A member of the Minnesota State Colleges and Universities system, Bemidji State University is an affirmative action, equal opportunity employer and educator.
Evaluating Theories on Income Polarization in U.S.

Jocelyn Anderson

B.A. SOCIAL STUDIES
Holdings of Family Wealth, by Wealth Group

Trillions of 2013 Dollars

Source: Congressional Budget Office, using data from the Survey of Consumer Finances, supplemented with data from Forbes magazine’s list of the nation’s 400 wealthiest people.

The Survey of Consumer Finances is conducted every three years.
Income Polarization

1980 – 2014

- Share of national income migrates leaving half of Americans sharing little over 1/10\textsuperscript{th} of wealth

<table>
<thead>
<tr>
<th>Share of Nat'l Income 1980/2014</th>
<th>Bottom 50%</th>
<th>Top 1%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20% / 12.5%</td>
<td>10.7% / 20.2%</td>
</tr>
</tbody>
</table>
Income Polarization

**Rapid Growth in Top Percentile**

1987 – 2014

- Growth experienced by top 50% only
- Bottom 50% wages stagnate (after having fallen 9% prev. 10 years)
- Entire generation of lower middle-class & low income households have no increase in standard of living

<table>
<thead>
<tr>
<th>50-90%</th>
<th>Top 10%</th>
<th>Top 1%</th>
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<tbody>
<tr>
<td>32%</td>
<td>68%</td>
<td>36% of Top 10%</td>
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</table>

Distribution of National Income Growth in Upper Tier 1980 - 2014

Data Sourced from Thomas Piketty 2016
Income Polarization

Rapid Growth in Top Percentile
1980 – 2014

• Growth of upper M-C exists but minimal
• Rapid growth in the top 10% and higher

Percentage of Growth to Average Income by Group

<table>
<thead>
<tr>
<th>Bottom 50%</th>
<th>Top 10%</th>
<th>Top 1%</th>
<th>Top .001%</th>
</tr>
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<tbody>
<tr>
<td>-</td>
<td>121%</td>
<td>205%</td>
<td>636%</td>
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</tbody>
</table>

Data Sourced from Thomas Piketty 2016
AVERAGE INCOME 1917-2007

TOP 1%

BOTTOM 99%

1917 1927 1932 1937 1942 1
Theories on Causes of Income Polarization:

- **Skill Biased Technological Change**
  (Afxentiou & Kutasovic 2011; Autor & Dorn 2013; Lemieux 2008)

- **Institutions and Regulation**
  (Bartik 1985; Becker & Gordon 2007; Saez 2017; Taylor 2014)

- **Globalization**
  (Afxentiou & Kutasovic 2011; Larudee 2009; Lemieux 2007)

- **Corporate Structures**
  (Bluestone & Harrison 1988; Lemieux 2007; Larudee 2009)
Literature

Seeking Causes and Solutions

- What is causing stagnation at the bottom?
- Factors causing rapid rise of the top?
- Why are middle-class jobs disappearing?
- Important macroeconomic consequences
  - M.C. ability to spend some excess
  - Higher portion of M.C. income goes back into economy
  - Top tier accumulate/save/pass-on as inheritance
  - Low-income in cycle of non-growth
Manufacturing and Service Sectors

• IT as a major contributor to Top 10% growth

• Technological advancement reduces number of moderate-skill jobs

• Retail and service positions on the rise add more low-income positions than middle-class
Literature

SEEKING CAUSES AND SOLUTIONS

• Shortcomings to SBTC as sole contributor
• Policy (or lack of) and Globalization as factors
• Corporate Structure & Social Norms and their effect on top tier income (Especially Top 1%)
Theories on Causes of Income Polarization:

- Skill Biased Technological Change
SBTC

SKILL-BIASED TECHNOLOGICAL CHANGE

Automation and Routinization (Autor & Dorn 2003)

• Tech replaces moderate-skill jobs
• Tech compliments high-skill jobs
• Assists in creation of low-skill manual jobs as technology makes “routine tasks” easier
• Unbalanced productivity growth in low-skill manual labor sectors – “goods” vs “services”
SBTC

SKILL-BIASED TECHNOLOGICAL CHANGE

Changes employee structure in many sectors

• Demand for *highly-skilled/educated* workers

• Number of *low-skill / low education* jobs

• Demand/Value of *moderate-skill* jobs
Theories on Causes of Income Polarization:

- Institutions and Regulation
Policy

TAX AND WAGE SETTING INSTITUTIONS

• Tax and wage policy heavily influence business location decisions
• Lack of consistent minimum wage that coincides with national growth
• Unions declining
Decline in union membership mirrors income gains of top 10%
Union membership and share of income going to the top 10%, 1917–2012


Economic Policy Institute
Policy

TAX AND WAGE SETTING INSTITUTIONS

• U.S. Tax Policy shifts from corporate to individual
• Post-tax beneficiaries falling short in helping the bottom 50%
• Shares of tax revenue drastically changed
Corporate income tax accounts for only 9.4% of U.S. tax revenues.

Payroll tax is “split” between the employer and employee as a percentage of the worker’s wage for federal programs. (S.S. & Medicare)

Individual income tax accounts for nearly half of U.S. revenues.
Theories on Causes of Income Polarization:

- Globalization
Globalization

Effects from a Global Economy

- Global shifts in production and service sectors
- Outsourcing and business investments
- Offshore tax havens increasing capital gains and removing revenue from host
Globalization

HAND IN HAND WITH IT TECHNOLOGY

Information Technology

• Highly compliments financial, banking & trade global scale

• Communication and funds transfer facilitate movement of capital

• Investment and capital gains
Theories on Causes of Income Polarization:

- Corporate Structures
Social Norms

Corporate Structure

- Productivity and Profitability
- Social norms enabling top tier wage
- Corporate benefits and use of capital gains
- Wage setting within companies
- “Superstar” executives & no wage barriers
Decomposing the U.S. Top 10% Pre-tax Income into Three Groups, 1913–2015

Conclusion

Multiple factors have created an economic environment for income polarization. *Skill & capital-biased technological change* and *deregulation* lead as the most prominent contributors to income growth.
Bibliography


