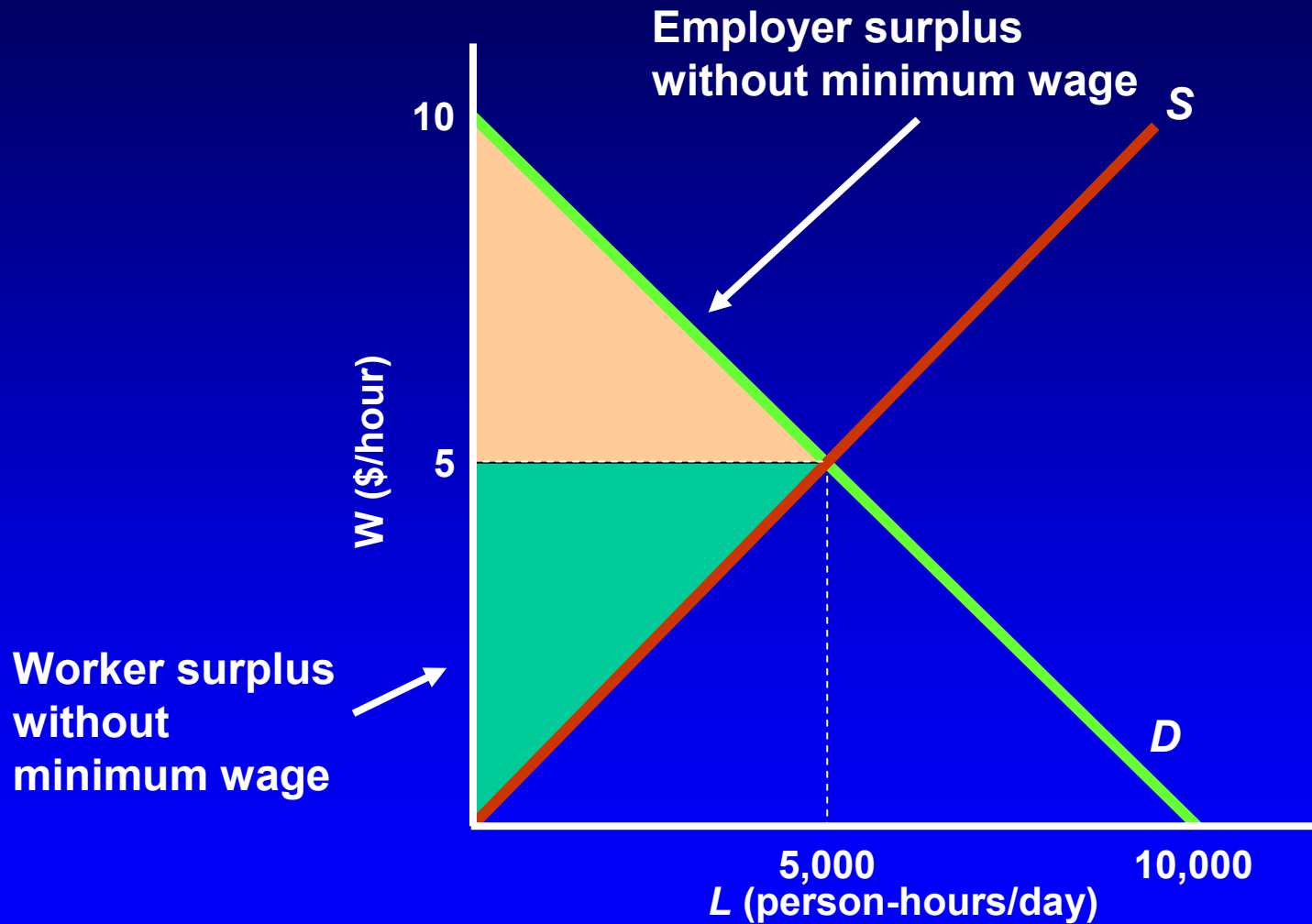


The Effect of Minimum Wage Legislation on Employment

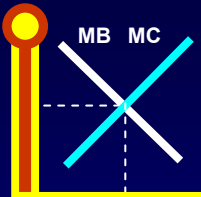




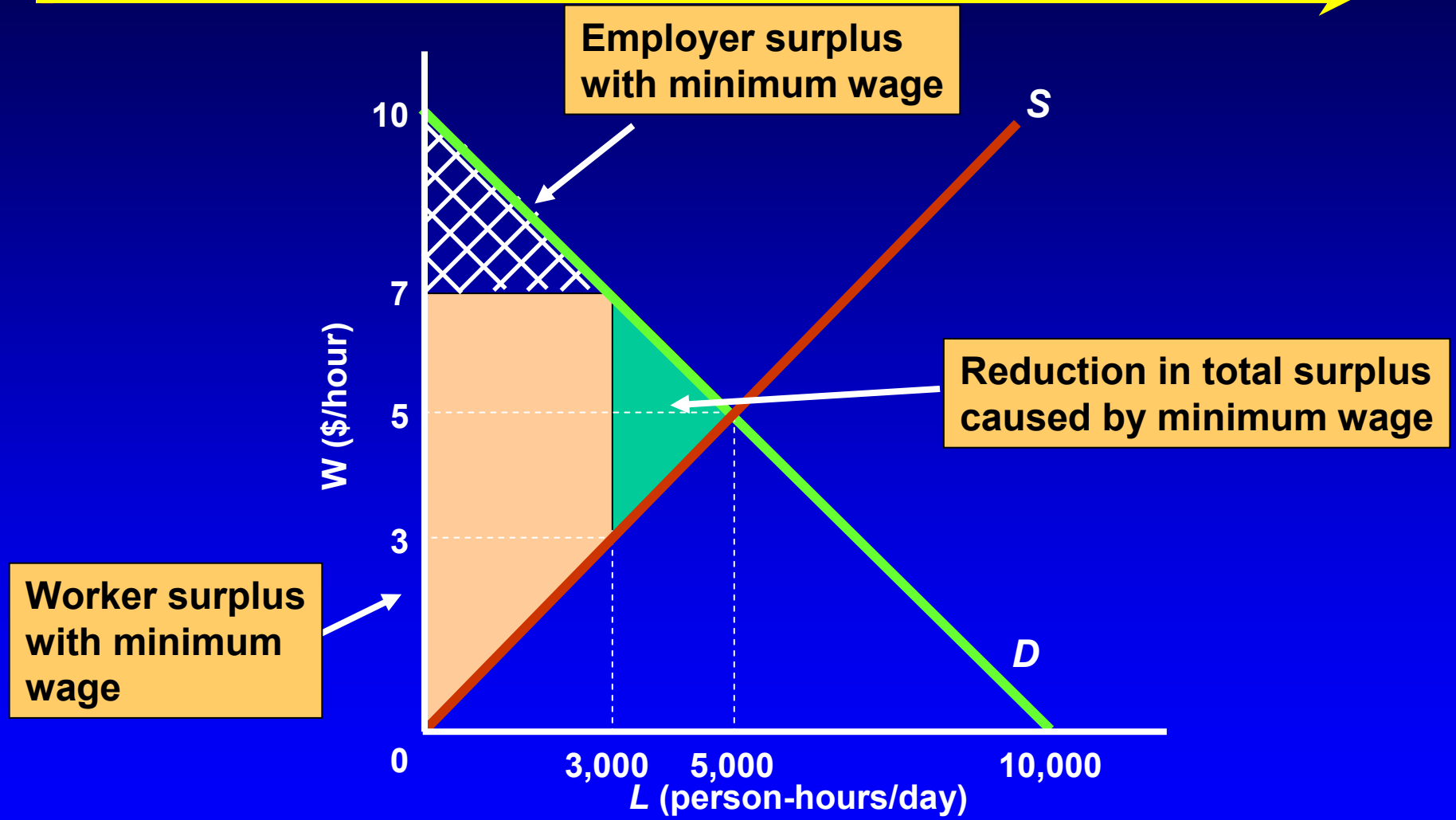
Worker and Employer Surplus in an Unregulated Labor Market



By how much will a minimum wage reduce total economic surplus?



The Effect of a Minimum Wage on Economic Surplus



Conclusion: Raising minimum wage would:

(1) Help poor workers who keep their jobs

(2) Hurt those who lose their jobs

(3) Hurt employers

(4) Be socially inefficient— dollar value lost in

(2) and (3) is bigger than dollar gain in

(1)

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2. Taxes

A **progressive income tax** is one for which the percentage of income going to taxes increases with income.

A **regressive income tax** is one for which the percentage of income going to taxes decreases with income.

A **proportional income tax** is one for which the percentage of income going to taxes is constant.

Personal income tax

The U.S. personal income tax is progressive.

Current U.S. tax rates:

- \$50,000 taxable income, tax is \$8,688 (=17.4%)
- \$100,000 taxable income, tax is \$21,720 (=21.7%)
- \$200,000 taxable income, tax is \$51,143 (=25.6%)

In 2009:

87% of the federal income tax collected
came from the richest 25%

59% came from the richest 5%

37% came from the richest 1%

Source: Tax Foundation

(<http://www.taxfoundation.org/news/show/250.html>)

Payroll tax

The U.S. social security tax is proportional up to limit and after that becomes regressive

Employee and employer each contribute 6.2% of earnings up to maximum income of \$106,800:

- \$50,000 earnings, combined tax is \$6,200
(=12.4%)
- \$100,000 earnings, combined tax is \$12,400
(=12.4%)
- \$200,000 in earnings, combined tax is \$13,242
(=6.6%)

Sales tax

A sales tax is regressive.

Lower-income U.S. households in 2010:

average income: \$31,865

average expenditures: \$33,269

10% sales tax = 10.4% income tax

Upper-income households:

average income: \$241,739

average expenditures: \$123,064

10% sales tax = 5.1% income tax

Source: BLS Current Expenditure Survey
(<http://www.bls.gov/cex/2010/share/higherincome.pdf>)

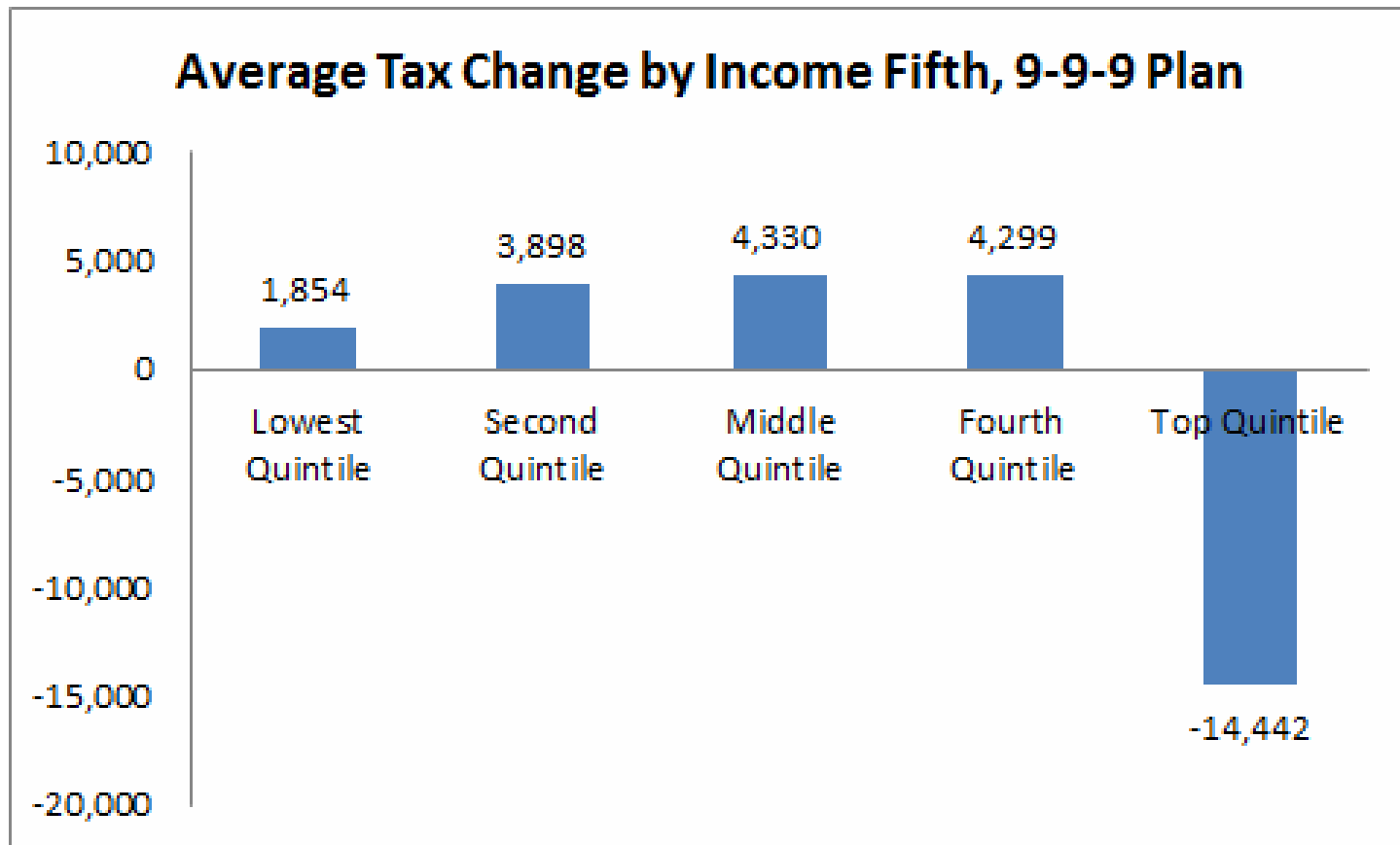
Herman Cain's 9-9-9 proposal.

9% income tax

9% sales tax

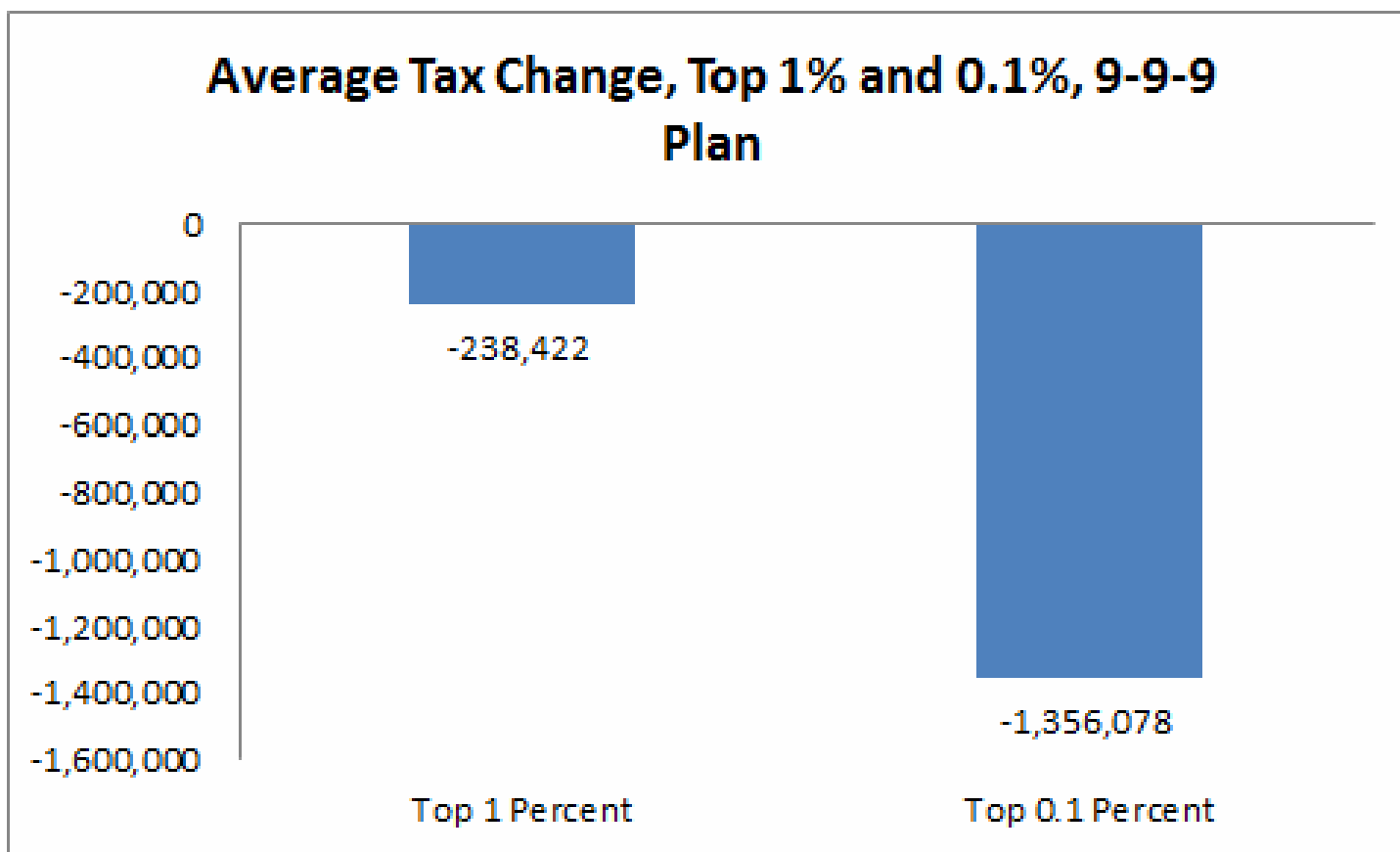
9% business tax

Taxes by quintile under 9-9-9 versus current system



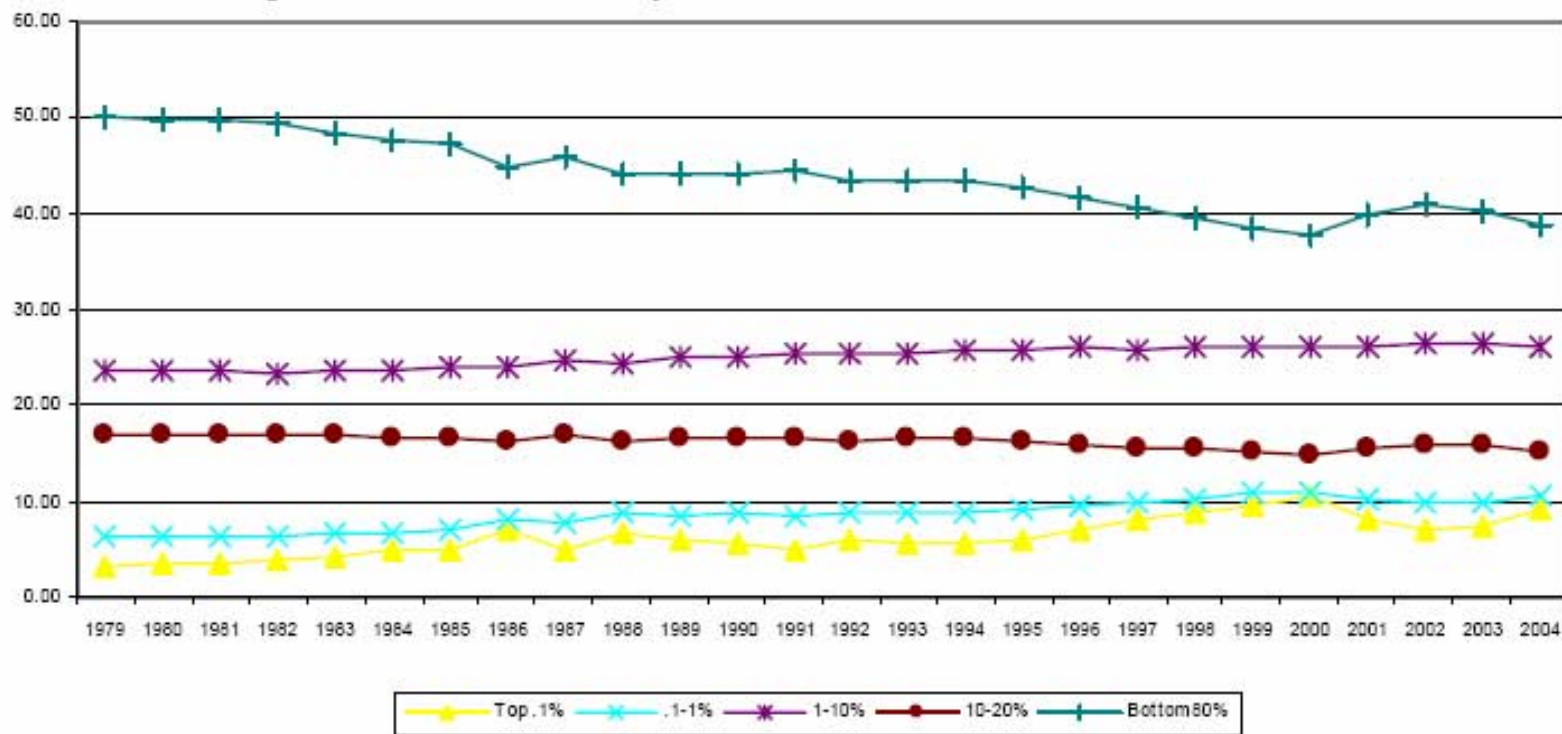
Source: On the Economy (<http://jaredbernsteinblog.com/9-9-9-the-most-massive-redistribution-of-taxes-ever-seriously-considered/>)

Taxes on the top 1% and top 0.1% under 9-9-9 versus current system



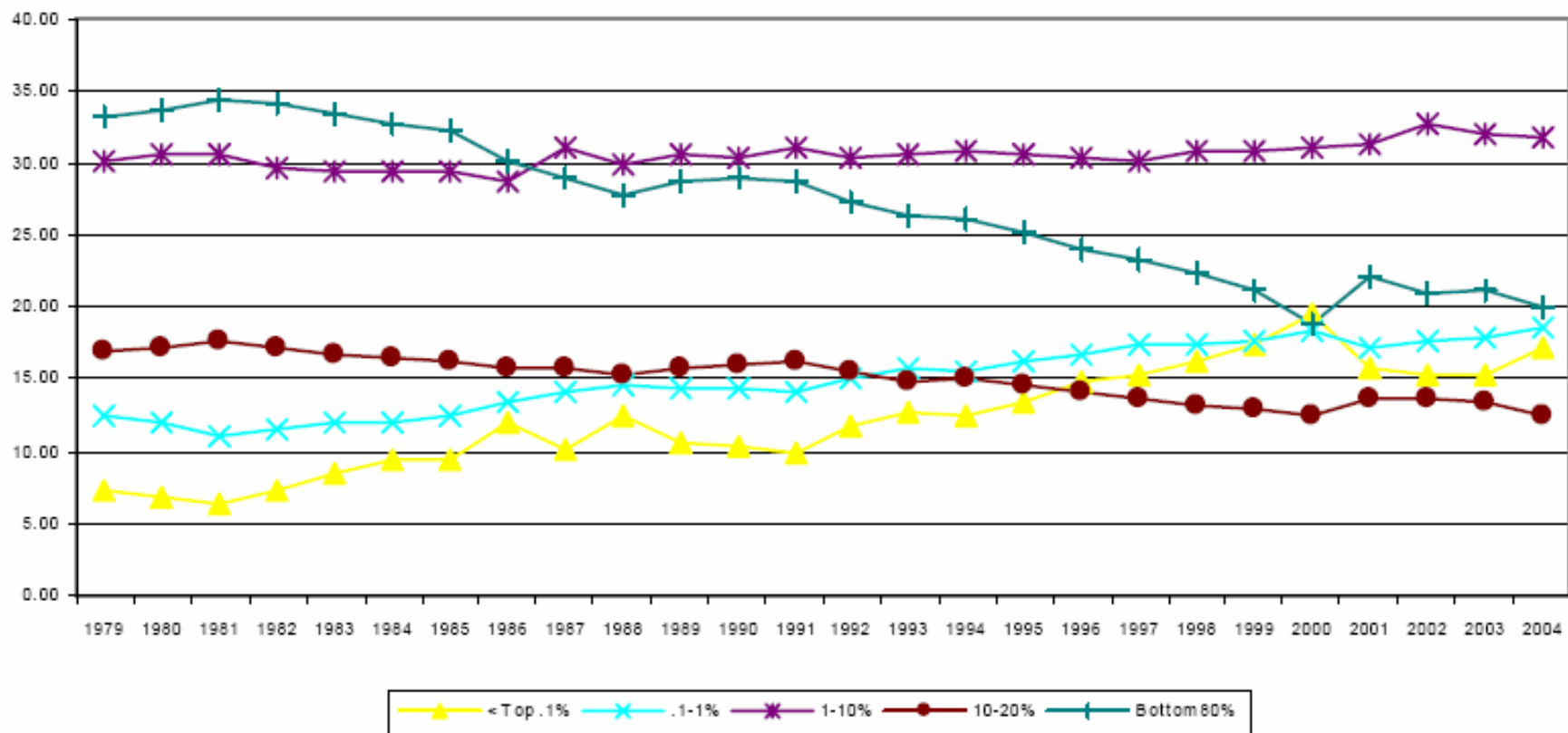
Source: On the Economy (<http://jaredbernsteinblog.com/9-9-9-the-most-massive-redistribution-of-taxes-ever-seriously-considered/>)

Figure B – Income Shares by Income Percentile Size-Classes, 1979 - 2004

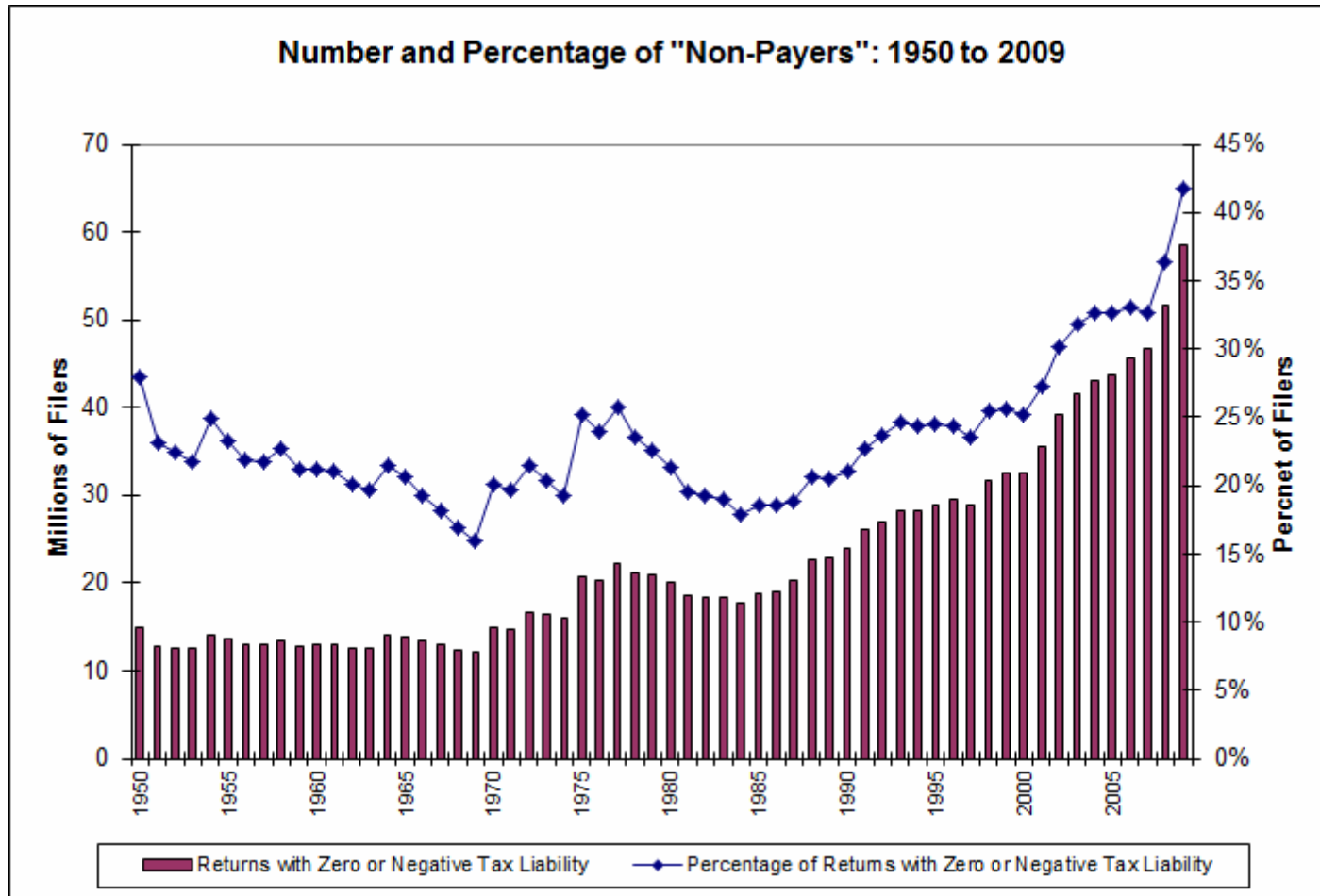


Source: Michael Strudler, et. al., IRS
<http://www.irs.gov/pub/irs-soi/06asapetska.pdf>

Figure C - Income Tax Shares by Income Percentile Size-Classes, 1979-2004



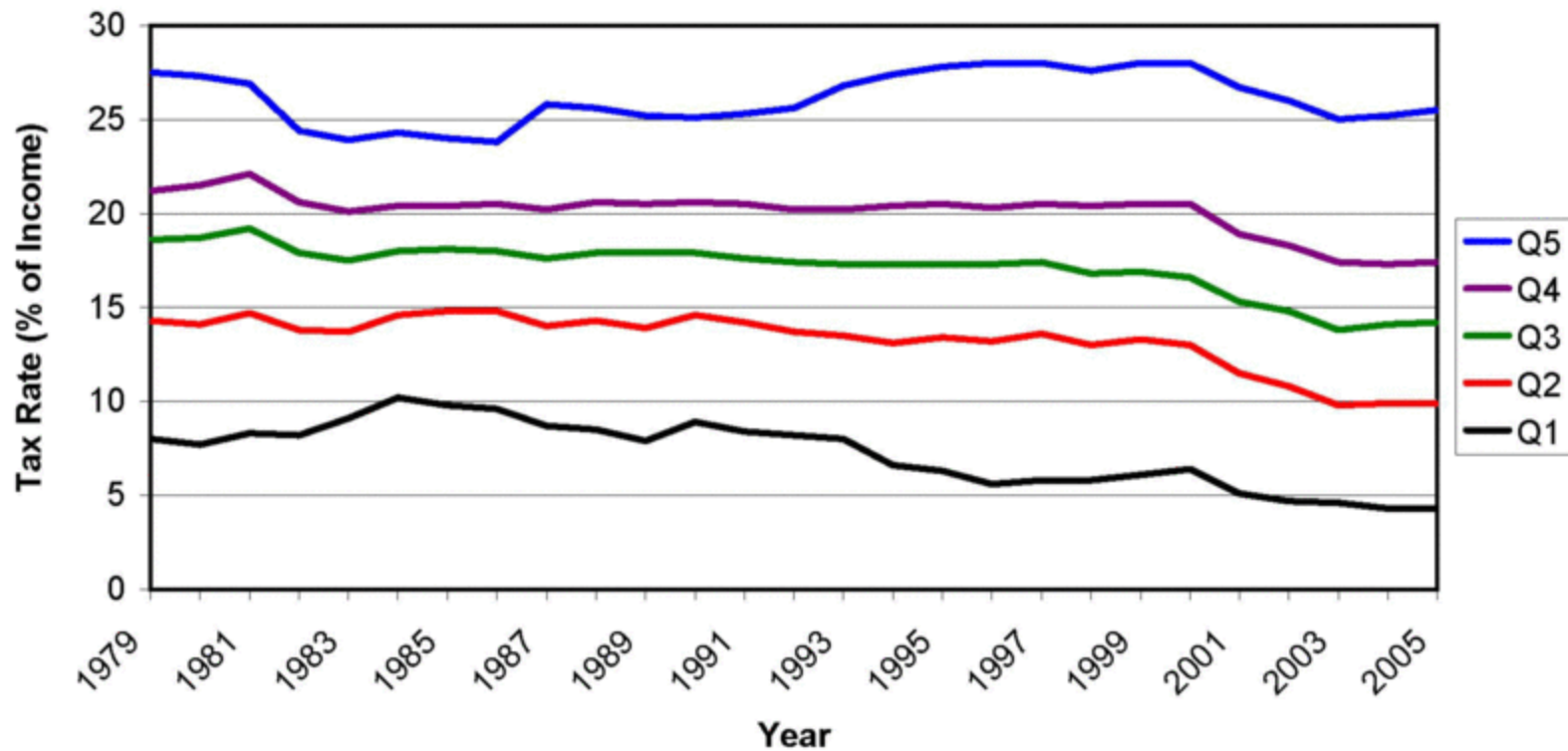
Number and percentage of federal tax forms with zero or negative income taxes owed



Source: Tax Foundation (<http://www.taxfoundation.org/blog/show/27702.html>)

Total Effective Federal Tax Rate, 1979-2005, by Household Quintile.

(Includes income, payroll, and excise taxes. Q1=Lowest Quintile)



Source: Congressional Budget Office. www.cbo.gov/ftpdoc.cfm?index=8885&type=2. Accessed 3/1/2008.

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Figure G-Gini Coefficients for Retrospective Income, Before and After Taxes, 1979 – 2004

Year	Gini Before Tax	Gini After Tax	Difference	Percent Difference
1979	0.469	0.439	0.030	6.32%
1980	0.471	0.441	0.031	6.48%
1981	0.471	0.442	0.029	6.23%
1982	0.474	0.447	0.027	5.73%
1983	0.482	0.458	0.025	5.13%
1984	0.490	0.466	0.024	4.93%
1985	0.496	0.471	0.024	4.86%
1986	0.520	0.496	0.024	4.57%
1987	0.511	0.485	0.026	5.10%
1988	0.530	0.505	0.026	4.82%
1989	0.528	0.504	0.024	4.59%
1990	0.527	0.503	0.024	4.50%
1991	0.523	0.499	0.024	4.58%
1992	0.532	0.507	0.025	4.71%
1993	0.531	0.503	0.028	5.21%
1994	0.532	0.503	0.028	5.29%
1995	0.540	0.510	0.029	5.40%
1996	0.551	0.521	0.030	5.50%
1997	0.560	0.530	0.030	5.37%
1998	0.570	0.541	0.029	5.14%
1999	0.580	0.550	0.030	5.18%
2000	0.588	0.558	0.031	5.22%
2000 Rebate	0.588	0.557	0.032	5.42%
2001	0.564	0.534	0.030	5.35%
2002	0.555	0.525	0.030	5.34%
2002 Rebate	0.555	0.525	0.030	5.41%
2003	0.559	0.533	0.026	4.71%
2004	0.575	0.549	0.026	4.59%

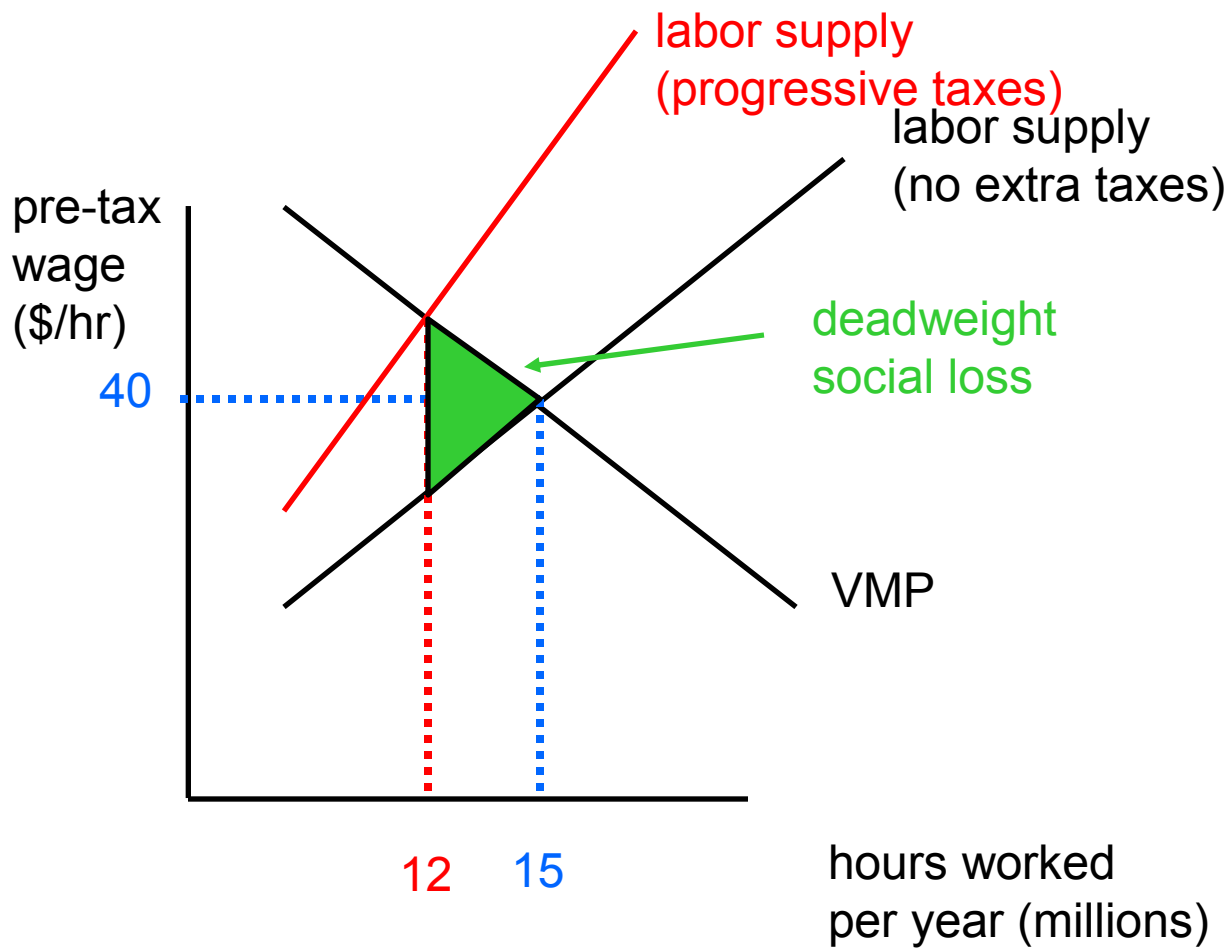
Conclusions:

- rich have a higher share of income
- rich pay higher average tax rates
- rich pay much higher share of income taxes
- in the U.S., taxes reduced the inequality of income and offset the rising inequality over time, but only slightly

Tradeoff in using progressive taxes to redistribute income:

- (1) when taxes are more progressive, it redistributes income from rich to poor
- (2) if progressive taxes discourage human capital investment, it would result in deadweight social loss

Market for computer hardware engineers



With a progressive tax structure, the engineers would pay a higher tax rate the more hours they worked

If progressive income taxes cause computer hardware engineers to work fewer hours or work in other occupations, there is a deadweight social loss

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Direct assistance programs:

- Social Security
- Unemployment compensation
- Welfare

(Temporary Assistance for Needy Families,
Food Stamp, Medicaid)

Subsidized services:

health care, education, day care

Means-tested benefit programs:

You only receive the benefit (food stamps, medical coverage, ...) if you are sufficiently poor

If someone from a poor household works more hours, they may lose their eligibility for Temporary Assistance for Needy Families, food stamps, Medicaid, housing assistance, child care, school lunches, earned income tax credit, ...

Single mother of 2 in Oklahoma in 1999 working at minimum wage (\$5.15/hr)

	no work	20 hr/week	40 hr/week
wages	0	446	892
EITC	0	179	318
FICA	0	-34	-68
TANF	292	163	0
food stamps	329	311	223
Medicaid	207	207	121
childcare copay	0	0	-32
total resources	\$828	\$1,272	\$1,454

Source: Hepner and Reed, Univ. of Okla., 2003

If she went from part-time to full-time, she would work an extra 20 hours per week in order to make her income rise from \$1,272 to \$1,454

Net pay rate: \$2.10/hour

Basic tradeoff:

Equity: we'd like the outcome to be equal and fair where everyone enjoys a decent standard of living

Efficiency: we'd like to make sure that the incentives encourage everyone to have as high a standard of living as possible