

# The VOTE Textbook

## Student Notes

### Chapter 13: Income Distribution

#### Opening Story: The fisherman

Income Distribution is how a nation's income is divided among the people who live there (in other words, who gets what).

Different from livelihood, which is about people being able to meet their basic material needs.

#### The Golden Moment

Shared Problem: Income inequality can cause social conflict

Shared Goal: Income that rewards people fairly

Two ways to talk about money:

1. Income (money received on a regular basis)
  - Work: wages, salaries, pensions
  - Ownership: rents, interest payments, profits, and more
  - Government Transfer Payments: unemployment benefits, Temporary Assistance to Needy Families (TANF), SNAP, and more
  
2. Wealth (value of all assets owned)
  - Stocks and Bonds
  - Real Estate
  - Businesses
  - Other Valuables: art, jewelry, gold, and more

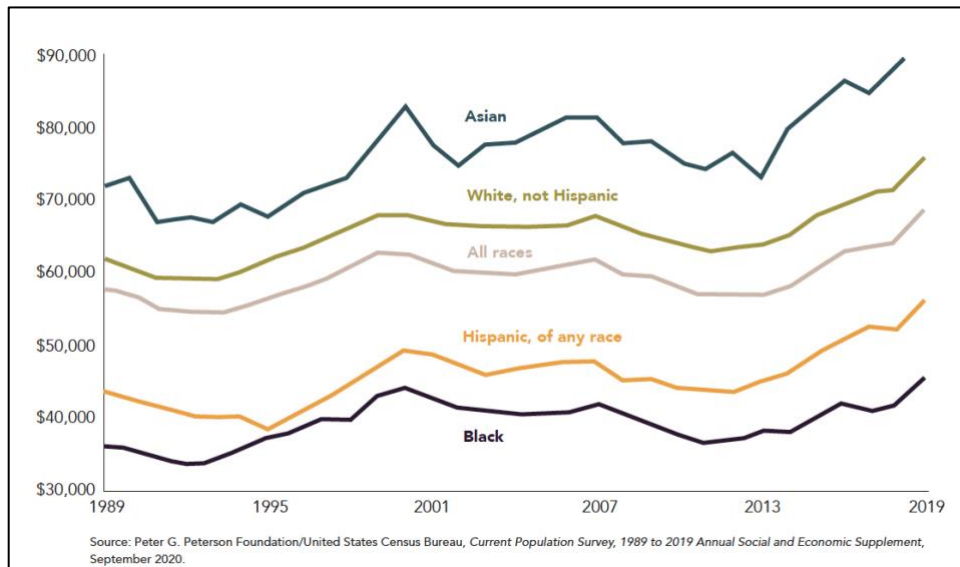
**Popular Explanations for Why Some People Are Rich and Others Are Not**

*(in alphabetical order)*

- Connections
- Debt
- Education
- Effort and hard work
- Exploitation
- Globalization
- Hierarchy
- Inheritance (from family or through marriage)
- Luck
- Natural talent
- Opportunity (discrimination and privilege)
- Savings and investments
- Skill
- Taxes that favor the wealthy
- Technological innovations
- Transfer payments
- Unions

What is “fairness”?

1. Workplace Discrimination: Rejected by all three economic perspectives as being morally wrong and bad for the economy.



Radical solution: Use antidiscrimination councils made up of stakeholders to establish policies and standards for worker-owned firms to follow.

Liberal solution: Use government legislation, fines, and lawsuits against firms to motivate firms to change behavior.

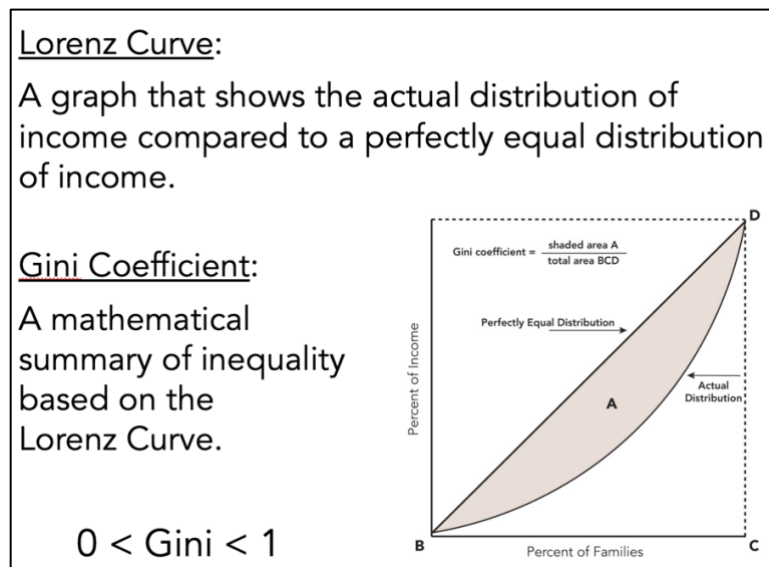
Conservative solution: Use the invisible hand of price signals to change behavior because it costs firms more to discriminate.

2. Workplace Rewards: Perspectives don't agree on what's fair and argue about it.

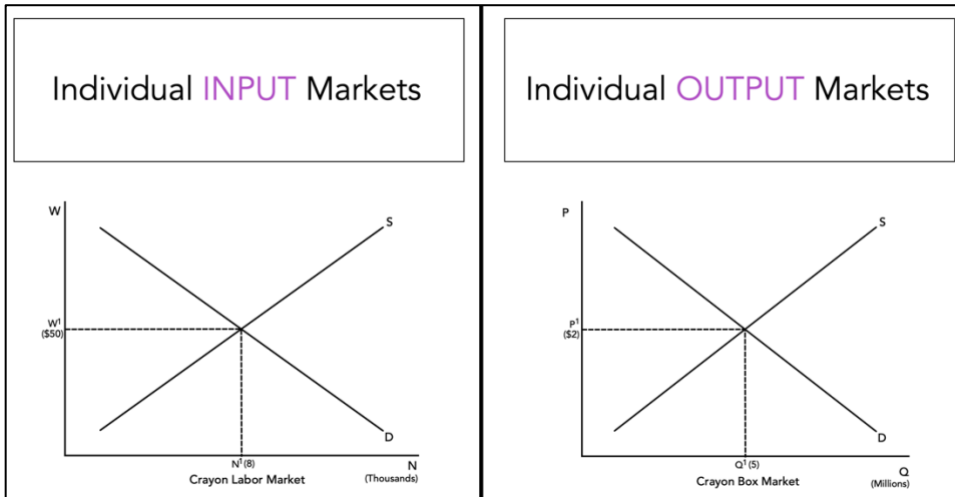
- Are salaries equal to contributions?
- Does everyone have an equal chance to get hired?
- How are decisions made about salaries?
- Are rewards determined appropriately in the first place?

### Shared Tools: Lorenz Curves and Gini Coefficients

Lorenz curve: Shows income or wealth distribution for a state, region, country, or the whole world. It's a descriptor that makes no judgment. Every perspective uses this tool.



### Conventional Tools: Wages and Marginal Revenue Product



### The Law of Diminishing Marginal Returns

There is one machine in one factory (fixed inputs), and it is used by the first worker (variable input). One by one, additional workers are hired, and together they produce more efficiently using that machine. But at a certain point, too many workers are crowded around the machine and their marginal output begins to decrease.

**Short Run:** The period of time within which one or more inputs are fixed. All production happens in the short run, therefore the Law of Diminishing Marginal Returns is always relevant.

Workers	1	2	3	4	5	6	7
Total Output	50	150	220	270	300	325	330
Marginal Output	50	100	70	50	30	25	5

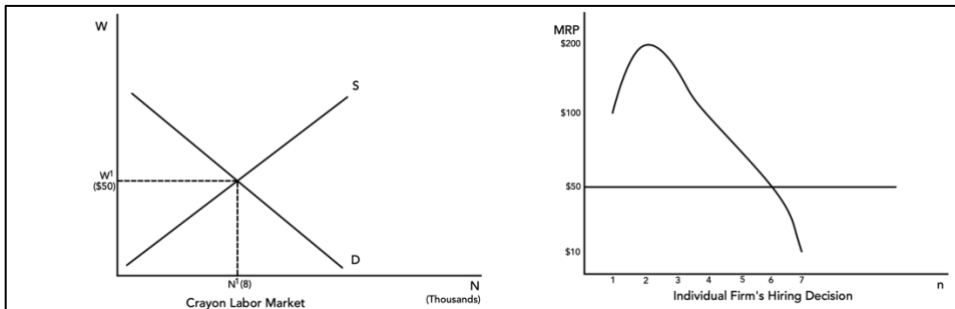


Marginal output starts to decrease....  
the Law of Diminishing Marginal Returns occurs here!

$P \times \text{Marginal Output} = \text{Marginal Revenue Product (MRP)}$

MRP is the worker's contribution to the firm.

Marginal Revenue Product	\$100	\$200	\$140	\$100	\$60	\$50	\$10
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Marginal Revenue Product	\$100	\$200	\$140	\$100	\$60	\$50	\$10
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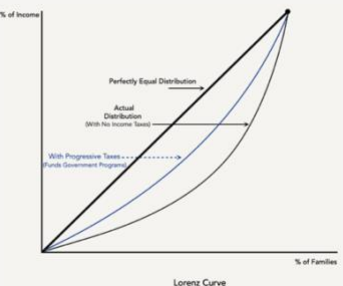
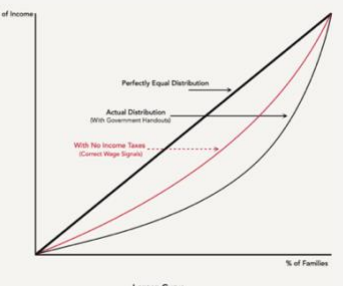
Firms hire workers until the  $MRP = W$

In this case, the crayon firm stops hiring after the 6<sup>th</sup> worker.

\*Reminder: Wage (W) for one day of labor is \$50

Since any of the workers could have been the 6<sup>th</sup> worker, everyone is the 6<sup>th</sup> worker.

Liberal & Conservative Conclusion: People get paid what they contribute to output.

<b>Liberal</b>	<b>Conservative</b>
<p><b>1. Use progressive taxes.</b></p> <p><b>2. Use government redistribution programs to fund:</b></p> <ul style="list-style-type: none"> <li>• National security</li> <li>• Property protection</li> <li>• Infrastructure</li> <li>• Transparency with Accountability</li> <li>• Stability</li> <li>• Equity</li> </ul>  <p>The graph shows a Lorenz Curve with three lines: a diagonal line for 'Perfectly Equal Distribution', a curve for 'Actual Distribution (With No Income Taxes)', and a curve closer to the diagonal for 'With Progressive Taxes (Funds Government Programs)'. The y-axis is '% of Income' and the x-axis is '% of Families'.</p>	<p><b>1. Reject all income taxes.</b></p> <p><b>2. Use flat consumption taxes to fund:</b></p> <ul style="list-style-type: none"> <li>• National security</li> <li>• Property protection</li> <li>• Infrastructure</li> </ul>  <p>The graph shows a Lorenz Curve with three lines: a diagonal line for 'Perfectly Equal Distribution', a curve for 'Actual Distribution (With Government Handouts)', and a curve further from the diagonal for 'With No Income Taxes (Correct Wage Signal)'. The y-axis is '% of Income' and the x-axis is '% of Families'.</p>

<b>Income Distribution Policies</b>	
<b>Liberal</b>	<b>Conservative</b>
<p>Liberals want <b>progressive taxes to fund government programs.</b></p>	<p>Conservatives want a <b>flat consumption tax and to defund government programs.</b></p>


Radical Tools: Unhealthy Communities and Healthy Communities

Radicals use the six core points as tools to analyze economic issues.

- Ownership
- Governance
- Meeting people’s basic material needs
- Production
- Sustainability
- Communities


Radicals select the core point that makes the most sense for a particular issue. For income distribution, it is communities.

Drill down into communities in capitalism:

Workplace Exploitation  +  Capitalist Competition	}	The Pressure for Bad leads to The Visible Suffering
... and is represented by the Six-Core Cube of capitalism, which can never be solved.		
		

## The Unsolvable Six-Core Cube of Capitalism

1. Private Ownership
2. Top-Down Governance
3. Individuals at Risk
4. Production for Profit
5. Unsustainable Growth
6. Unhealthy Communities



**Why unsolvable?**  
It is built around six core points that are rotten to the core!

Unhealthy Communities: Firms disregard the ways their decisions harm communities and the environment here and around the globe.

## Unhealthy Communities

- People and the planet are treated as expendable.
- There is no local control over resources.
- Firms race to the bottom.



### The Visible Suffering of Capitalism

- Hunger and malnourishment
- Harmful products
- Mass poverty
- Homelessness
- **Extreme income inequality**
- Pollution and climate crisis
- Inaccessible, low-quality health care
- Destructive market domination
- Impoverished elders
- Exploding public and private debt
- Damaging trade relationships
- High prices and no jobs

Drill down into communities in democratic socialism:



Workplace Justice  
+  
Coordination Among Competitors

The Pressure for Good  
leads to  
The Invisible Synergy

...and is represented by the  
Six-Core Cube of democratic  
socialism, which can be solved.



## The Solvable Six-Core Cube of Democratic Socialism

1. Cooperative Ownership
2. Participatory Governance
3. Social Safeguards
4. Production for Use
5. Sustainable Development
6. Healthy Communities



Why solvable?

It is built around six core points that are beneficial to the core!

Healthy Communities: Firms intentionally make decisions that benefit communities and the environment here and around the globe.

## Healthy Communities

- People and the planet come first.
- Firms think globally and act locally.
- There is local control over resources.



### Income Distribution Policy: Radical

- Progressive taxes to fund these 9 roles of government:
  - National security
  - Property protection
  - Infrastructure
  - Transparency with Accountability
  - Stability
  - Equity
  - Manage public ownership
  - Community councils
  - Universal benefits
- And then continue to predistribute income through these two policies:

#### 1. **Universal Basic Income**

A monthly or annual payment to every adult, regardless of income, that can be used in any way they choose.

#### 2. **Maximum Wage Caps**

Laws that set a ceiling on how much a person can earn relative to the wages of the other workers in their firm.



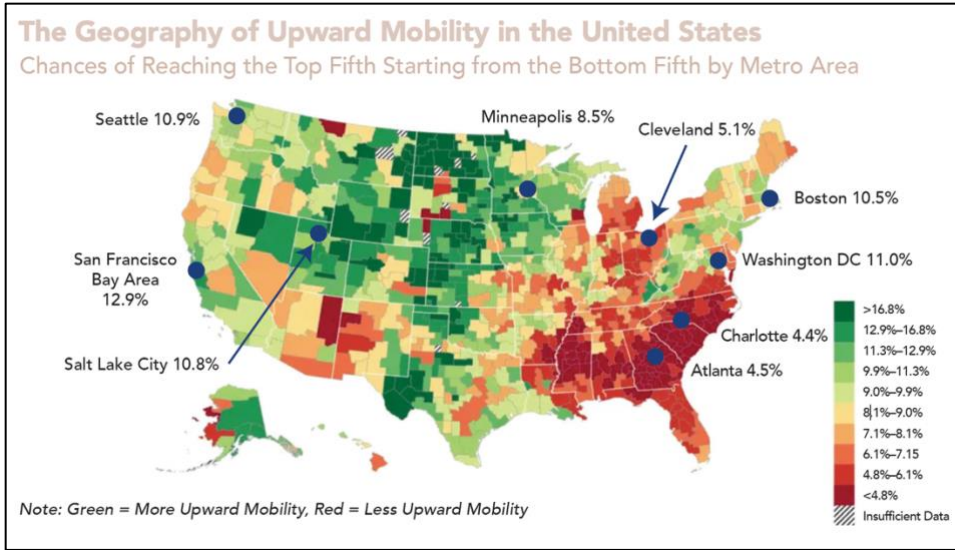
### The Invisible Synergy of Democratic Socialism

- Abundant, healthy food
- Safe and helpful products
- Prosperity
- Housing for all
- **Equitable income distribution**
- Clean environment
- Universal, first-rate health care
- Fair and positive competition
- Secure and dignified retirement
- A thriving, debt-free society
- Mutually beneficial trade relationships
- Jobs and stable prices

THE BLAME GAME		
What causes extreme income inequality?		
<p style="color: red; font-weight: bold; margin: 0;"><b>Conservative</b></p> <p style="color: red; margin: 10px 0;">Too much government interference in capitalism</p> <p style="color: red; font-size: small; margin: 0;">We need free-market capitalism.</p>	<p style="color: blue; font-weight: bold; margin: 0;"><b>Liberal</b></p> <p style="color: blue; margin: 10px 0;">Not enough government intervention in capitalism</p> <p style="color: blue; font-size: small; margin: 0;">We need fair-market capitalism.</p>	<p style="color: green; font-weight: bold; margin: 0;"><b>Radical</b></p> <p style="color: green; margin: 10px 0;">The drive for profit in capitalism</p> <p style="color: green; font-size: small; margin: 0;">We need democratic socialism.</p>

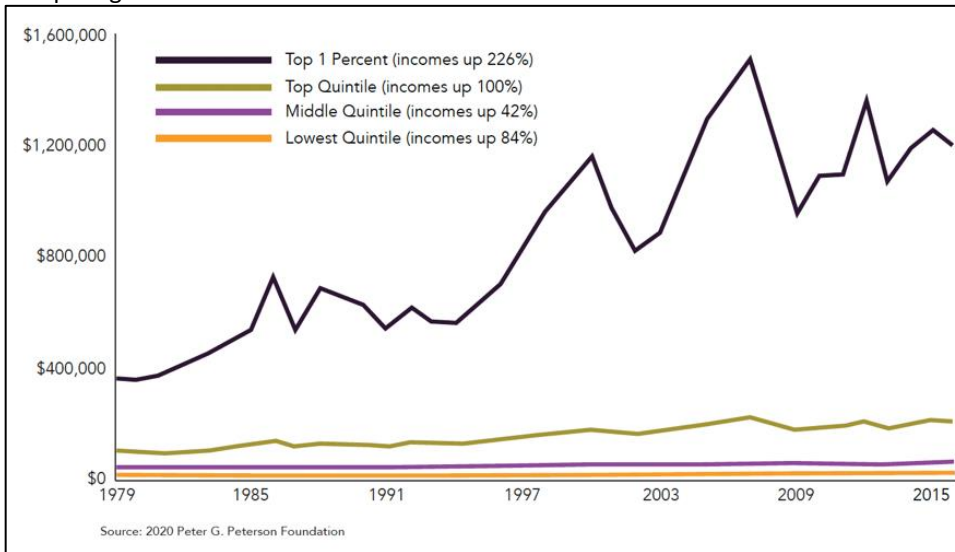
Discussion Story: Roger Bannister and the four-minute mile

Understanding Income Distribution

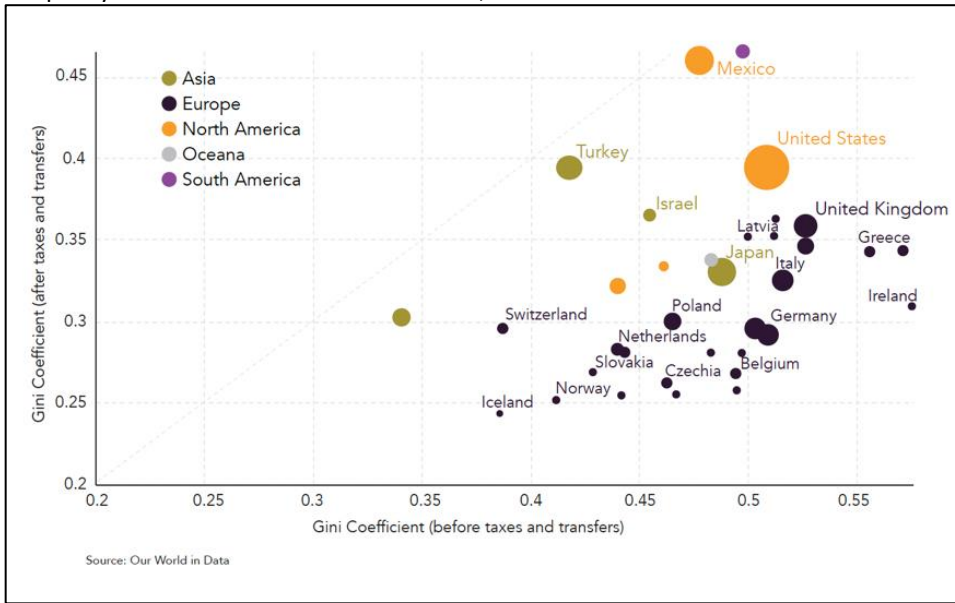


When people get stuck in the lowest quintile, it's the *poverty trap*. When families stay trapped over generations, it's the *cycle of poverty*.

Comparing Income Distribution



Inequality of Income Before and After Taxes, 2014



### Three Categories of Taxes

1. Flat/Proportional

A tax with a single tax rate, regardless of total amount taxed.

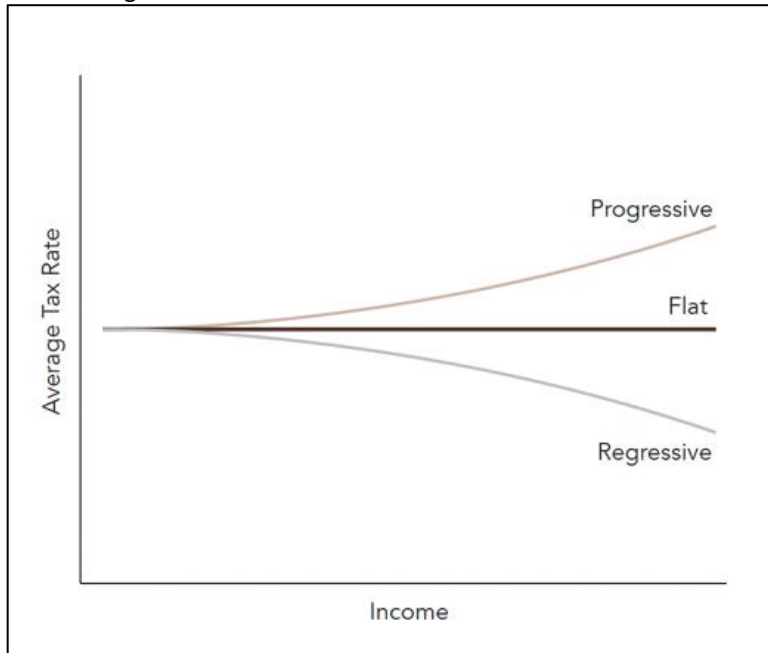
2. Progressive

A tax that charges a higher percentage as the total amount taxed increases. (Designed to help the poor.)

3. Regressive

A tax that charges a lower percentage as the total amount taxed increases. (Designed to help the rich.)

### Three Categories of Taxes



### Six Types of Taxes

1. Capital Gains Tax  
A tax on the profit earned from the sale of an asset (e.g. stocks, bonds, precious metals, property.)
2. Consumption (Sales) Tax  
A tax on products people buy rather than on what they earn.
3. Estate Tax  
A tax on the assets of a deceased person before being distributed to their heirs.
4. Income Tax  
A tax on your paycheck, plus other income such as dividends on stocks, money from rents, and so forth.
5. Property Tax  
A tax on real estate (land and buildings) and sometimes also on cars, boats, motorcycles, and other tangible property.
6. Wealth Tax

Federal taxes on your total net worth, which is all your assets minus your debts.

### Government Transfers

Benefits include programs such as Social Security, Medicare and Medicaid, and SNAP (food stamps).

A Universal Basic Income\_(UBI) gives a set amount of money to every adult of a certain age on a monthly or annual basis to use as they choose.

### Three-in-One Activity: "It's Off to Work We Go"

#### *"It's Off to Work We Go" Activity* Round I: Neutral

1. Gather with your group.
2. Imagine that you are workers in a crayon factory.
3. Randomly assign jobs and salaries.

A. CEO	\$10,000,000
B. Vice President	\$ 300,000
C. Technician	\$ 75,000
D. Salesperson	\$ 45,000
E. Receptionist	\$ 35,000
F. Custodian	\$ 25,000

Assignment: Share how you feel about your job and salary.

### Voices on Income Distribution

#### Liberal

Response to discussion story: Roger Bannister succeeded in part because he had opportunities that gave him a head start. A level playing field lets everyone do their best.

Voice: Pages 438-442

Summary: Page 443

Talking Points: Page 444

**Round II: Liberal, "It's Off to Work We Go"**

Democrats use a progressive income tax to fund government, including programs that level the playing field.

Using liberal perspective statements for your job, please justify your new take-home pay.

1 Job	2 Starting Salary	3 Progressive Income Taxes	4 Government Transfers (needs-based)	5 Total Income	6 Health Care, Housing, Education, Retirement
<b>CEO</b>	\$10,000,000	40% (-\$4,000,000)	None	\$6,000,000	Partial Self-Pay
<b>VP</b>	\$300,000	25% (-\$75,000)	None	\$225,000	Partial Self-Pay
<b>Technician</b>	\$75,000	10% (-\$7,500)	None	\$67,500	Partial Self-Pay
<b>Salesperson</b>	\$50,000	10% (-\$5,000)	None	\$45,000	Partial Self-Pay
<b>Receptionist</b>	\$40,000	0% (\$0)	None	\$40,000	Partial Self-Pay
<b>Custodian</b>	\$25,000	0% (\$0)	+\$12,000	\$37,000	Partial Self-Pay

**Liberal Perspective Statements**

CEO AND VP

- I'm comfortable paying higher taxes because my success is not just a result of my hard work; it's also because I had privileges and opportunities that gave me a head start.
- I'm fine taking home less pay because my taxes fund government programs that level the playing field so more people can succeed, and that ultimately raises my standard of living.
- I'm happy to pay my fair share of taxes because government keeps my business strong with educated workers, firefighters, roads, and more.

SALESPERSON AND TECHNICIAN

- I'm delighted that lower taxes for the middle class leaves more money in my paycheck, and when I spend it, I'm creating jobs for other people.
- I feel lucky to live in a society where wealth is redistributed so that it relieves the burden on the hardworking middle class.
- It's fair that those in the middle class, who are the backbone of this nation, can pursue the American Dream and watch our families prosper.

RECEPTIONIST AND CUSTODIAN

- I'm grateful to have a job so I can contribute to society, and I'm grateful that government programs help me afford the housing, education, and health care my family needs.
- Even though my job doesn't pay much, I feel optimistic about my opportunities to rise because our nation funds programs that level the playing field for people like me.
- I'm proud to work hard, and with our government's help, my kids and grandchildren have more opportunities to realize their potential and contribute to society.

Conservative



Response to discussion story: Roger Bannister worked tirelessly to accomplish the impossible. The motivation to bring our best comes through competition for just rewards.

Voice: Pages 445-449

Summary: Page 450

Talking Points: Page 451

Section: <i>Three-in-One Activity</i> , cont'd					
Round III: Conservative, "It's Off to Work We Go"					
Republicans have no income tax. To fund the three areas of government they believe are necessary, they use a flat consumption tax.					
Using conservative perspective statements for your job, please justify your new take-home pay.					
1	2	3	4	5	6
Job	Starting Salary	No Income Taxes	Charitable Giving (10%) & Receiving	Total Income	Health Care, Housing, Education, Retirement
CEO	\$10,000,000	\$10,000,000	-\$1,000,000	\$9,000,000	Self-Pay
VP	\$300,000	\$300,000	-\$30,000	\$270,000	Self-Pay
Technician	\$75,000	\$75,000	None	\$75,000	Self-Pay
Salesperson	\$50,000	\$50,000	None	\$50,000	Self-Pay
Receptionist	\$40,000	\$40,000	+\$5,000	\$45,000	Self-Pay
Custodian	\$25,000	\$25,000	+\$15,000	\$40,000	Self-Pay

### Conservative Perspective Statements

#### CEO AND VP

- 1 I feel good about my salary because it reflects my contributions to society as someone who creates products that improve people's lives.
- 2 I deserve to keep all the income I earn because I've made countless personal sacrifices to achieve my success, so I should reap the rewards and spend it as I choose.
- 3 I'm delighted that my paycheck is bigger with no income tax because I can support society with more charitable giving.

#### TECHNICIAN AND SALESPERSON

- 1 I'm satisfied with my salary because I work hard and earn a decent living, and I still have time for the rest of my life, including family and leisure activities.
- 2 I like my decent middle-class income, and I'm happy with my paycheck because I can save and invest for the future.
- 3 I feel content earning what I need to pay my bills, and I'm glad that I can make my customers happy.

#### RECEPTIONIST AND CUSTODIAN

- 1 I think what I earn is fair, and philanthropy helps me to afford more education so I can qualify for a better-paying job.
- 2 My salary is fair because I choose to spend time with my family and do the things I enjoy instead of putting in extra hours at the office.
- 3 My income works for me because I get to clock in, do my job, clock out, and live a simple, happy life without worrying about being in charge or managing others.

## Radical

Response to discussion story: Roger Bannister won in part because it takes the cooperation of many people to accomplish great things. They should also be justly rewarded.

Voice: Pages 452-456

Summary: Page 457

Talking Points: Page 458

### Round IV: Radical, "It's Off to Work We Go"

Democratic socialists fund a UBI and a Maximum Wage Cap (no one earns more than 30 times the lowest-paid worker-owner) with redistribution that equals 50% of previous salary.

Using radical perspective statements for your job, please justify your new take-home pay.

1 Job	2 Starting Salary with Maximum Wage Cap	3 Partial Redistribution of CEO Salary (+50%)	4 Progressive Income Taxes	5 UBI	6 Total Income	7 Health Care, Housing, Education, Retirement
CEO	\$10,000,000 \$750,000	\$750,000 \$1,125,000	60% (-\$675,000)	+12,000	\$462,000	Covered
VP	\$300,000	\$300,000 \$450,000	40% (-\$180,000)	+12,000	\$282,000	Covered
Technician	\$75,000	\$75,000 \$112,500	40% (-\$45,000)	+12,000	\$79,500	Covered
Salesperson	\$50,000	\$50,000 \$75,000	20% (-\$15,000)	+12,000	\$72,000	Covered
Receptionist	\$40,000	\$40,000 \$60,000	20% (-\$12,000)	+12,000	\$60,000	Covered
Custodian	\$25,000	\$25,000 \$37,500	0% (-0%)	+12,000	\$49,500	Covered

#### Radical Perspective Statements

##### CEO AND VP

- I feel comfortable with my salary because I'm paid well, but I'm not paid an outrageously high amount compared to other worker-owners in our firm, which would be unfair to them.
- I make plenty of money to live a very good life, and I have the satisfaction of making the world a better place and being part of a firm that shares my values.
- I'm happy to make less than I did before because it means we're able to improve our firm, help our community, and give all our worker-owners more financial security.

##### TECHNICIAN AND SALESPERSON

- I love my job because it earns me a comfortable living, and I can do what I love instead of chasing a higher income, thanks to the UBI.
- I feel lucky that I can earn a good living and have a say in production practices and salary levels, and I never have to worry that my job will be outsourced and I'll be laid off.
- I make good money, and the maximum wage cap means our firm has the means to offer a generous pension fund, emergency fund, and community building fund.

##### RECEPTIONIST AND CUSTODIAN

- As a worker-owner, I am pleased that my salary finally reflects my real contributions at work, and with the UBI on top of that, I can finally get ahead.
- I'm satisfied with my income because I have an equal say in setting the salary levels, and with a maximum wage cap, I feel respected as a vital member of the team.
- At our firm, expertise and experience are rewarded fairly, so if I want a higher income, I know I can get more training to improve my skills and move up.

Shared Outcome: Income that rewards people fairly.