

Debates about the Causes and Consequences of Rising U.S. Economic Inequality

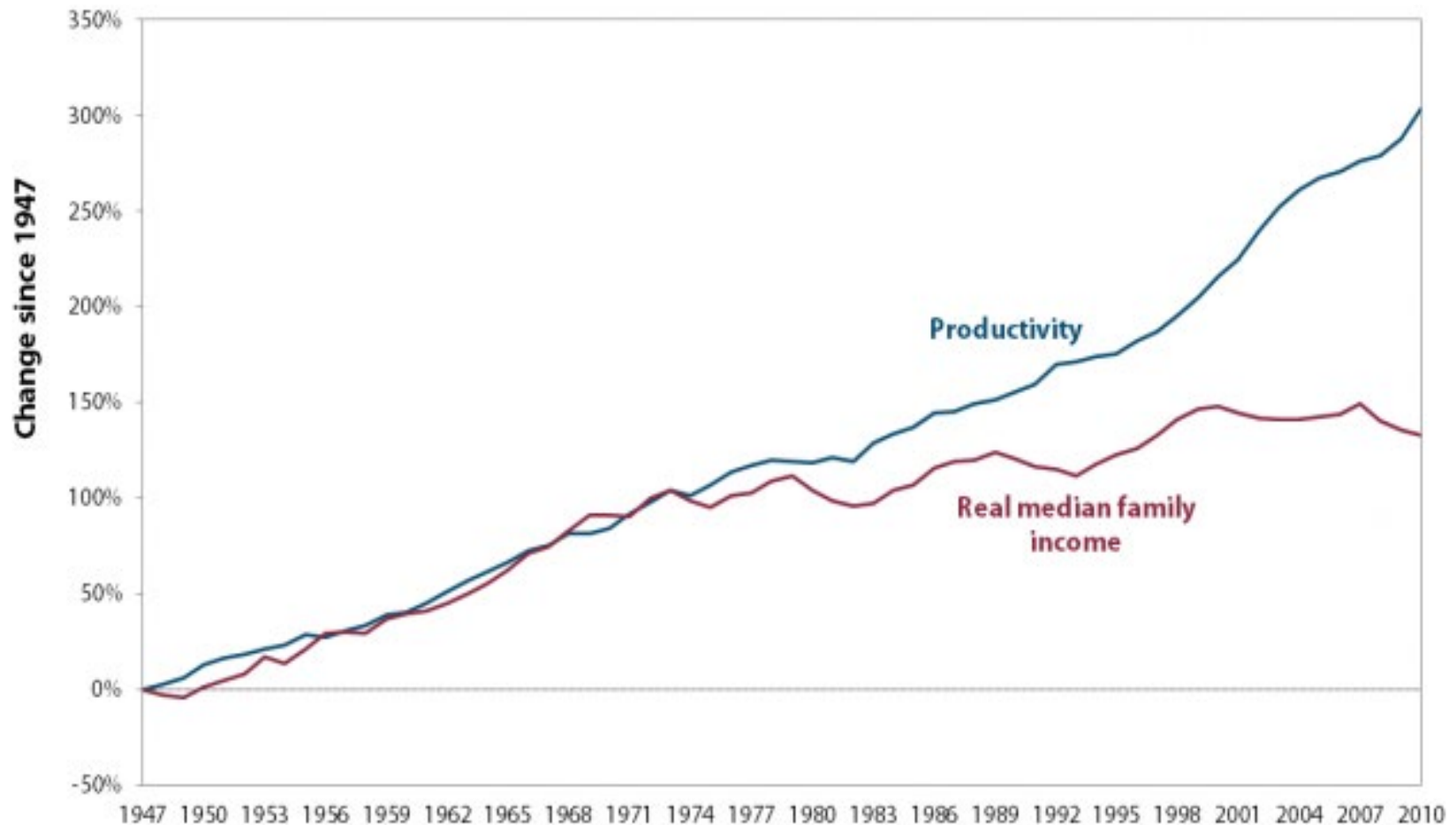
Theda Skocpol

Lecture 4. September 16, 2020

U.S. Economic Inequality since the 1970s

- **United States has become both more and less equal. Legal barriers have been removed for minorities and women, but inequalities and barriers persist, especially for African Americans and Latina/os.**
- **Because many economic, social, and political changes have happened since the 1970s, citizens and experts debate causes of**
 - **Growing gaps between top 1%/5% and everyone else.**
 - **Growing gaps between upper 20% and remaining 80%.**
- **Today:**
 - **Start with 80/20 gaps; then turn to 1/99 gaps.**
 - **Discuss possible effects from labor force changes, elite norms, organizations and union decline.**
 - **Conclude with overview of possible government effects.**

U.S. Workers Have Become More Productive, but the Gains Have not Gone to Most Families

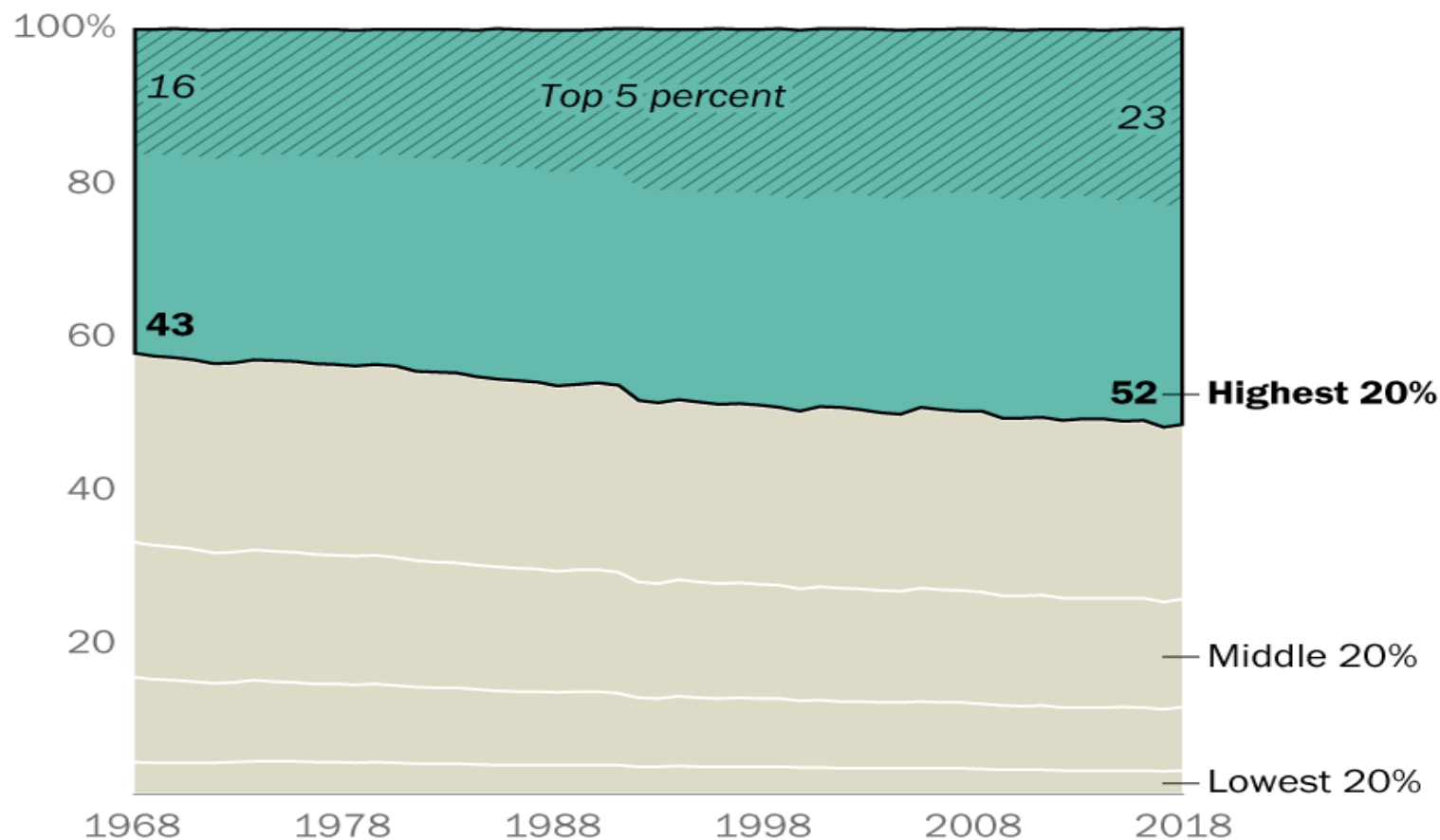


Source: EPI analysis of U.S. Census Bureau, *Income, Poverty and Health Insurance Coverage in the United States: 2010 – Historical Income Tables*, Table F 5: Race and Hispanic Origin of Householder – Families by Median and Mean Income, Excel spreadsheet accessed November 23, 2011.

U.S. Bureau of Labor Statistics, *Productivity – Major Sector Productivity and Costs Database*. Accessed November 23, 2011.

The highest-earning 20% of families made more than half of all U.S. income in 2018

Share of U.S. aggregate household income, by income quintile



Note: Figures may not add to 100% due to rounding.

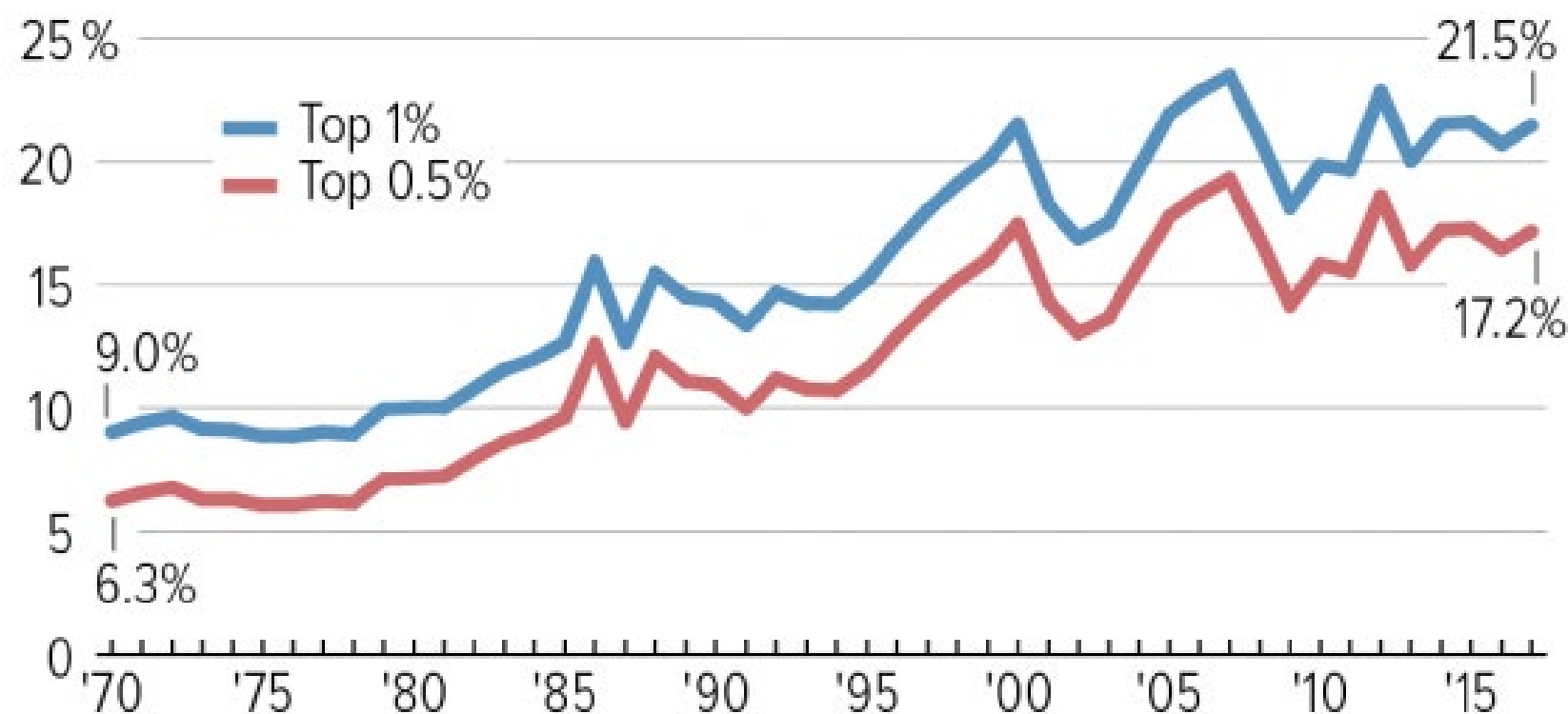
Source: U.S. Census Bureau, Income and Poverty in the U.S.: 2018, Table A-4.

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Even within the top fifth.....

Income Has Become Highly Concentrated at the Top

Share of before-tax income flowing to highest-income households

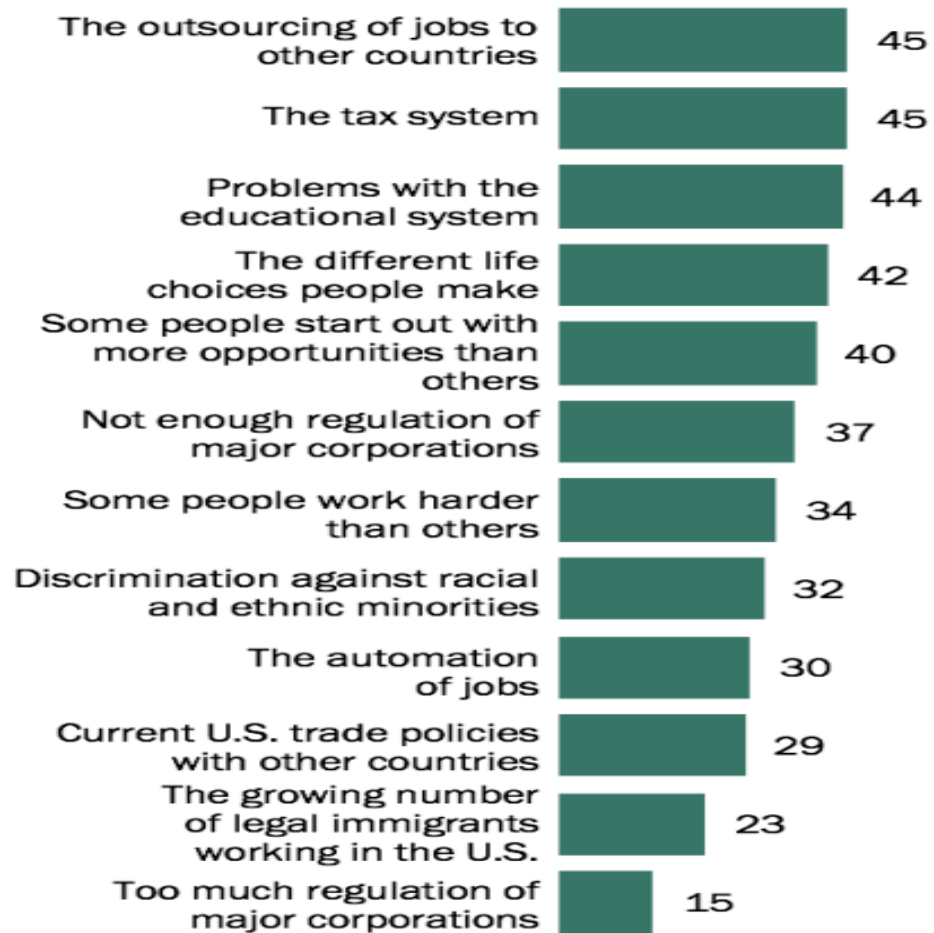


Source: Emmanuel Saez, based on IRS data

Americans in general point to many different causes for economic inequalities.

No consensus on major contributors to economic inequality

% saying each of the following contributes a great deal to economic inequality in this country



Source: Survey of U.S. adults conducted Sept. 16-29, 2019.
"Most Americans Say There Is Too Much Economic Inequality in the U.S., but Fewer Than Half Call It a Top Priority"

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**How the class sees the main drivers of 80/20 inequalities.
Discuss why in breakouts – and have someone ready to report.**

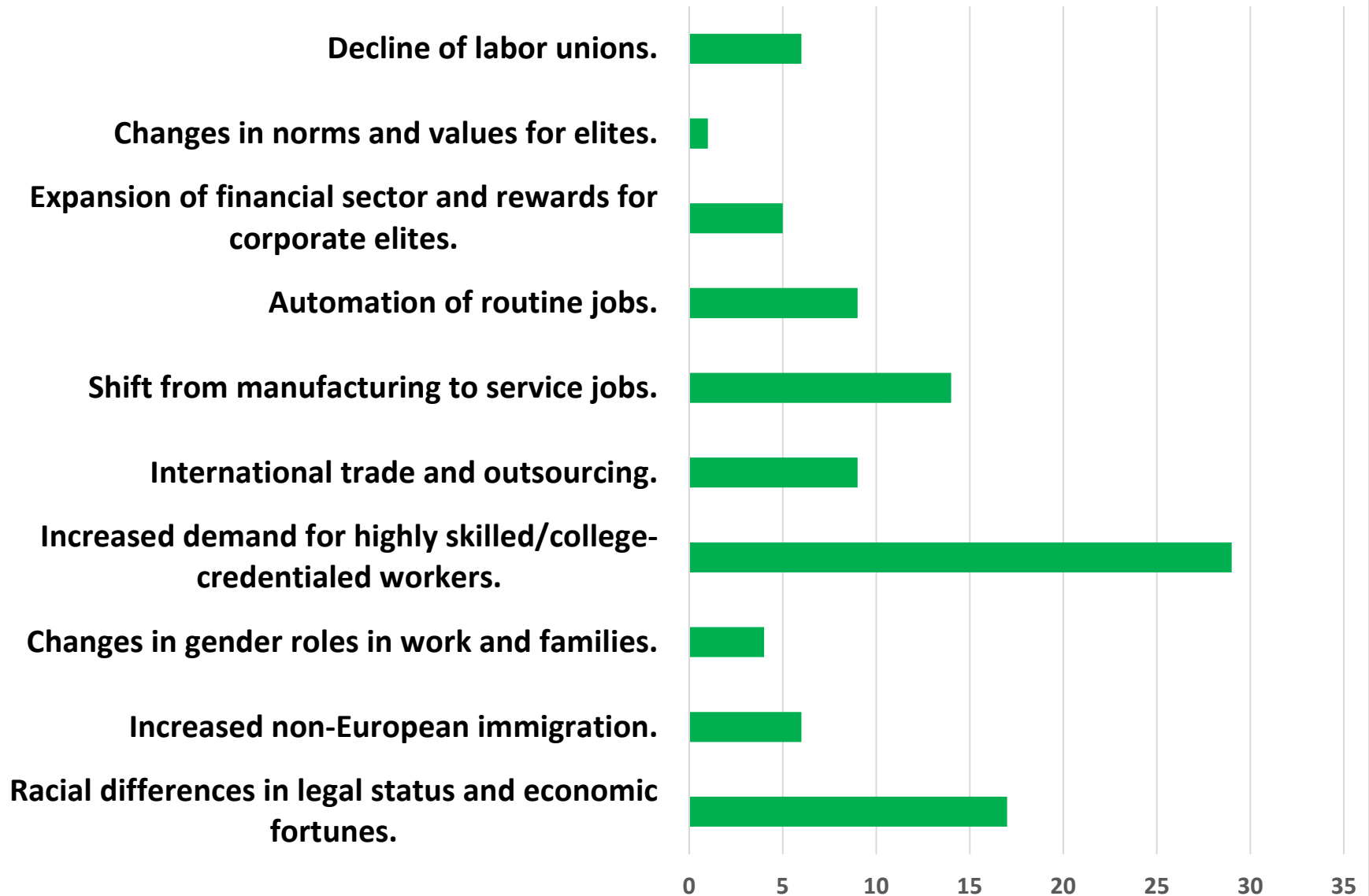
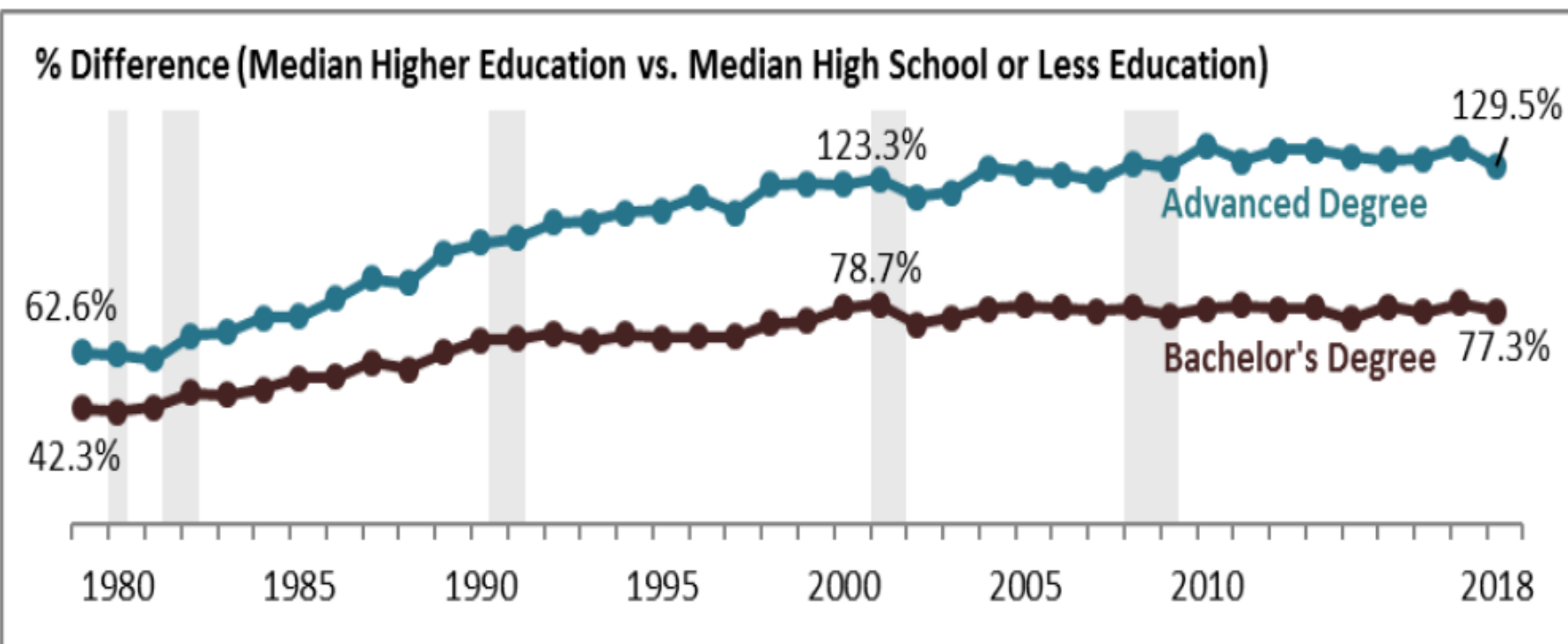


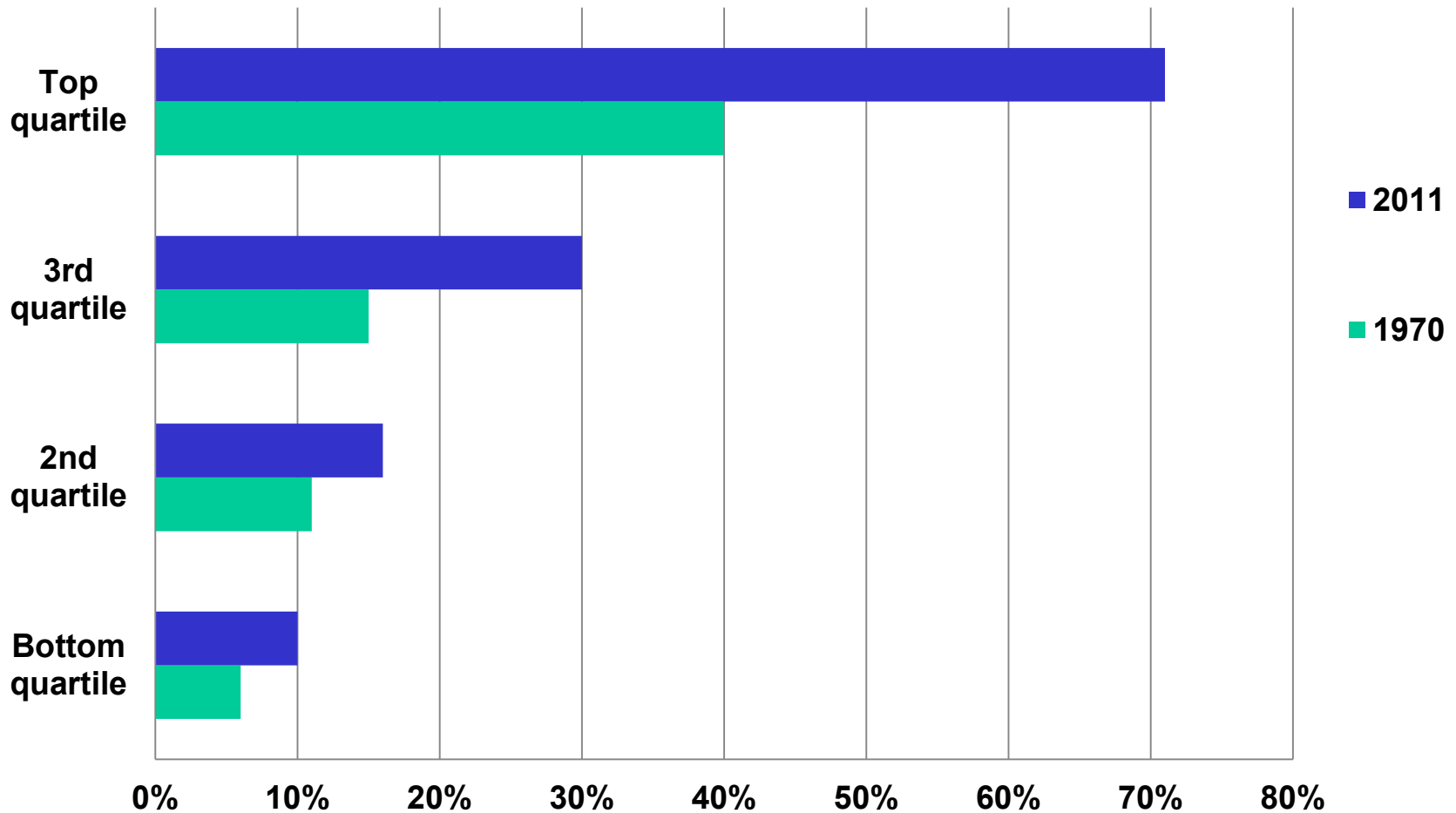
Figure 5. College Degree Wage Premium and Advanced Degree Wage Premium, Relative to a High School Education or Less



Source: CRS estimates using Current Population Survey Outgoing Rotation Group data for 1979-2018. Recession data (in gray) are from the National Bureau of Economic Research, at <http://www.nber.org/cycles.html>.

Notes: Sample comprises nonfarm wage and salary workers who are 25-64 years old and provide sufficient information to compute an hourly wage. Periods of recession are shaded in gray. Dollar amounts are adjusted for inflation using the CPI-U.

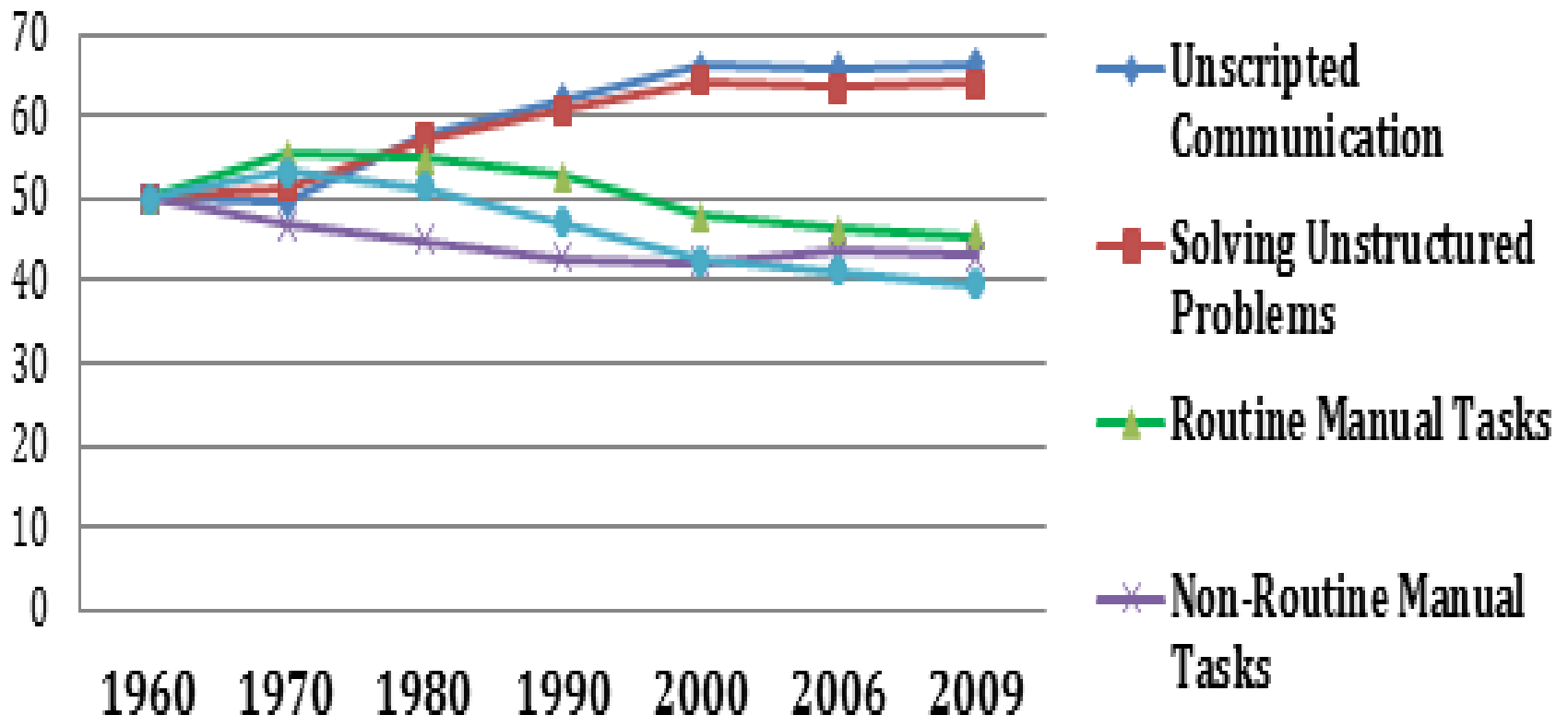
FAMILY INCOME AND COLLEGE DEGREE ATTAINMENT BY AGE 24



Percent with four-year college degrees by age 24

Source: Mettler, *Degrees of Inequality*, Fig. 1.2 from Mortenson.

“Since 1960... previously well-paid manual and clerical jobs have been computerized or offshored to other countries, while jobs calling for human ingenuity to solve unstructured problems proliferate.”

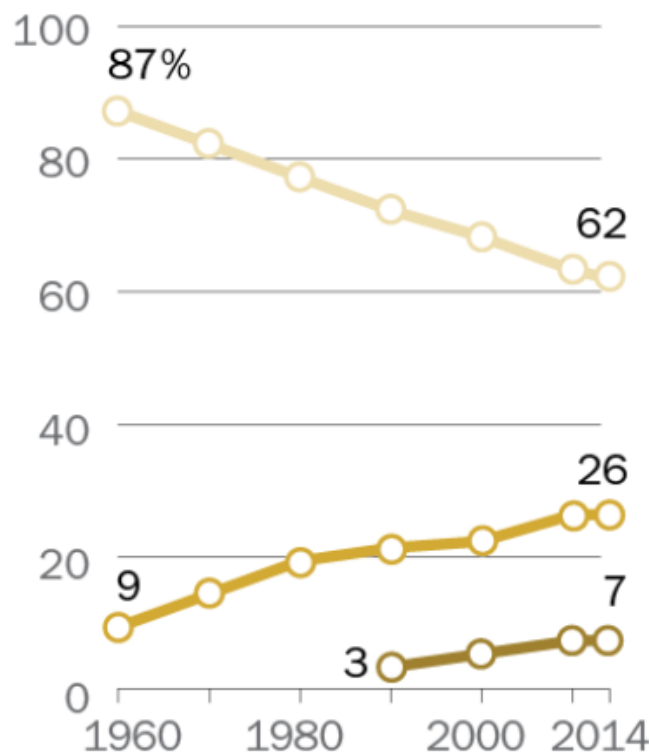


Source: Frank Levy and Richard J. Murnane, “How Computers are Transforming American Jobs,” *SSN Key Findings*, August 1, 2013. Drawing from work by David Autor.

For U.S. kids, strong link between parents' marital status and likelihood of living in poverty

% of children living with ...

% of children living in poverty



Two married parents

10%

One parent

31

Cohabiting parents

21

Highly educated professionals and managers more likely to marry and raise children together.

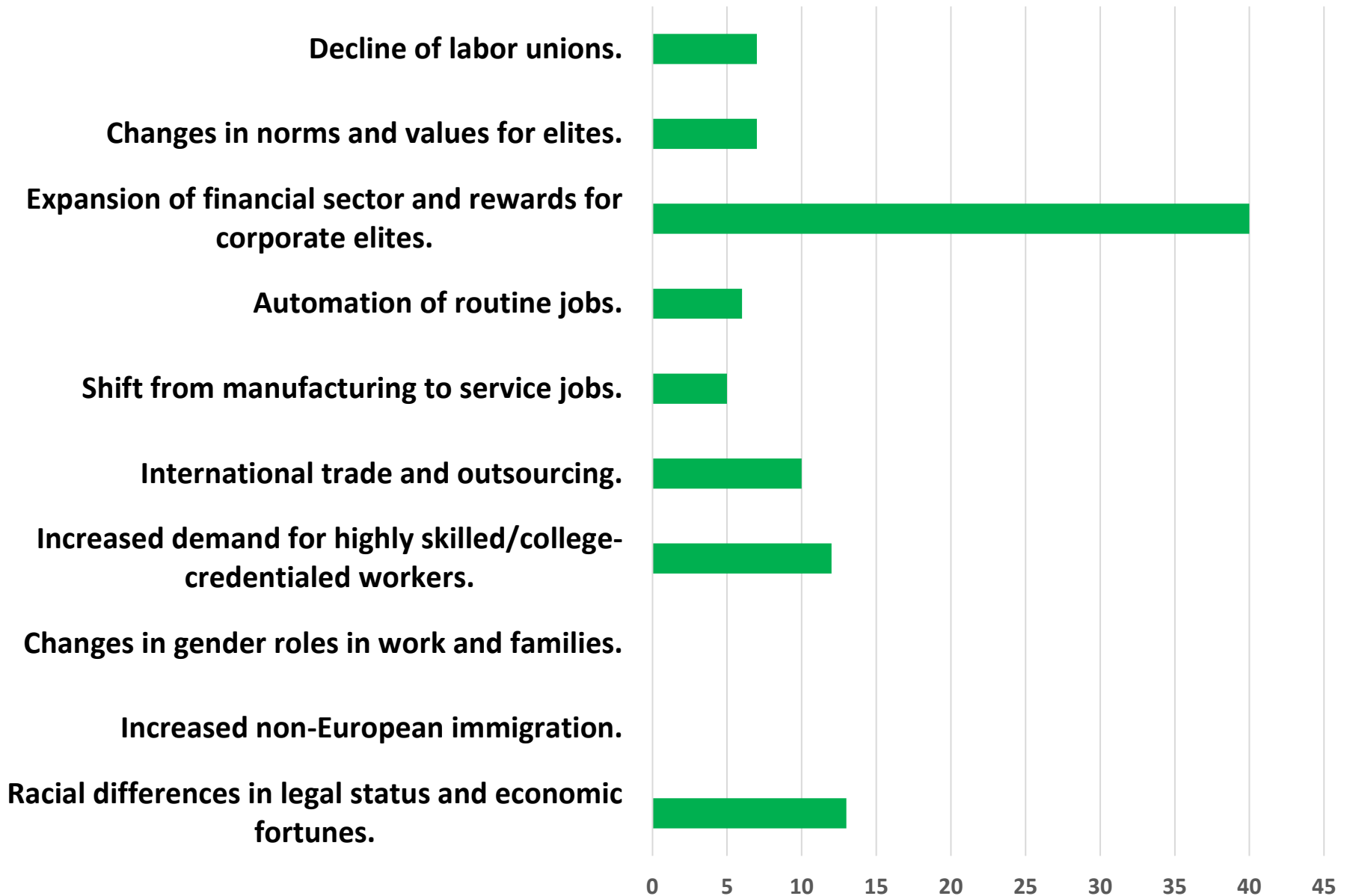
Note: Based on children under 18. Data regarding cohabitation are not available prior to 1990; in earlier years, cohabiting parents are included in "one parent." Poverty is measured using the Supplemental Poverty Measure (SPM) and not the Official Poverty Measure.

Source: Pew Research Center analysis of 1960-2000 decennial census, 2010 and 2014 American Community Survey and 2014 Current Population Survey (IPUMS)

Impact of selected trends on 80/20.

- **Racial differences:** despite demise of legal segregation, gaps in pay have remained fairly constant; lower-income AfAms and Latinos have suffered, side effects of incarceration hit minorities hardest
- **Immigration increases** may slightly depress wages at the stop, boost top.
- **Changes in gender roles in work and families:** women's wage work boosts family incomes, puts stress on caregiving; top 20% families usually have two high earners and more resources for children.
- **Increased demand for highly skilled/college-credentialed workers:** Boosts incomes of higher educated, women's wages, helps top 20% families. College access has stalled for bottom half of income ladder.
- **Trade and outsourcing:** May contribute to wage stagnation for bottom 80%.
- **Shift from manufacturing to service, automation of routine work:** May contribute to wage stagnation for bottom 80%.
- **Changes in values and norms for elites:** Meritocratic justifications for higher-educated professionals and managers.
- **Union decline:** lower wages for men at bottom and middle.

How the class sees the main drivers of 1/99 inequalities

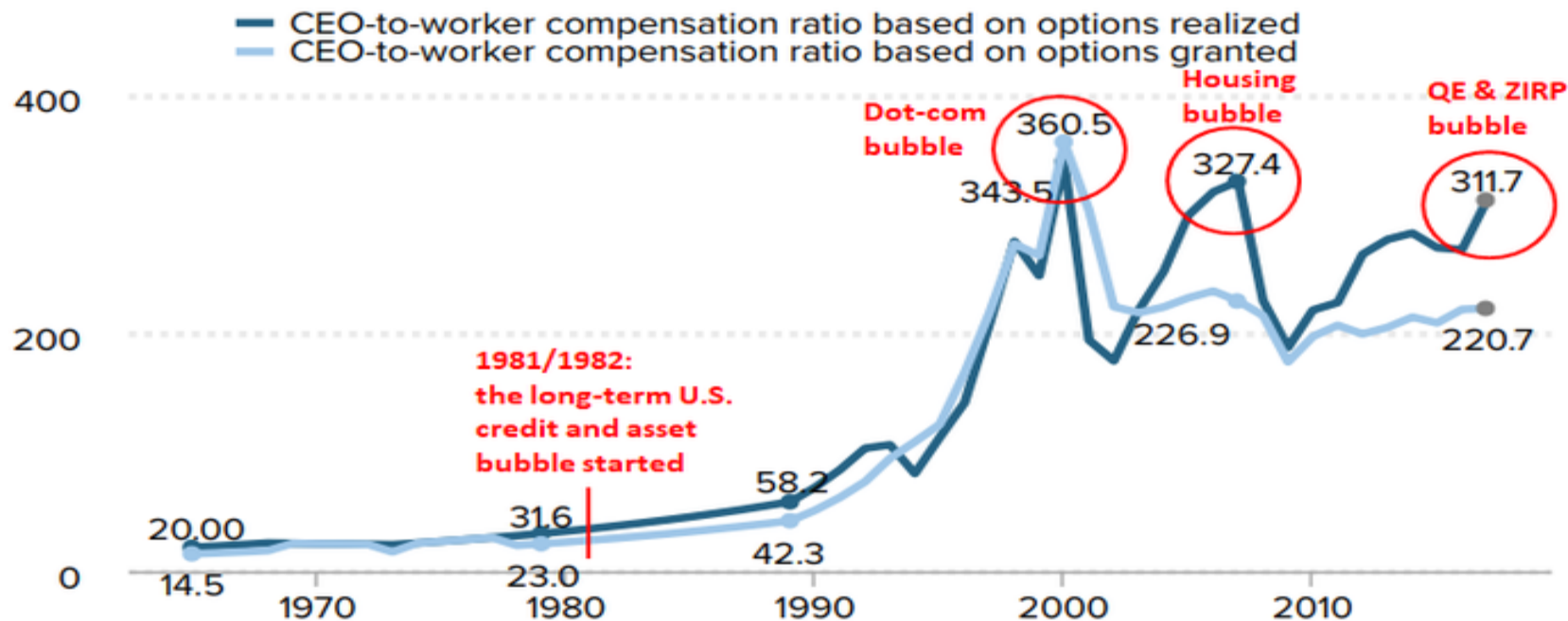


Why so much shift toward the very top?

- **Expansion of financial sector and rewards for corporate elites:** rapid increase in CEO pay and rewards to investors compared to wage and salaried workers.
- **Changes in values and norms for elites:** Meritocracy for professionals. Excess, ostentation, and focus on making more and more now OK for the very rich.
- **Union decline:** Helps explain overall income decline, especially for men – and helps corporate elite and investors capture economic gains.

CEOs make 312 times more than typical workers

CEO-to-worker compensation ratio, 1965–2017



Notes: CEO average annual compensation is measured for CEOs at the top 350 U.S. firms ranked by sales. Two measures are computed, differing in the treatment of stock options: One uses “options realized,” and the other uses the value of “options granted.” Both series also include salary, bonus, restricted stock awards, and long-term incentive payouts for CEOs. Projected value for 2018 is based on the percent change in CEO pay in the samples available in June 2017 and in June 2018 (labeled first-half [FH] data) applied to the full-year 2017 value. Projections for compensation based on options granted and options realized are calculated separately. “Typical worker” compensation is the average annual compensation of the workers in the key industry of the firms in the sample.

Source: Authors’ analysis of data from Compustat’s ExecuComp database, the Bureau of Labor Statistics’ Current Employment Statistics data series, and the Bureau of Economic Analysis NIPA tables

“With Executive Pay, Rich Pull Away from the Rest of America”

Peter Whoriskey, *The Washington Post*, June 18, 2011.

CEO 1970s

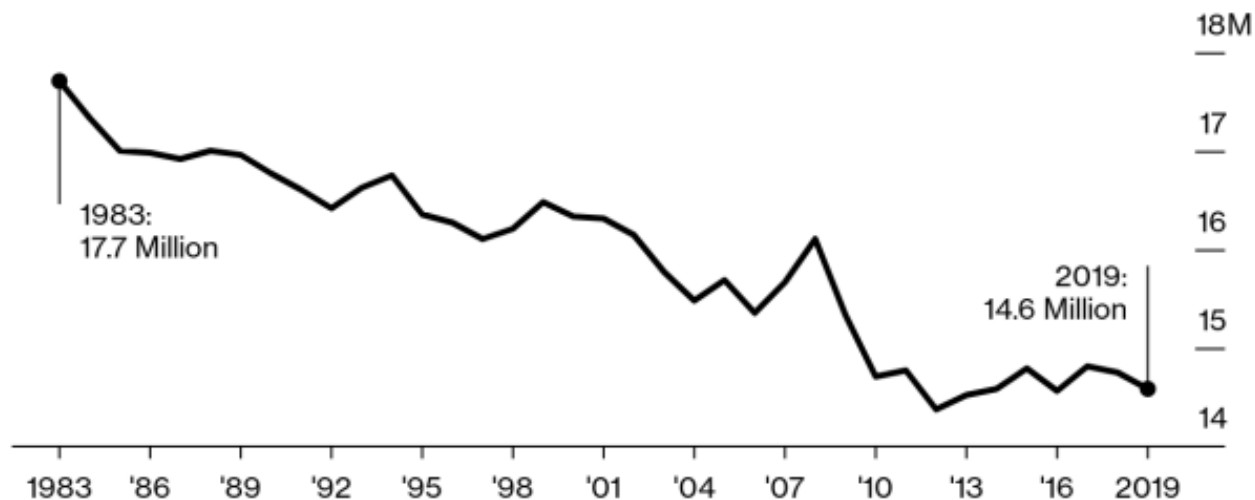
- **\$1M salary** (in 2011 dollars)
- **Office on second floor of milk distribution center**
- **4 bedroom suburban home in Chicago suburb**
- **Member of country club**
- **Cadillac from the company**
- **Sometimes turned down raises, because making too much was bad for morale**

CEO 2011

- **\$10 million salary**
- **Office occupies top nine floors of 41-story Dallas tower**
- **\$6M home in Dallas; 64 acres near Vail, Colorado**
- **Four golf club memberships**
- **Challenger 604 Jet for his personal and business use**

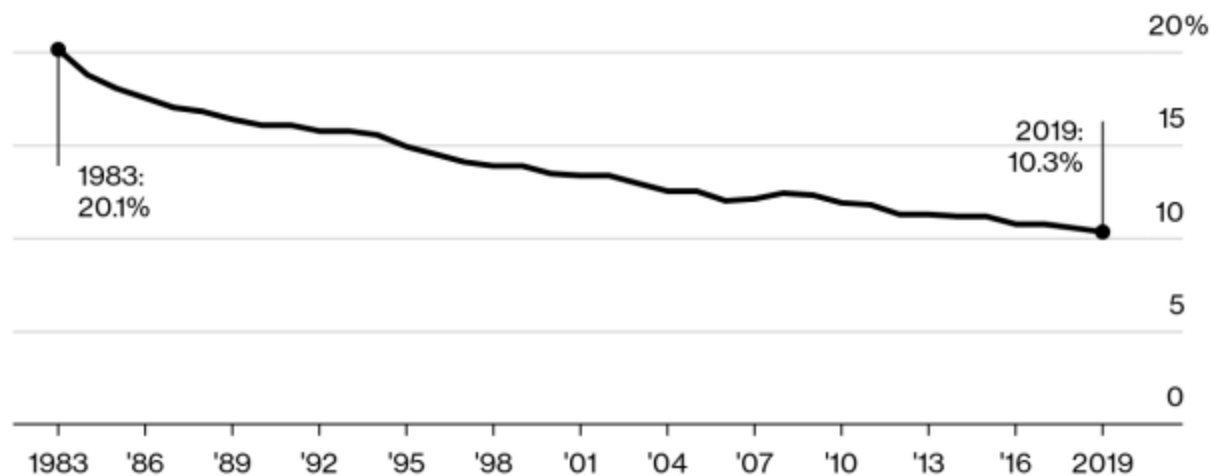
Union Membership on the Decline

Number of U.S. Union Members, 1983-2019



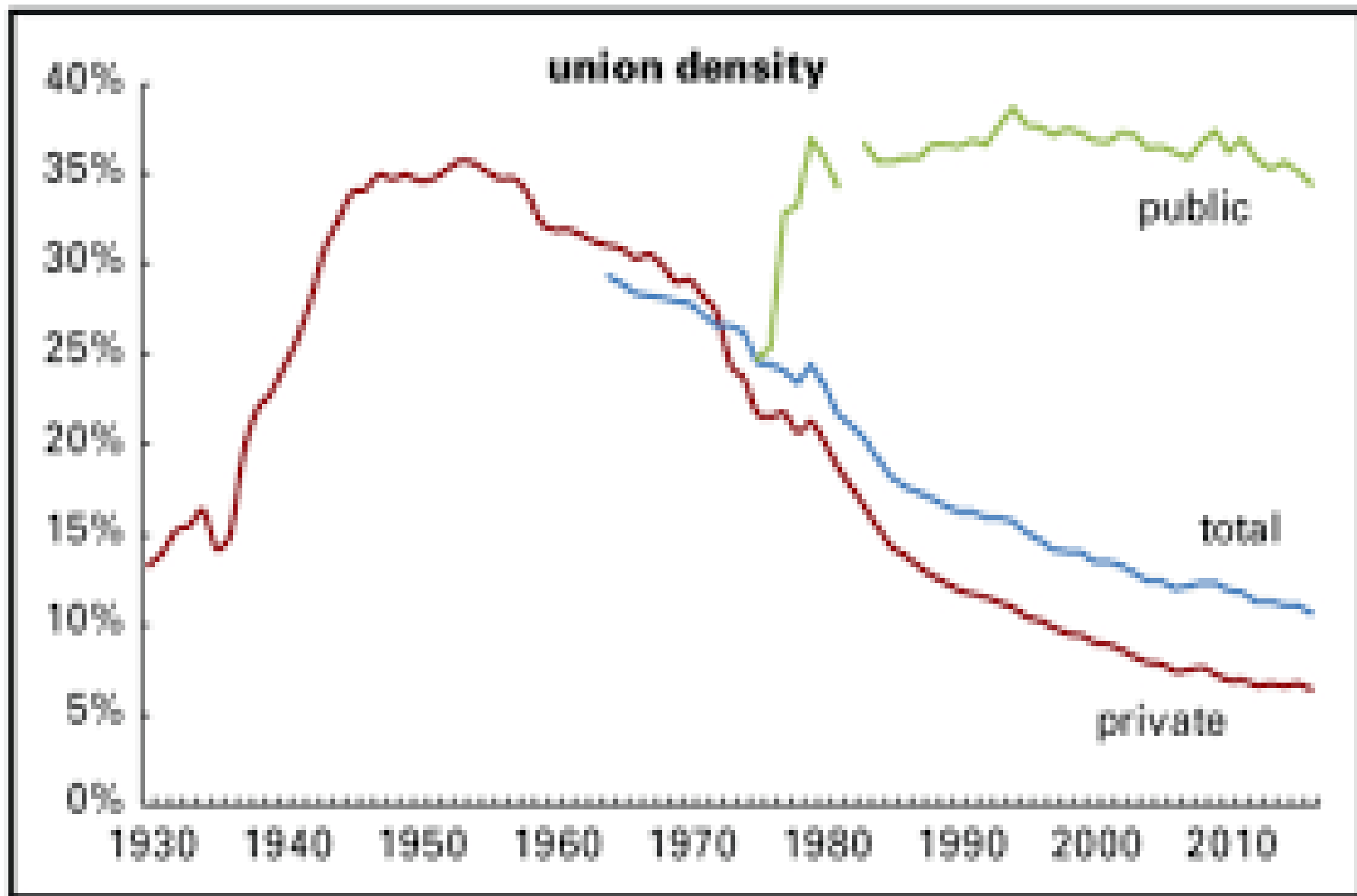
Share of Americans in Unions Nearly Halved

Percent of U.S. Employees Who are Unionized, 1983-2019



Source: Bureau of Labor Statistics Data

Bloomberg Law

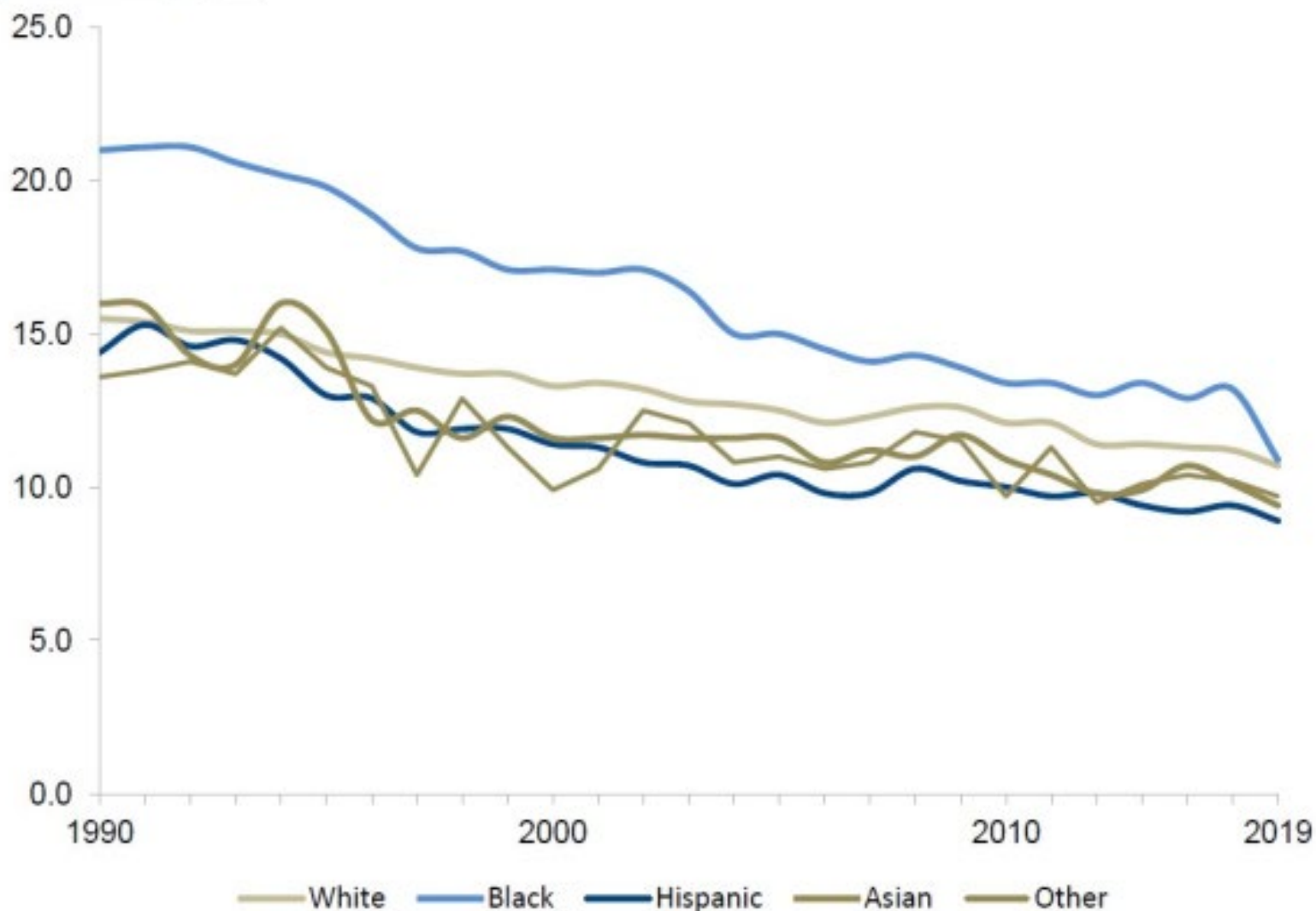


Source: LBO News from Doug Henwood.

FIGURE 3

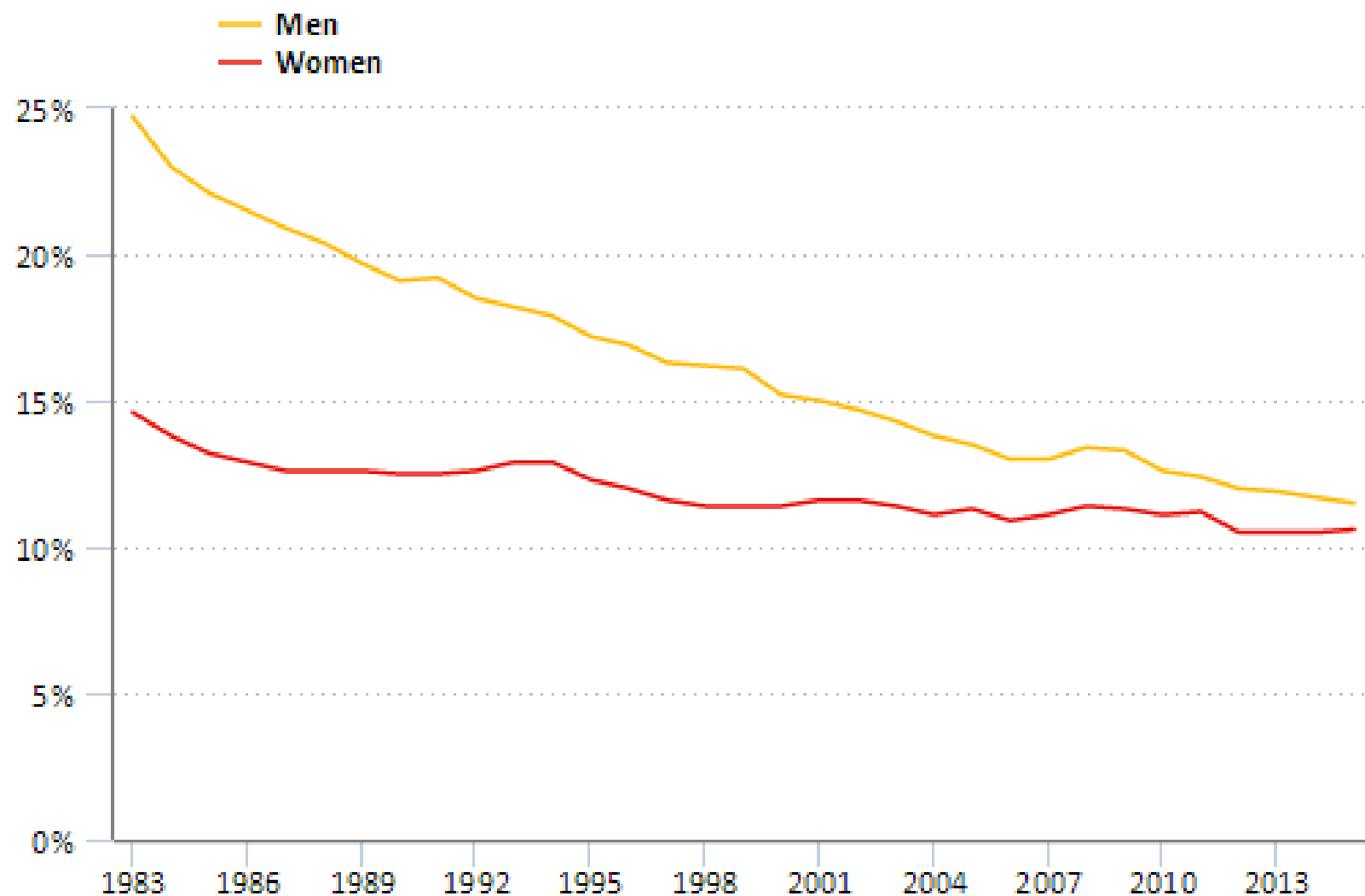
Union Membership Rate, By Race/Ethnicity, 1989-2019

(percent of employees)



Source: CEPR analysis of Current Population Survey Outgoing Rotation Group.

Union membership rates by sex, 1983–2015



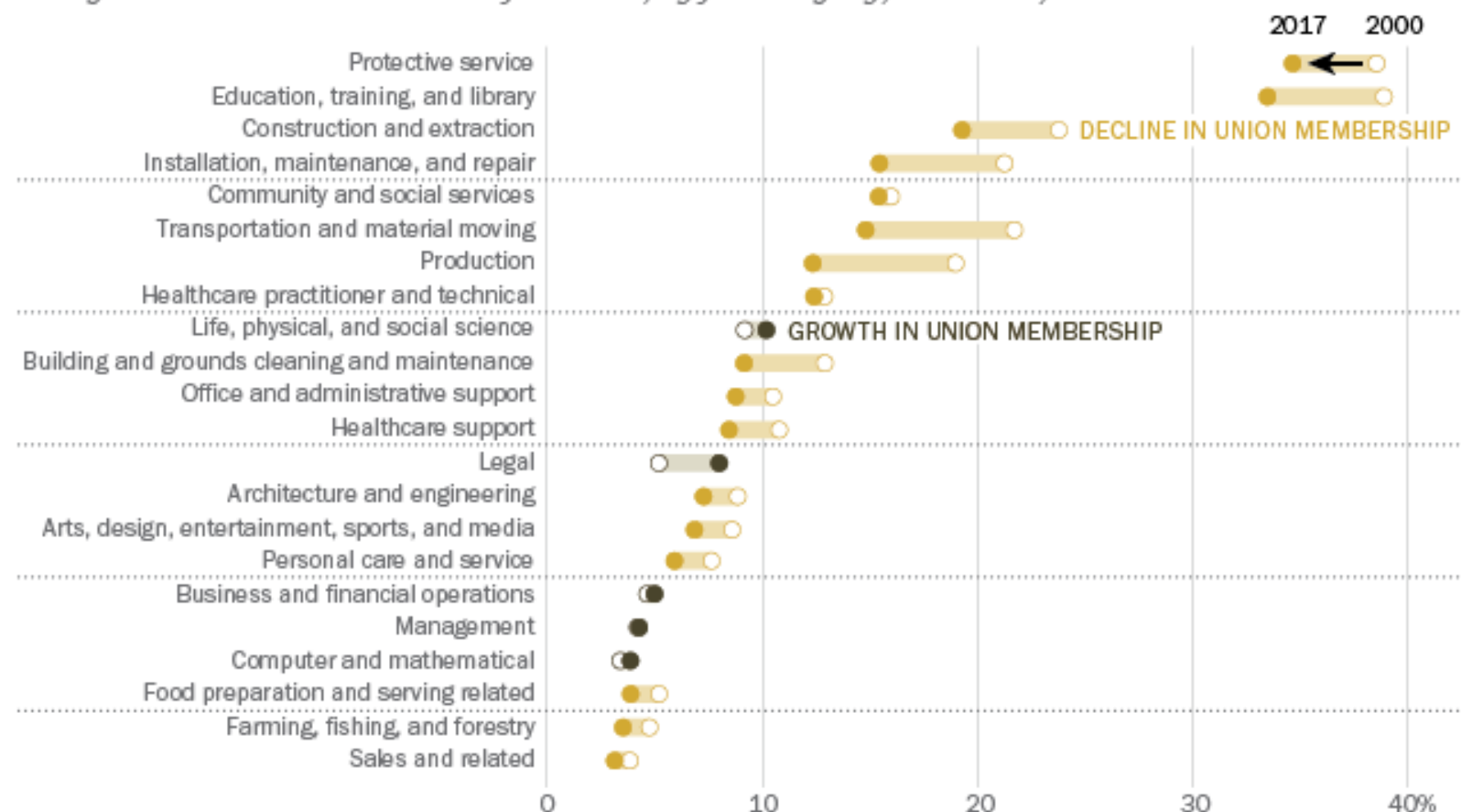
Click legend items to change data display. Hover over chart to view data.

Source: U.S. Bureau of Labor Statistics.



Most occupations have seen a decline in union membership since 2000

Change in union members' share of workers, by job category, 2000-2017



Source: U.S. Bureau of Labor Statistics.

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The State Of The Unions

Union membership rates by U.S. state in 2018

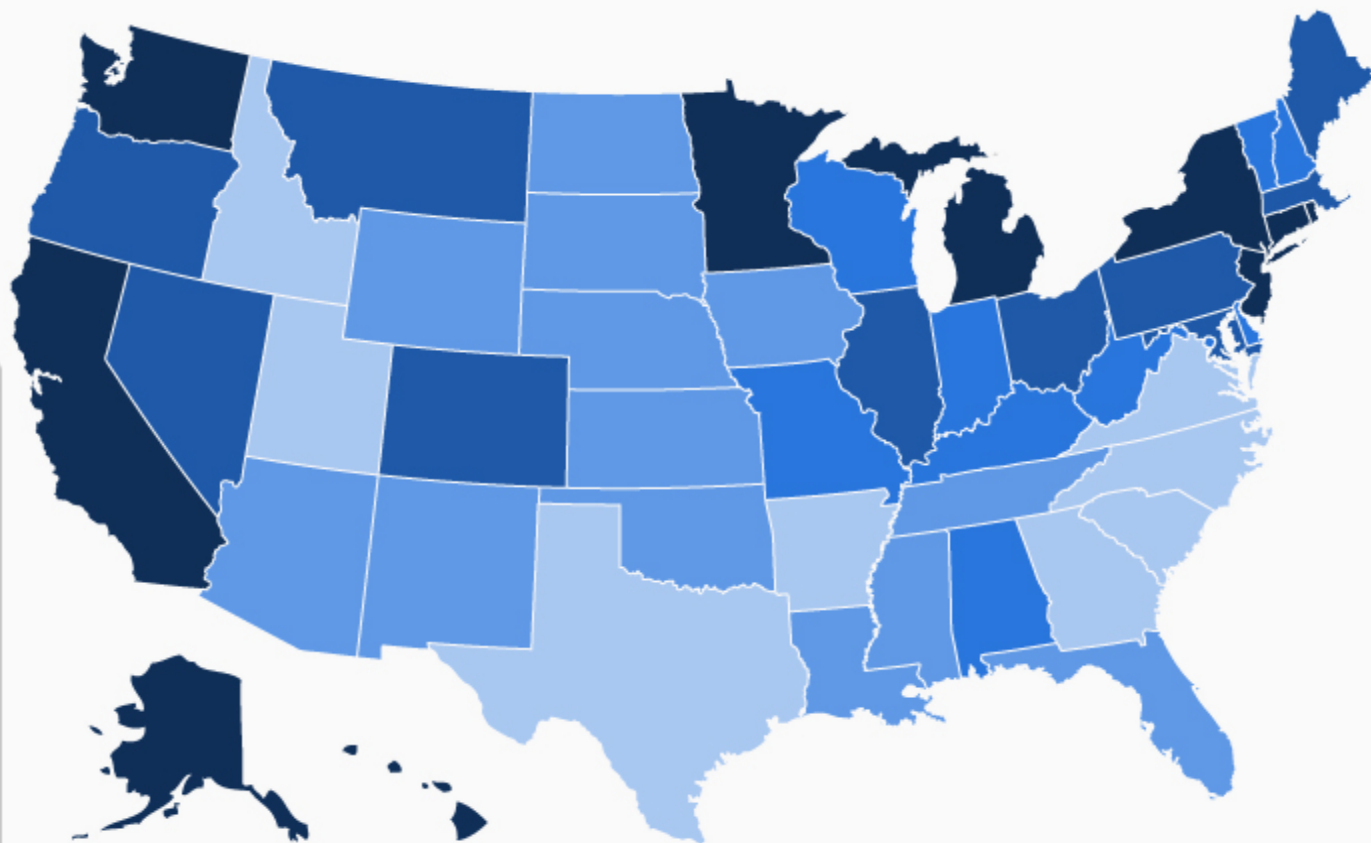


Highest rates

Hawaii	23.1%
New York	22.3%
Washington	19.8%

Lowest rates

Utah	4.1%
North Carolina	2.7%
South Carolina	2.7%



@StatistaCharts Source: Bureau of Labor Statistics

UNIONS AND INEQUALITY OVER THE TWENTIETH CENTURY

Henry S. Farber, Daniel Herbst, Ilyana Kuzimenko, and Suirsh Naidu
NBER Working Paper 24587, May 2018

- **Data from Gallup polls from 1936 to the present, using questions on membership, beliefs, education, income.**
- **When union density was higher, more low-skilled workers were in unions (especially men).**
- **When less educated became more unionized after World War II, income inequalities decreased.**
- **Why? Unions bargain for better wages and benefits.**
- **Unions may indirectly boost pay for nonunionized.**
 - **Companies may defensively raise wages to forestall more unionization**
 - **Public beliefs and politics may be influenced by unions**

UNION DECLINE AND RISING WAGE INEQUALITY

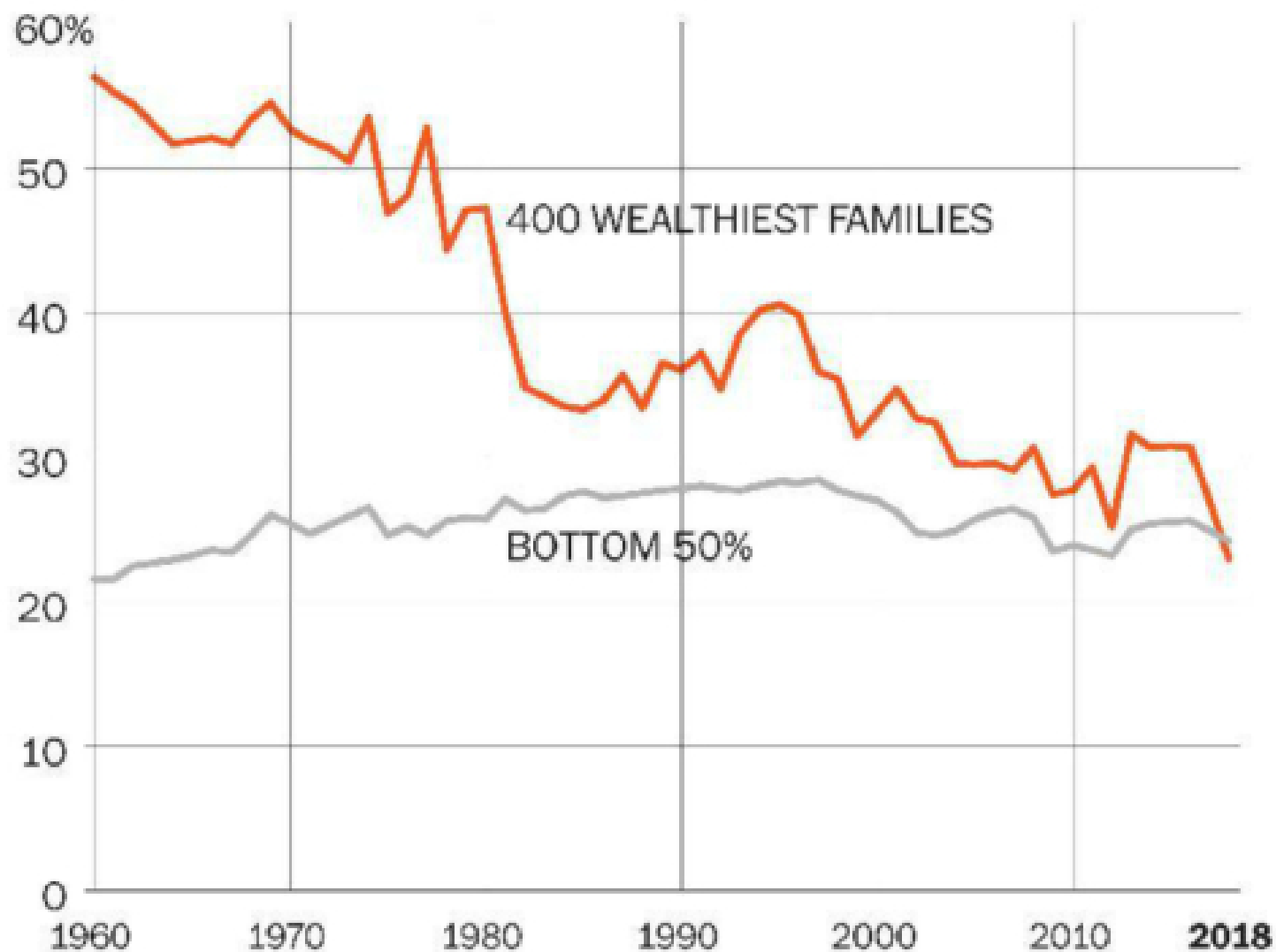
By Bruce Western and Jake Rosenfeld

- From 1973 to 2007, wage inequality in the private sector of the U.S. economy increased by 40%.
- From 1973 to 2007, union enrollment for men fell from 35% unionized to 8%, and for women fell from 16% unionized to 4%.
- Educational attainment increased at the same time.
- **How are deunionizing and educational trends related?**
 - The gap between those with college and those without accounts for about one-third of the increased wage inequality for men, and two-fifths for women.
 - Declining unionization was associated with about one-third of the increased wage inequality for men, and about one fifth of increased inequality for women.
 - **For male workers, in short, the impact of unionization decline equaled the impact of the college gap.**
 - **Union decline powerfully affected wage inequality among nonunion workers in once-highly unionized regions and industries.** As unions declined, worker leverage suffered and prevailing wage norms deteriorated for everyone.

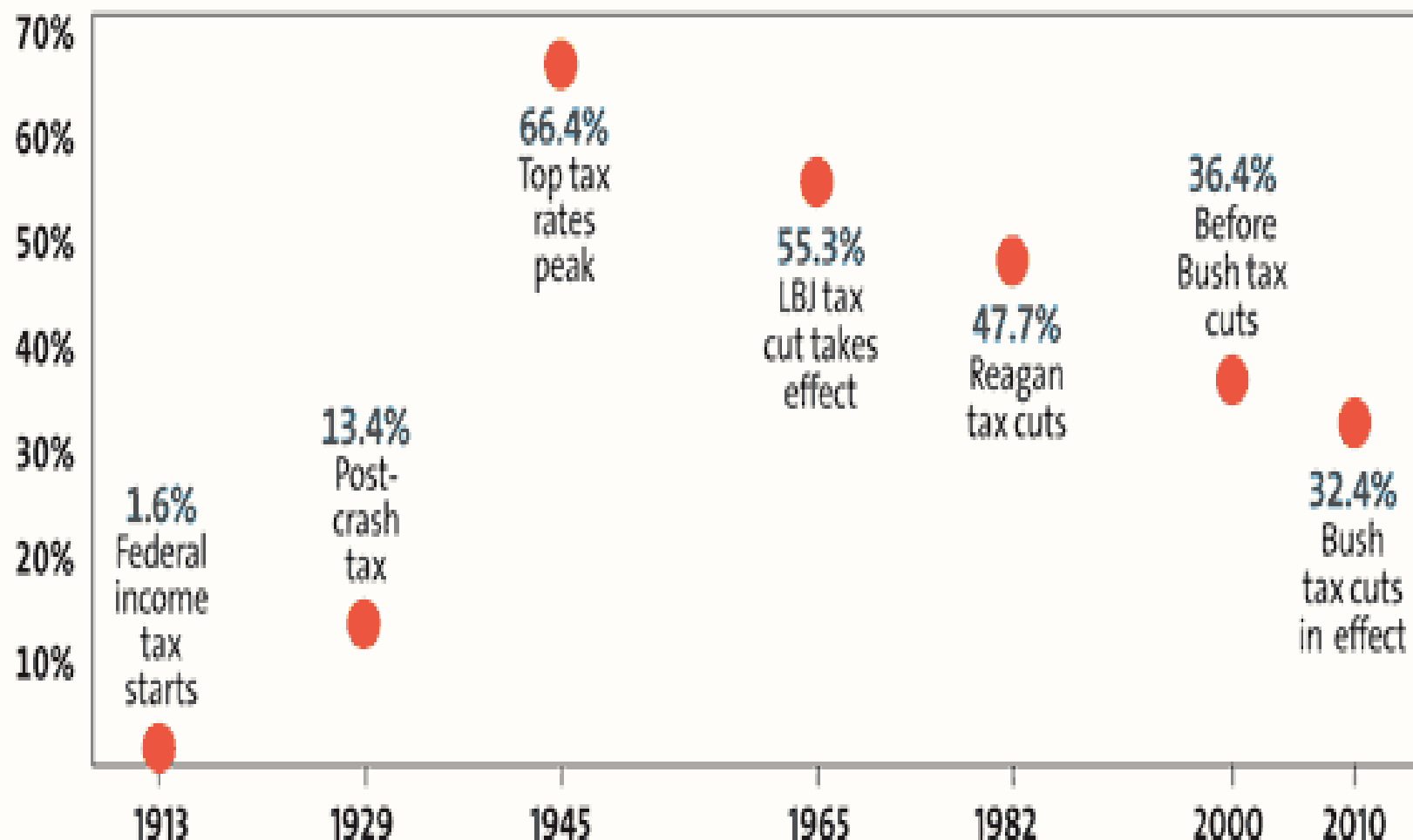
HOW GOVERNMENT ACTIONS – AND INACTIONS -- MATTER

- **Tax collections and tax breaks**
 - income taxes – declining top rates and revenue share
 - capitals gains taxed less than earned income
 - tax credits and tax breaks
- **Social expenditures**
 - Social Security, Medicare – boost the elderly
 - Medicaid, ObamaCare – help lower and middle income groups (but not in all states)
 - States have cut college subsidies; fed gov't shifted toward encouraging loans.
 - Repeated cuts in benefits for very poor
- **Rules for market economy**
 - minimum wage, unemployment insurance
 - financial and business regulations; union rules

Average effective tax rates of the 400 wealthiest families and the bottom 50 percent of U.S. households

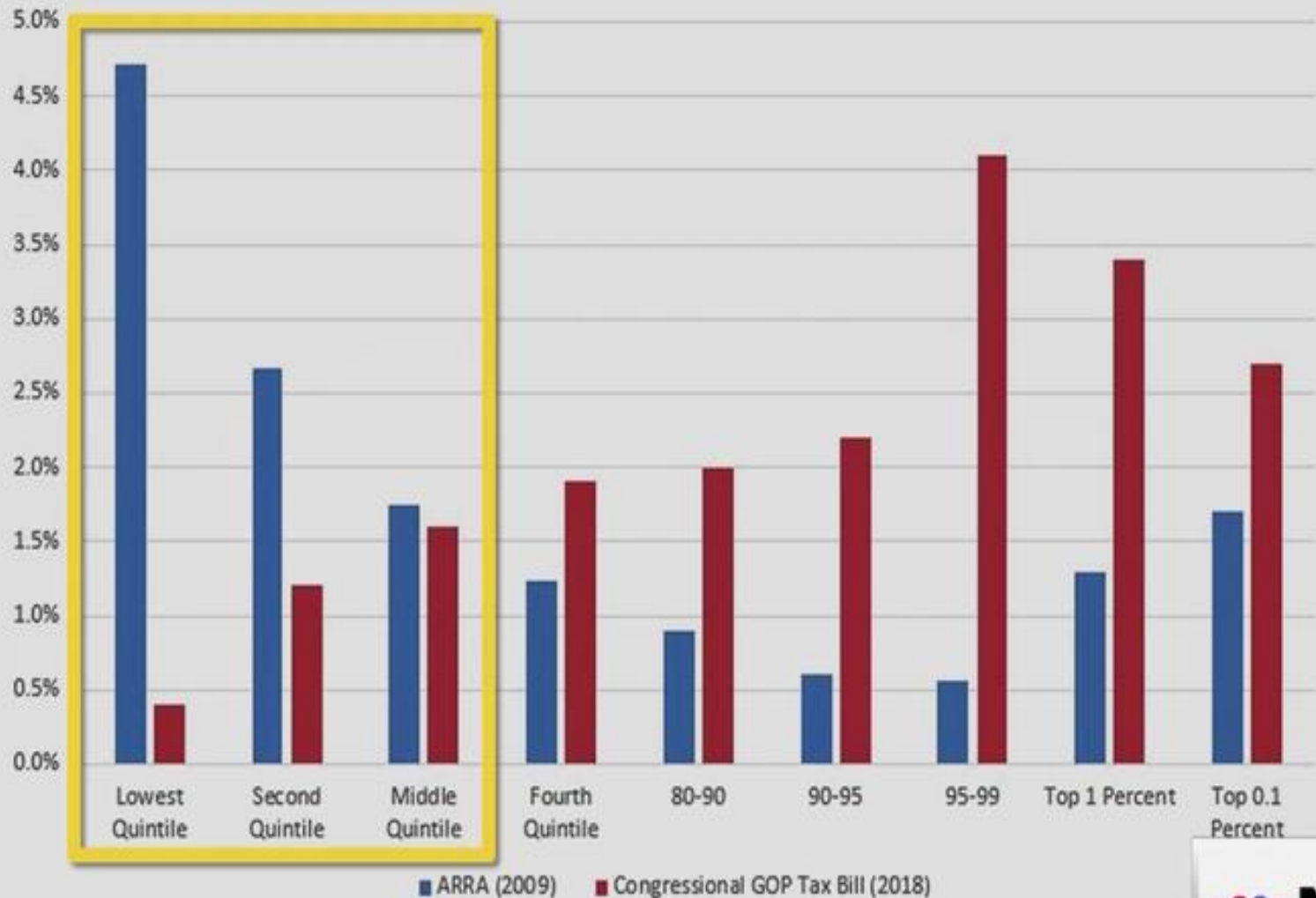


A MILLIONAIRE'S TAX RATE, NOW AND THEN



Effective tax rate for head of household earning equivalent of \$1 million of non-investment income in 2010 dollars. Source: The Tax Foundation

2009 TAX CUTS VS. 2017 TAX CUTS



SOURCE: ALEX ROWELL/CAP ECONOMY (TAX POLICY CENTER DATA)

Federal Minimum Wage, 1938-2014

Shown in nominal (not adjusted for inflation) dollars and 2014 (inflation-adjusted) dollars

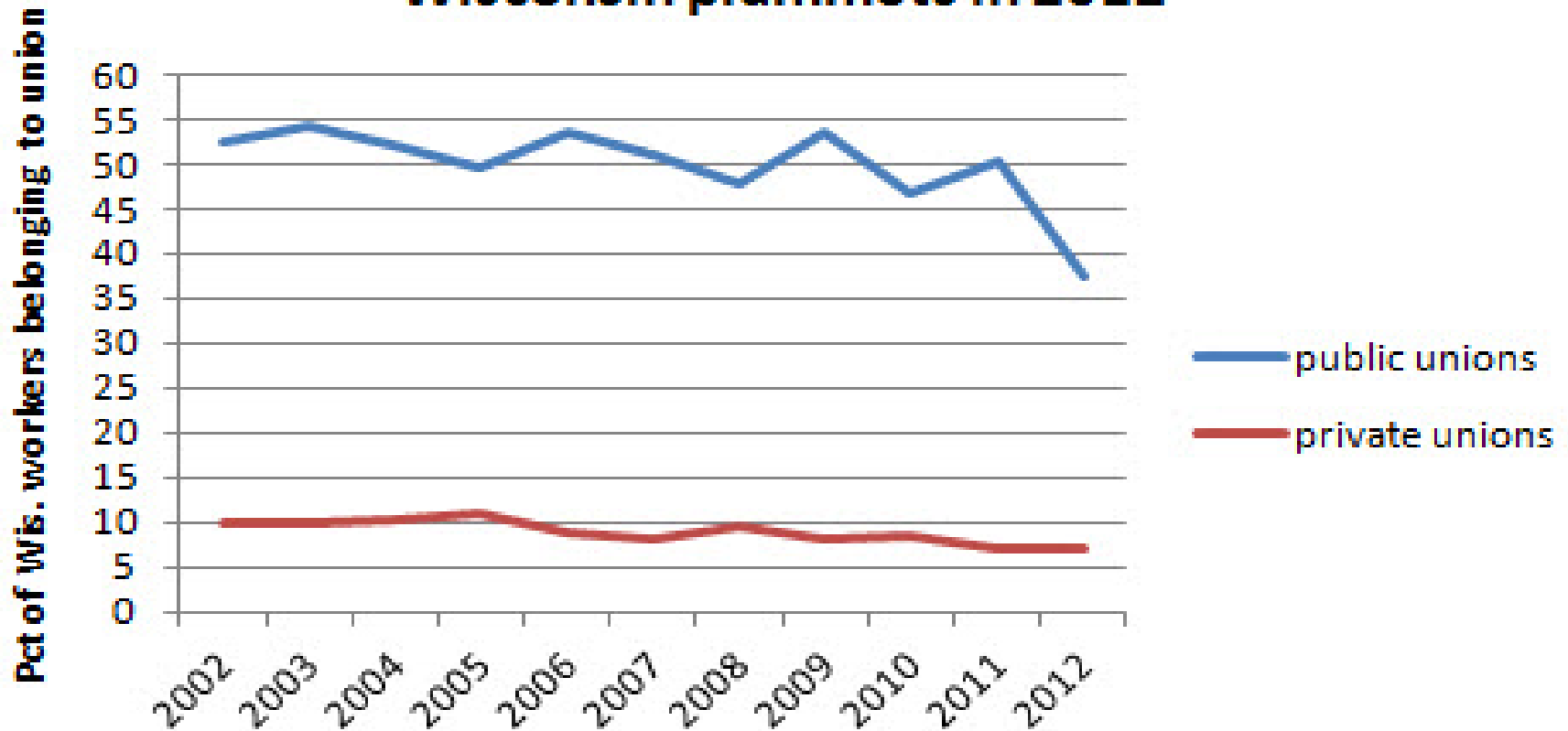


Note: Wage rates adjusted for inflation using implicit price deflator for personal consumption expenditures.

Sources: Bureau of Labor Statistics, Bureau of Economic Analysis, Pew Research Center analysis

Government rules can encourage or hamper unionization. Following enactment of WI 2011 Act 10 anti-union laws...

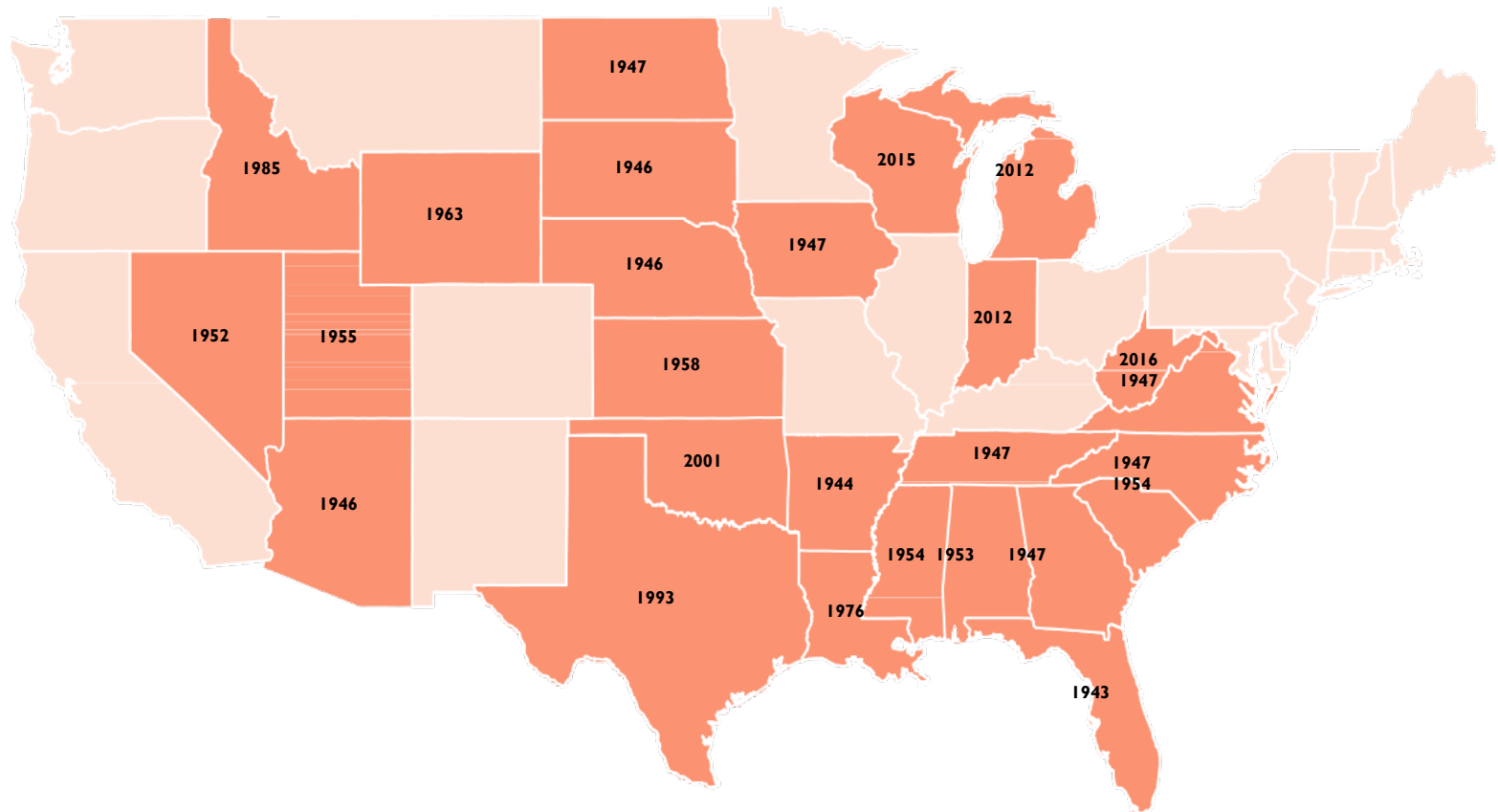
Membership in public-sector unions in Wisconsin plummets in 2012



Source: Craig Gilbert, "The Politics of Wisconsin's Declining Union Membership," *Milwaukee Wisconsin Journal-Sentinel*, February 9, 2013.

U.S. state right-to-work laws as of 2016.

Years indicated on the map are the first year RTW was in place in each state. Note that Indiana had RTW in place from 1957 to 1965 before passing RTW again in 2012. In 2017, after our study period, Kentucky and Missouri both passed RTW laws.



Source: James Feigenbaum, Alexander Hertel-Fernandez, and Vanessa Williamson, "From the Bargaining Table to the Ballot Box: Political Effects of Right to Work Laws," National Bureau of Economic Research, 2018.

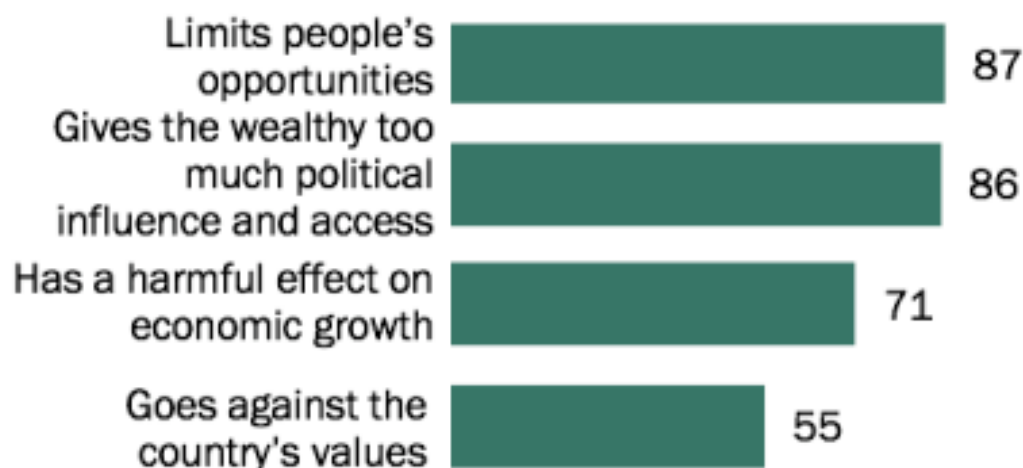
ANTI-UNION LAWS CHANGE POLITICS, TOO

James Feigenbaum, Alexander Hertel-Fernandez, and Vanessa Williamson, “From the Bargaining Table to the Ballot Box: Political Effects of Right to Work Laws,” National Bureau of Economic Research, 2018.

- **Look at enactments of right to work laws 1980 to 2016 in neighboring states – and the impact on Democratic vote shares and organized labor contributions to Democrats.**
- **Right-to-work laws reduce Democratic Party presidential vote shares by 3.5% and also affect state legislative control and shares in Congressional and gubernatorial elections.**
- **How does it work? Union contributions to Democrats go down.**
- **Voters are less likely to be contacted to vote.**
- **So what? Fewer working class candidates in state legislatures, and state policies shift in a more conservative direction.**

Some agreement on reasons for reducing economic inequality among those who see it as a top priority

*Among those who say that reducing economic inequality should be a **top priority** for the federal government, % saying each of the following is a major reason why it should be a priority*



Source: Survey of U.S. adults conducted Sept. 16-29, 2019.

"Most Americans Say There Is Too Much Economic Inequality in the U.S., but Fewer Than Half Call It a Top Priority"

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