U.S. Income Inequality in Perspective
Rising U.S. Wage Inequality: Whither the Middle Class?

Prepared for FRBSF Seminar
U.S. Income Inequality in Perspective
April 11, 2012

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Rising wage inequality

- Not just a 1% vs. 99% issue

- Wage distribution pulled apart
  - Growing gaps between high, middle, and low-wage workers

- Ongoing trend: Middle-class squeeze
Outline of talk

- Some basic inequality facts and definitions
  - Why do we care?

- Rising wage inequality: Patterns

- Rising wage inequality: Sources
  - Technology vs. other factors
Wide disparities in income & wages

### Income and Earnings Levels, 2010
(households and individuals, annual)

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<tr>
<th>Percentile</th>
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**Sources:** U.S. Census Bureau for pre-tax/transfer HH income, FRBSF calculations from BLS monthly household survey (CPS) for hourly wages (all employees age 18-64).
Wide disparities in income & wages

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Household income inequality tracks wage inequality

Inequality in Wages and Household Income
(P90/P10 ratio)

Wages
HH Income

Inequality in Wages and Household Income
(P90/P10 ratio)
"Don’t be silly—mathematically, there will always be a middle class."

Source: *The New Yorker* magazine, December 20, 2010
Why do we care?

- Social justice
  - Social cohesion, economic incentives

- Market vs. non-market influences

- Not everyone benefits from economic growth
Outline of talk

- Some basic inequality facts and definitions
  - Why do we care?
- Rising wage inequality: Patterns
- Rising wage inequality: Sources
  - Technology vs. other factors
Men’s wages stagnant, median & below

Real Wages, Men
(1979 value = 100)

Note: Inflation adjusted using the BLS CPI-U-RS series.
(1979 value = 100)
Women doing better, except lowest

Real Wages, Women
(1979 value = 100)

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Median flattening
Gains in median HH income eroded

Median Household Income
(Real, 2010 Dollars)

Note: Inflation adjusted using the BLS CPI-U-RS series. Gray bars denote NBER recession dates.
Gains in median HH income eroded

Median Household Income
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(Real, 2010 Dollars)
U.S. inequality high vs. other countries

Inequality in OECD Countries
(P90/P10, post-tax/transfer HH income adjusted for HH size)

And generally rising faster in U.S. than elsewhere (since mid-1980s)

Source: OECD; figures refer to year 2008 for most countries (range is 2006-2009)
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Explanations for middle-class squeeze

- Technological change
  - Skill biased, or “SBTC”

- Globalization
  - Trade/outsourcing, decline of manufacturing jobs

- Institutions and norms
  - Unions (collective bargaining)
  - Pay practices (bonus and incentive pay)
“Polarization” hypothesis (David Autor of MIT and others):

New computer-related technologies replace moderately skilled workers (e.g., clerical) but have little effect on lesser skilled workers (e.g., janitors).
Polarization: top-half inequality up

Wage Inequality, Upper and Lower Halves, Men

- P90/P50
- P50/P10

Polarization: top-half inequality up

Wage Inequality, Upper and Lower Halves, Men

P90/P50
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Polarization: top-half inequality up

Wage Inequality, Upper and Lower Halves, Men

P90/P50
P50/P10
Women hurt less by SBTC

Ratio of Women's to Men's Wages

Average
College is no longer enough

Grad School and College Wage Gaps (versus High School)
College is no longer enough

Grad School and College Wage Gaps (versus High School)

Grad Degree

College Degree (only)
Trade impacts: debate continues
- Direct trade impacts limited
- But outsourcing reflects SBTC, undercuts demand/wages for mid-level skills

Decline of traditional middle-class jobs

Related to SBTC: globalization, manufacturing, unions
Manufacturing and union decline

Manufacturing and Union Employment Shares

Source: Unionstats.com (Hirsch & Macpherson; share of all wage and salary workers who are union members) and BLS (manufacturing share of total nonfarm employment).
Recent research finds that rising reliance on bonuses and other incentive pay is important for the top-half inequality increase.

- Tournament-style competition for jobs (winner take all)
Middle-class workers squeezed due to changing technology and leveling of global economic landscape

- Can’t all have MBA/JD/PhD
- Globalization forces easing? (e.g., China is getting more expensive)

Institutional and cultural factors have reinforced rather than offset market factors (negative attitudes towards unions, rising costs of higher education, bonus pay)