

# Distribution of Income

Chapter 22

- 
- Why do some people get paid more?
  - Should some people get paid more?



# Costs of Income/Wealth Inequality

- Absolute poverty = lack of access to basic necessities
- Low opportunity = low quality of life (nutrition, education, etc.)
- Social Unrest

# Benefits of Income/Wealth Inequality

- Greater productivity (incentivized work)
- Risk taking (entrepreneurship & discovery)

# Reasons of Income/Wealth Inequality

- Low human capital: Skills and abilities to be employed keep people in low paying jobs
- Unemployment
- Little opportunity caused by multi-generational poverty
- Oppression
- Incentive to be educated to earn higher income
- Incentive to take risk



# This is normative!!!

- What constitutes an acceptable income inequality?
- Positively speaking: “Market economies result in inequality of income”

# Taxation

*(specifically distribution of income)*

# TAXES

- BE ADVISED: The following taxes are not set up to punish China, or increase holiday shopping





# Direct Taxes

- Imposed on peoples' income or wealth and on firms' profits
- Income, interest on savings, dividends can be taxed

# Indirect Taxes “Expenditure Taxes”

Why did the airline pilot do her shopping for Christmas in Oregon?

- The rate at which these goods are taxed can often be tied to necessity (*Groceries may not be taxed but the dinner out will*)
- What will this do to the boat maker???
- <http://www.nytimes.com/1992/02/07/business/falling-tax-would-lift-all-yachts.html>

# Progressive Taxes

- As income rises, so do taxes
- Low income earners may not pay taxes

<b>Tax Bracket (Single)</b>	<b>Tax Bracket (Married)</b>	<b>Tax Bracket (Head of Household)</b>	<b>Marginal Tax Rate</b>
\$0+	\$0+	\$0+	<b>10%</b>
\$9,075+	\$18,150+	\$12,950+	<b>15%</b>
\$36,900+	\$73,800+	\$49,400+	<b>25%</b>
\$89,350+	\$148,850+	\$127,550+	<b>28%</b>
\$186,350+	\$226,850+	\$206,600+	<b>33%</b>
\$405,100+	\$405,100+	\$405,100+	<b>35%</b>
\$406,750+	\$457,000+	\$432,200+	<b>39.6%</b>



# Progressive Taxes

- Turn to page 240 and complete Student Workpoint 22.3

# Answers

- A: \$0
- B: \$1,200
- C: \$5,700
- D: \$14,800



# Regressive Taxes

- Opposite of progressive: If proportion of income paid in tax falls as income rises
- Taxing tobacco is regressive

# Proportional Taxes “flat Tax”

- The proportion of income paid in tax is constant at all income levels
- Taxes codes are most always complicated and there are often loopholes, flat taxes simplify these issues

- Herman Cain and the 999

<https://www.youtube.com/watch?v=UNmU64dLQ9g>

# Transfer Payments

- Redistribute money from rich to poor
- Examples: Federal Earned Income Tax Credit, Pensions, Unemployment benefits, Disability benefits
- <http://www.npr.org/blogs/money/2013/03/15/174358638/a-surprisingly-uncontroversial-program-that-gives-money-to-poor-people>



# Other Government Policies to Affect Distribution of Income

- Minimum Wage
- Government-sponsored training



# The Evaluative Bit To Remember

- There will be less employment if firms have to pay insurance for workers (Affordable Care Act)
- High taxes may discourage entrepreneurial activity
- Low taxes will increase overall output and benefit all people

**THIS IS ALL NORMATIVE!!!**