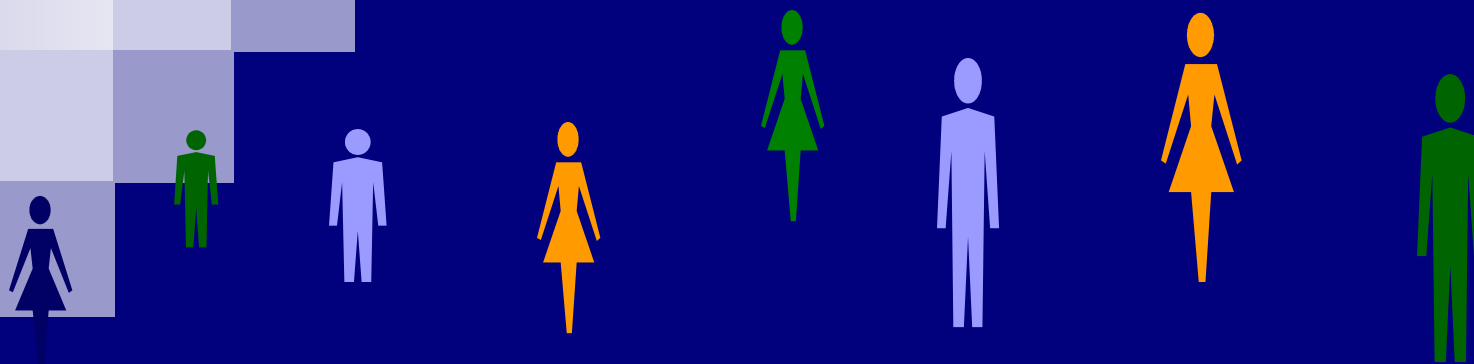


Does A Rising Tide Lift All Boats?

Productivity Growth, Wages, and Relative Prosperity



Federal Reserve Bank of San Francisco

April 8, 2004

Mary C. Daly

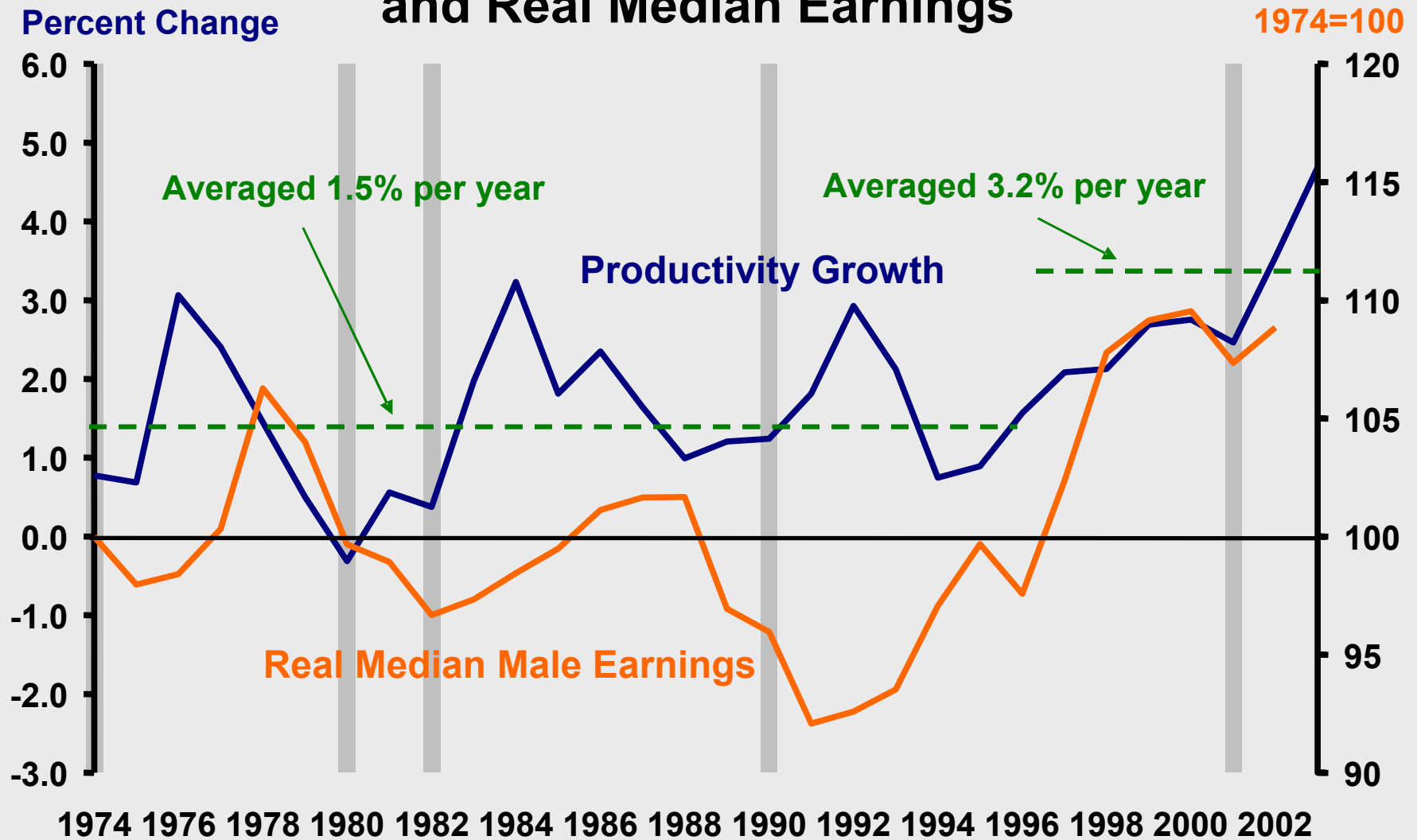
Economic Research Department

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Productivity Growth, Wages and Wage Inequality

Productivity Growth and Pay

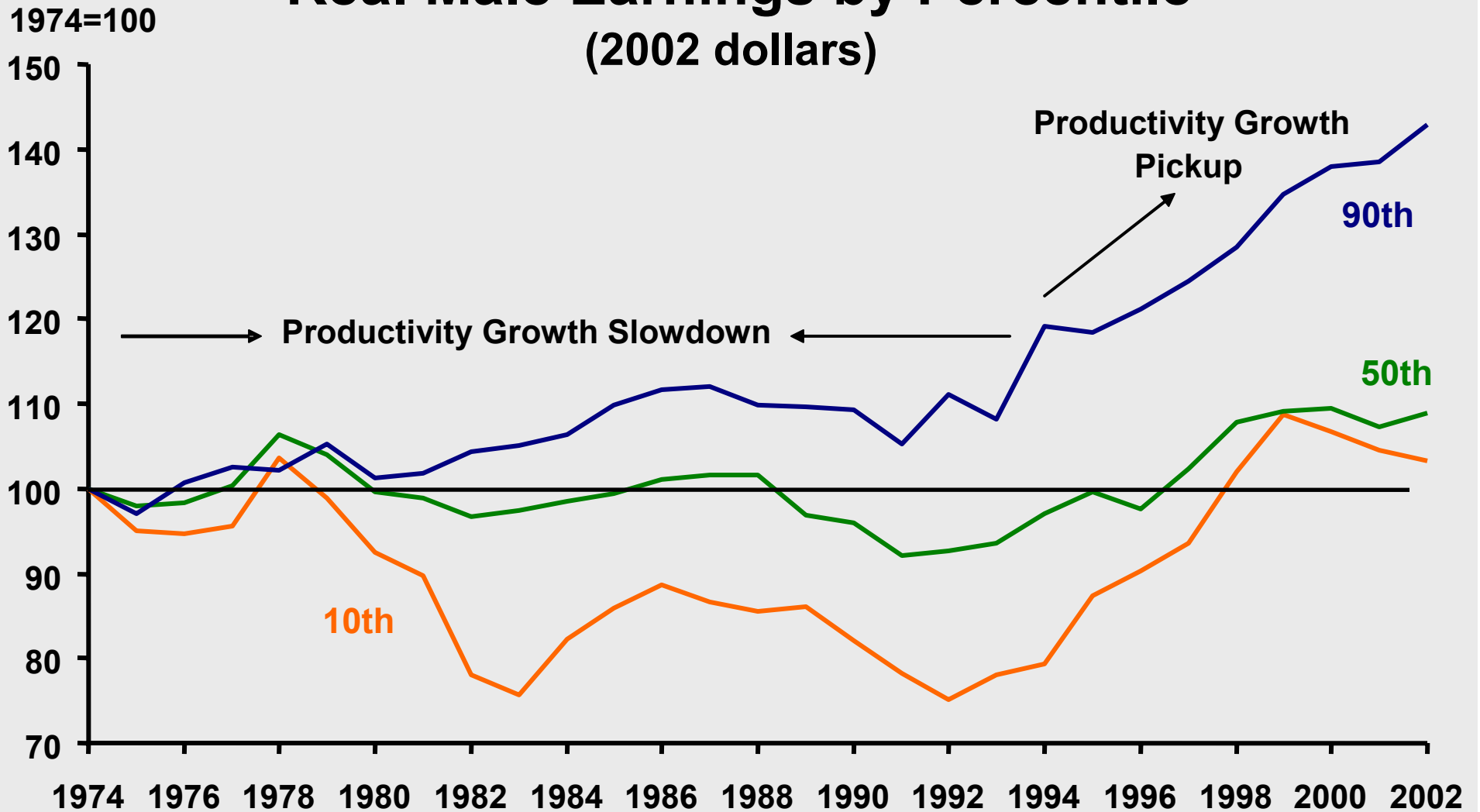
Productivity Growth and Real Median Earnings



Source: BLS and CPS. Productivity growth is annual percent change in two-year moving average. Real median earnings is percent change relative to 1974 value.

Productivity Growth and Inequality

Real Male Earnings by Percentile (2002 dollars)



Source: BLS and CPS. Real male earnings by percentile represents changes relative to 1974 values.

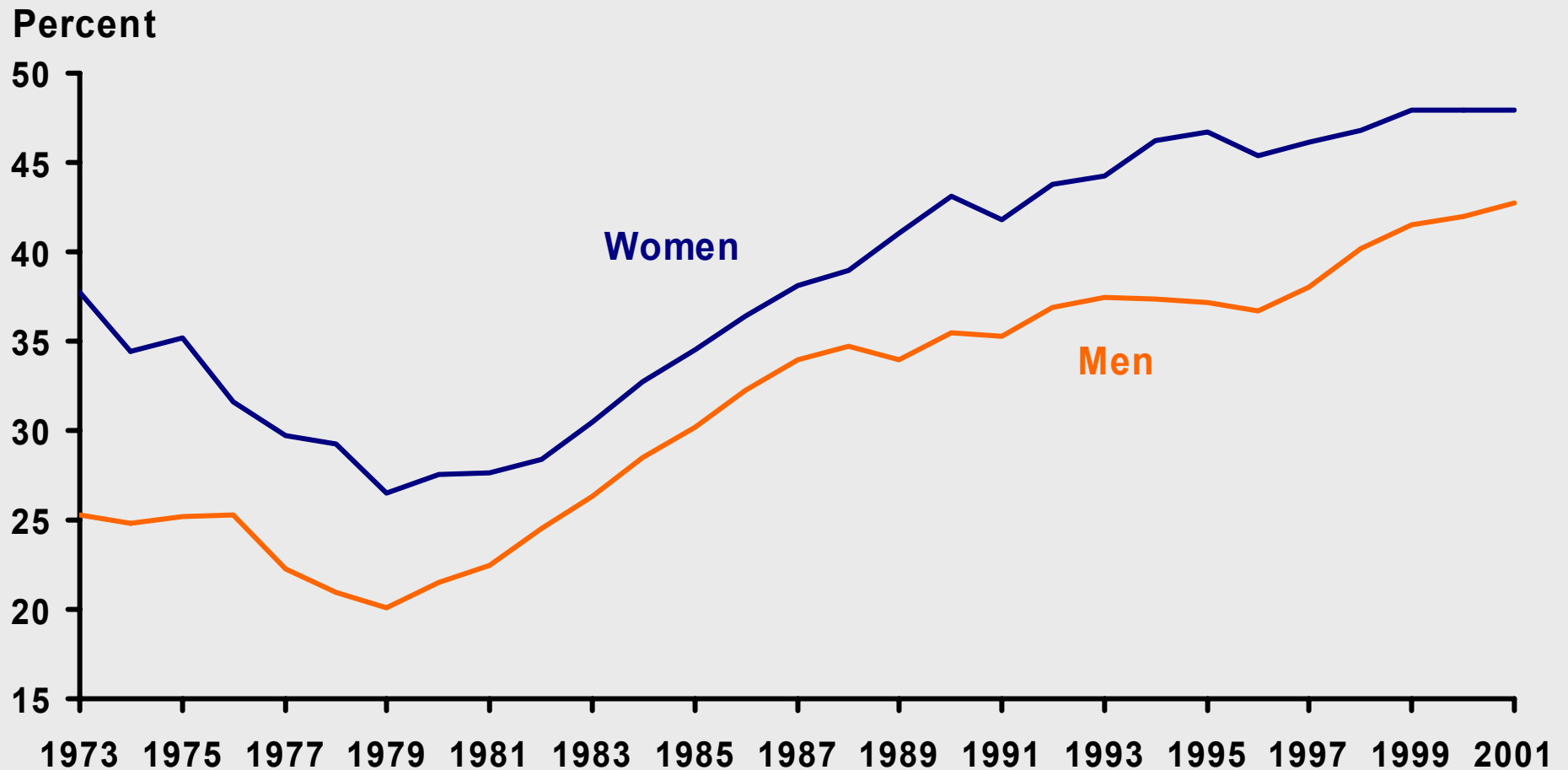
Technological Change...

...complements skill

- **Demand for higher-skilled workers increases relative to lower-skilled workers**
- **Wages of higher-skilled workers rise faster than wages of lower-skilled workers**

Premium on Education

Wage Premium for College versus High School Graduates



Source: Current Population Survey. Figures represent percent premium paid to graduates of four year colleges relative to high school graduates controlling for age and experience.

But Not Just Technology

Other factors also play a role

- **Globalization**
- **Declining unionization**
- **Declining real value of minimum wage**
- **Increased immigration**

Relative Prosperity

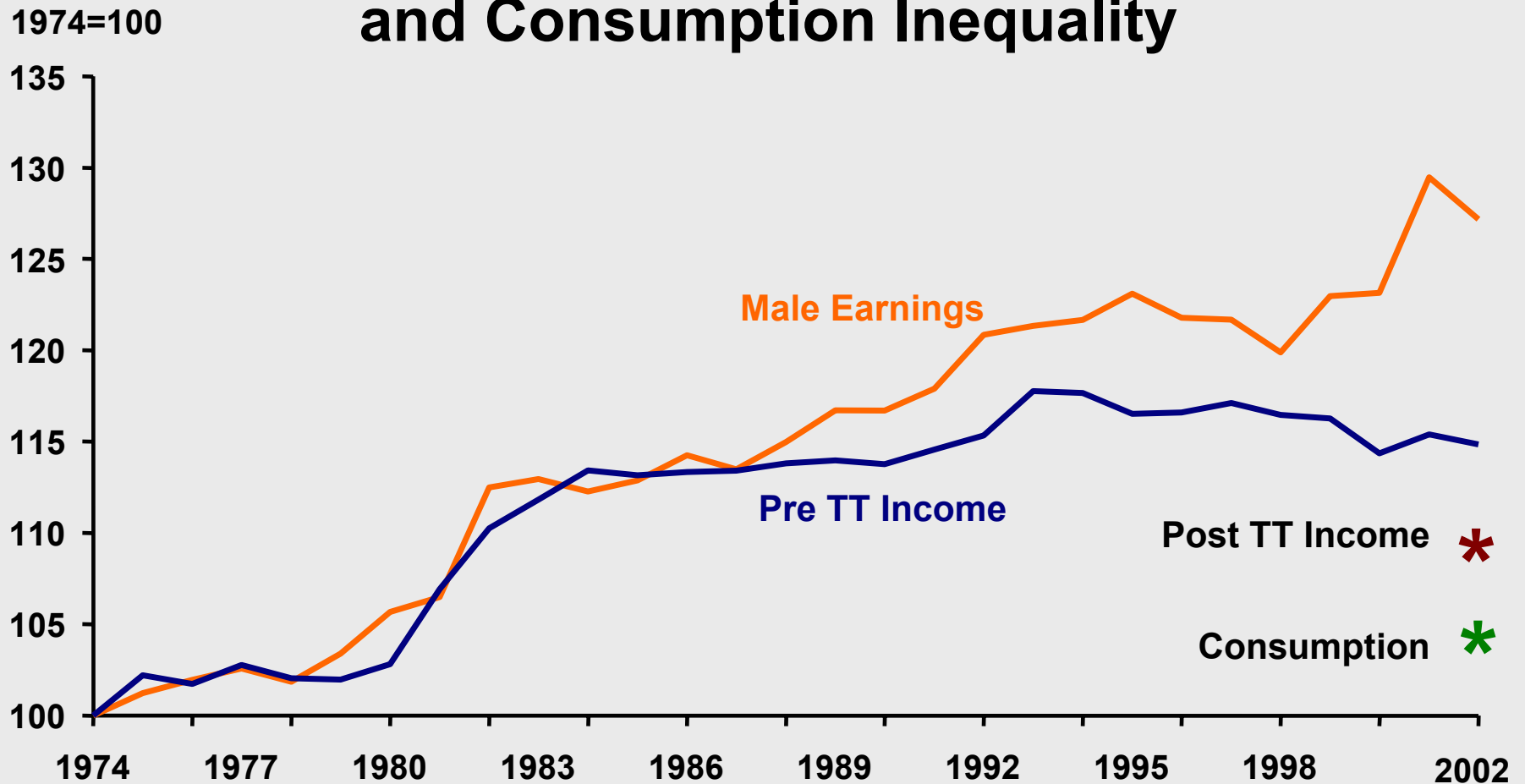
Beyond Wages

Measures of economic well-being

- **Wages/earnings (individuals)**
- **Pre Tax and Transfer Income (family)**
- **Post Tax and Transfer Income (family)**
- **Consumption (family)**

Not a One-to-One Relationship

Earnings, Income, and Consumption Inequality



Source: Current Population Survey. Figures represent percent changes in Gini coefficients relative to 1974 values.

Policy Making in a Complex World

Policy Tools

Three prongs of U.S. policy

- Promote economic growth
- Equalize pre-market conditions
- Shore up post-market shortfalls

Promote Economic Growth

Federal Reserve

- Low inflation consistent with sustainable growth

Federal Government

- Micro policies
- Macro policies

Equalize Pre-Market Conditions

Education and Training

- **Four-year colleges**
 - Pell Grants
 - Student Loans
- **Build more community colleges**
- **Enhance K-12 curriculum**
- **Expand *Head Start* Program**
- **Job Training Assistance Program (*JTAP*)**

Shore Up Shortfalls

Temporary Assistance

- Unemployment Insurance
- Trade Adjustment Assistance Act
- Welfare

Permanent Assistance

- Earned Income Tax Credit (*EITC*)
- Supplemental Security Income

Open Issues

- **Inequality going forward**
- **Income mobility**
- **Health care, child care, pensions**