



# BEMIDJI

STATE UNIVERSITY



*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.

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B.A. SOCIAL STUDIES



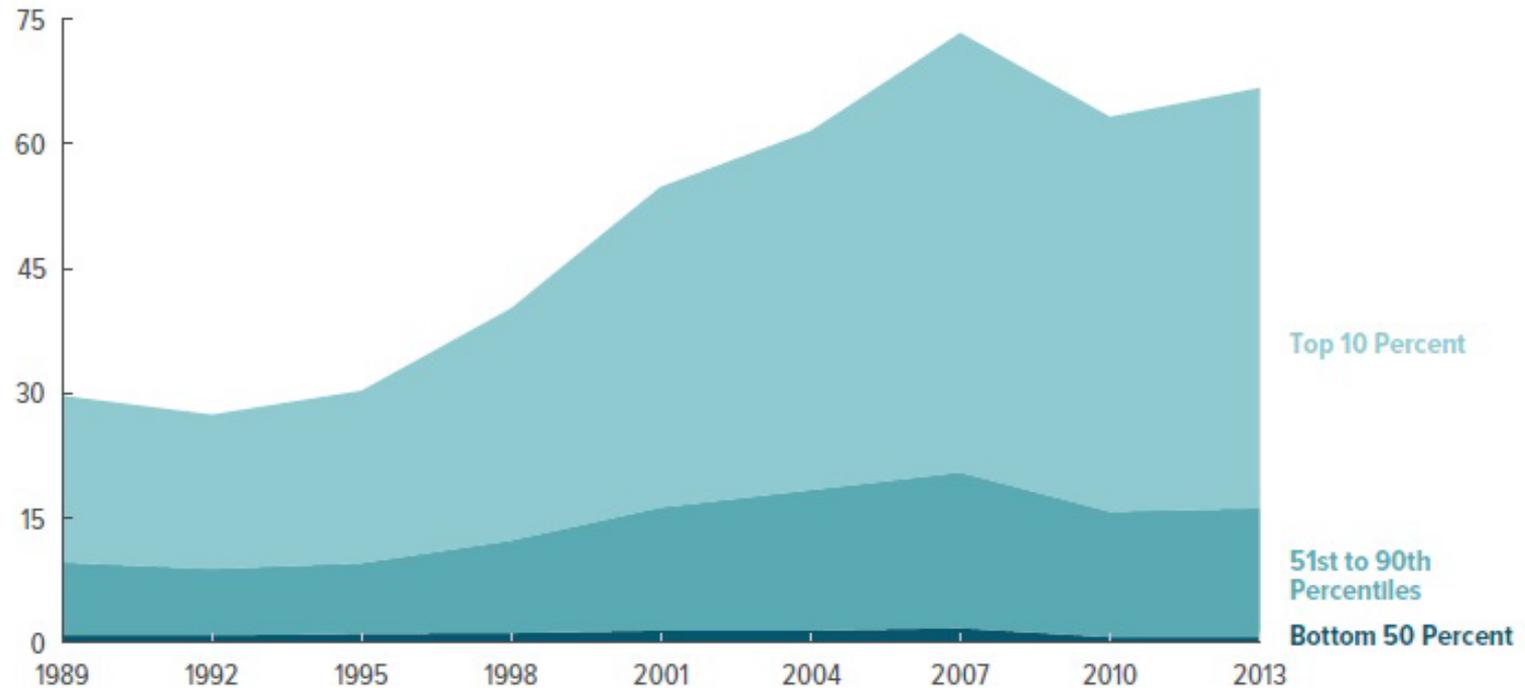
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## Holdings of Family Wealth, by Wealth Group

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<sup>th</sup> of wealth

	Bottom 50%	Top 1%
Share of Nat'l Income 1980/2014	20% / 12.5%	10.7% / 20.2%



# 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

Distribution of National Income Growth in Upper Tier **1980 - 2014**

<b>50-90%</b>	<b>Top 10%</b>	<b>Top 1%</b>
32%	68%	36% of Top 10%

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

Bottom 50%	Top 10%	Top 1%	Top .001%
-	121%	205%	636%

Data Sourced from Thomas Piketty 2016



# AVERAGE INCOME 1917-2007



# 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



# Literature

SEEKING CAUSES AND SOLUTIONS

## Manufacturing and Service Sectors

- IT as a major contributor to Top 10% growth
- Technological advancement reduces number 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”



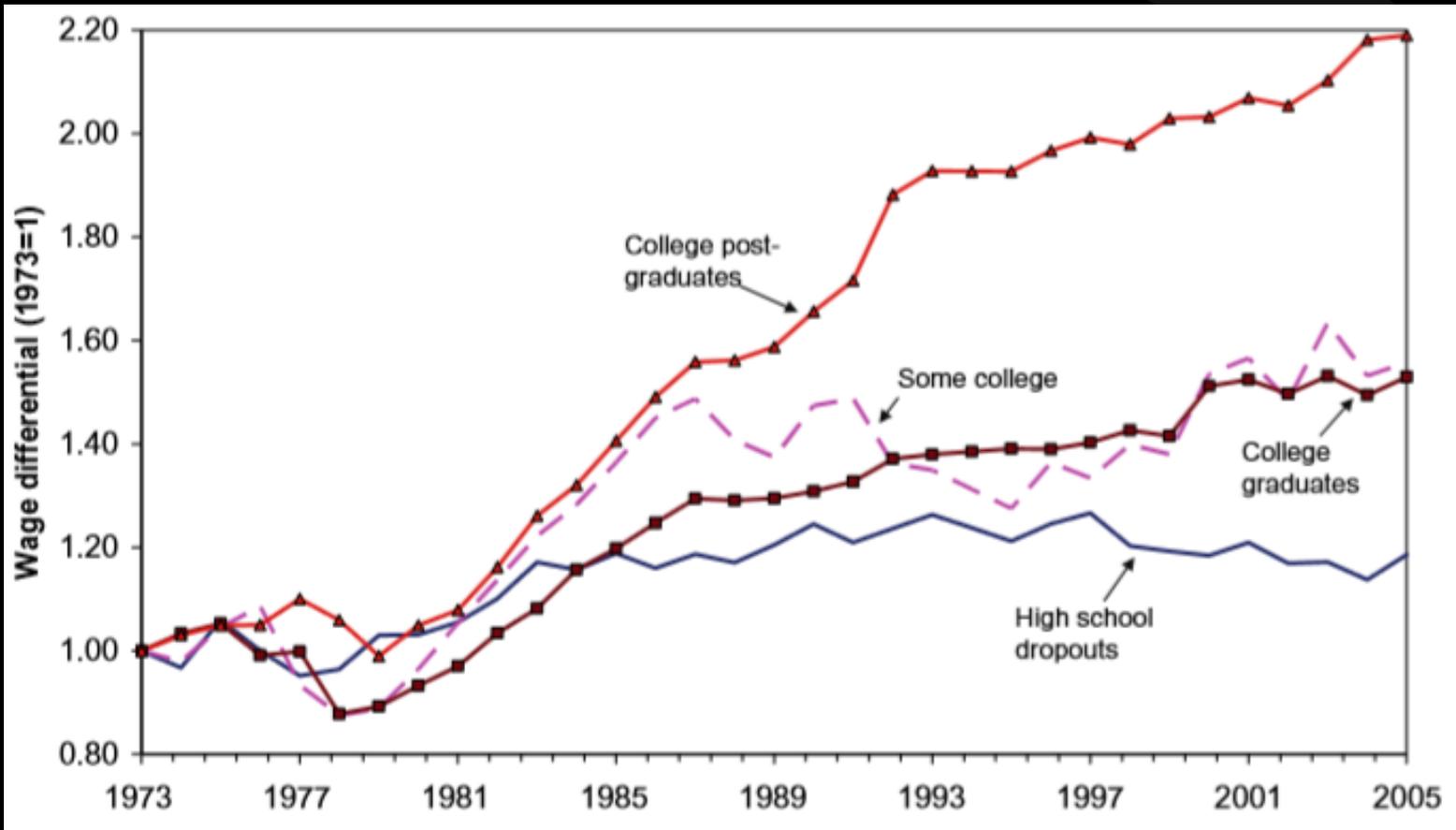
# SBTC

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 ↓





Source: Thomas Lemieux. *The Changing Nature of Wage Inequality*. 2008



# Theories on Causes of Income Polarization:

- Institutions and Regulation



# Policy

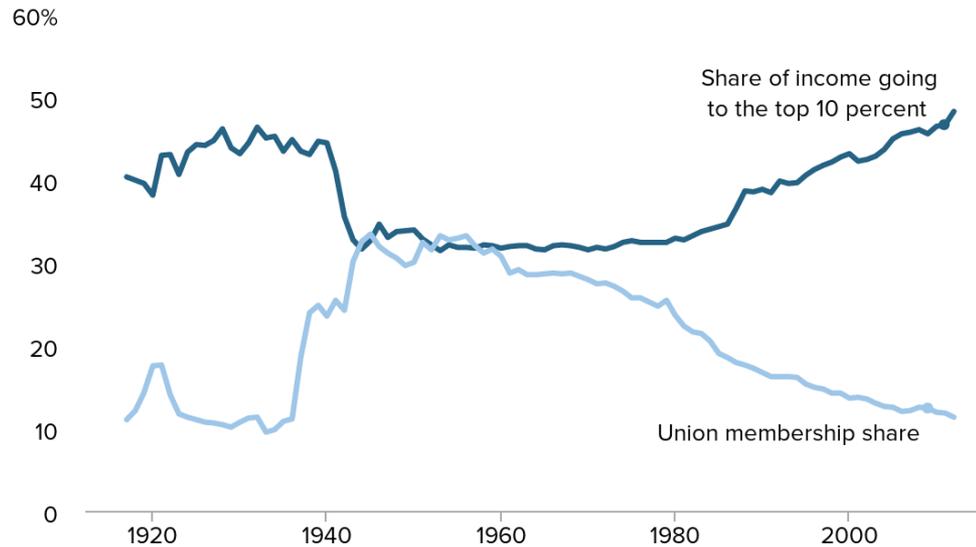
## TAX AND WAGE SETTING INSTITUTIONS

- 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



**Source:** Data on union density follow the composite series found in *Historical Statistics of the United States*, updated to 2012 from unionstats.com. Income inequality (share of income to top 10%) from Piketty and Saez, "Income Inequality in the United States, 1913-1998," *Quarterly Journal of Economics*, 118(1), 2003, 1–39. Updated and downloadable data, for this series and other countries, are available at [The World's Top Income Database](#). Updated September 2013.

Economic Policy Institute



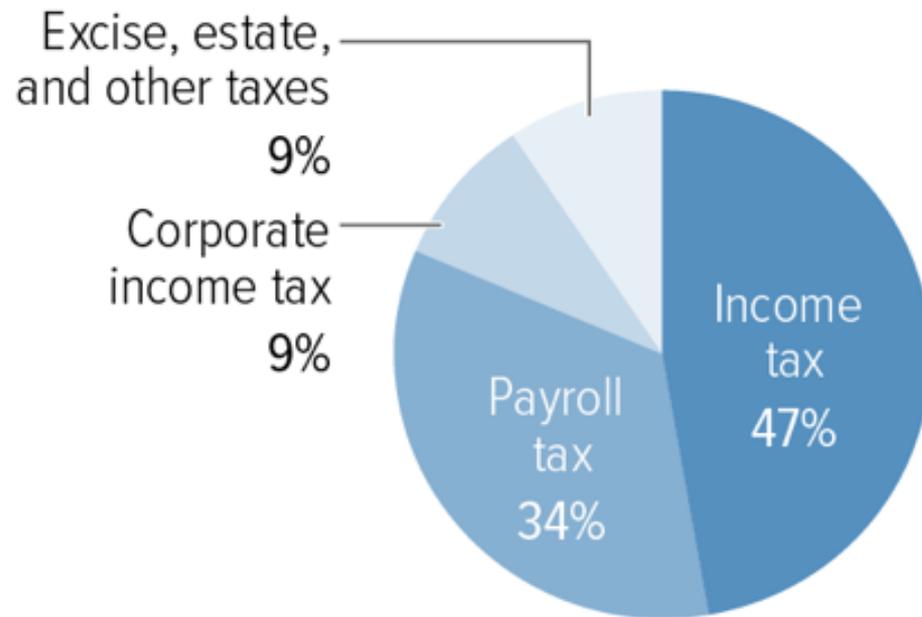
# Policy

## 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



# Sources of Federal Tax Revenue, 2016



Note: "Other Taxes" category includes profits on assets held by the Federal Reserve. Figures do not total 100% due to rounding.

Source: Office of Management and Budget

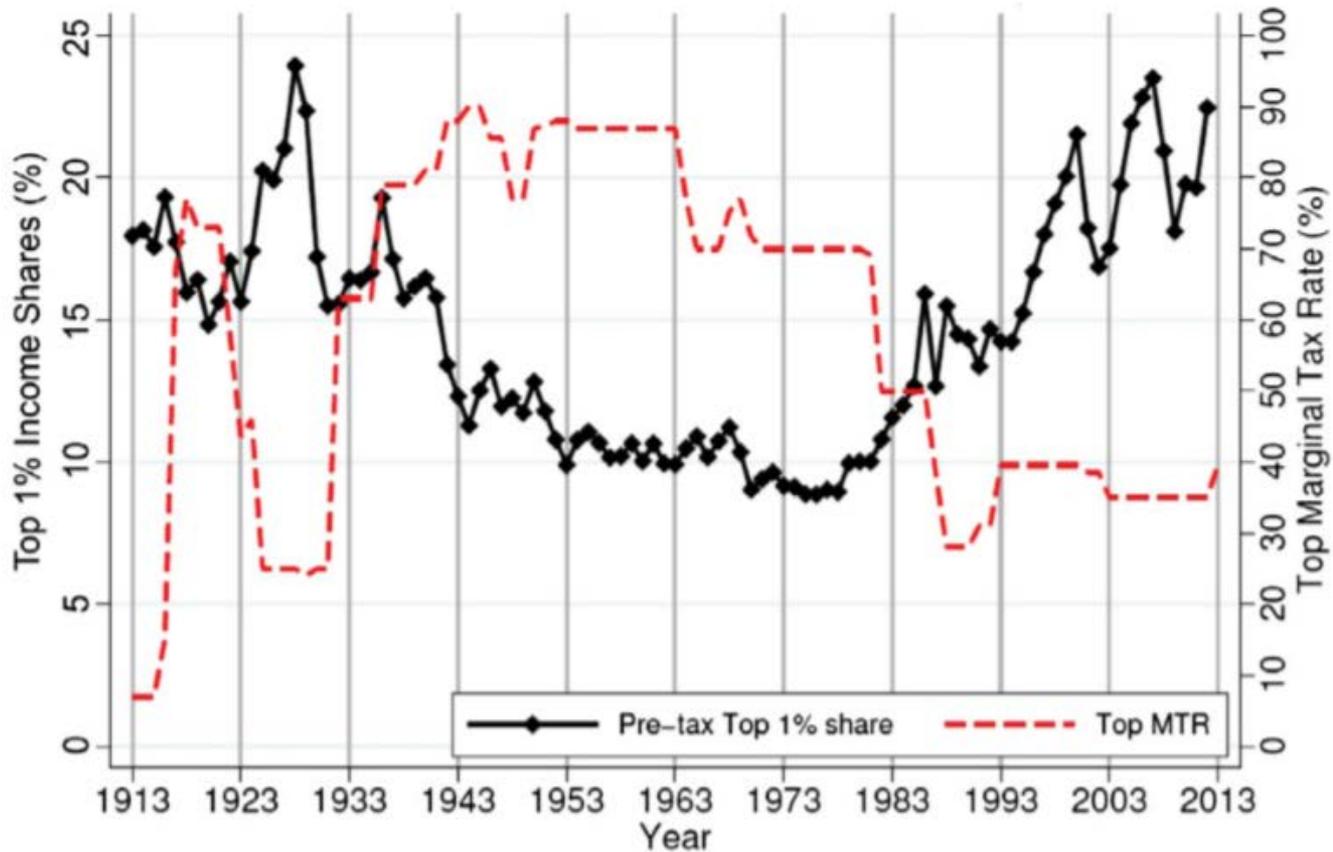
**Corporate income tax accounts for only 9.4% of U.S. tax revenues.**

**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.**



Top 1% U.S. Pre-tax Income Share and Top Marginal Tax Rate



Source: Emmanuel Saez. *Income and Wealth Inequality: Evidence and Policy Implications*. 2017



# 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



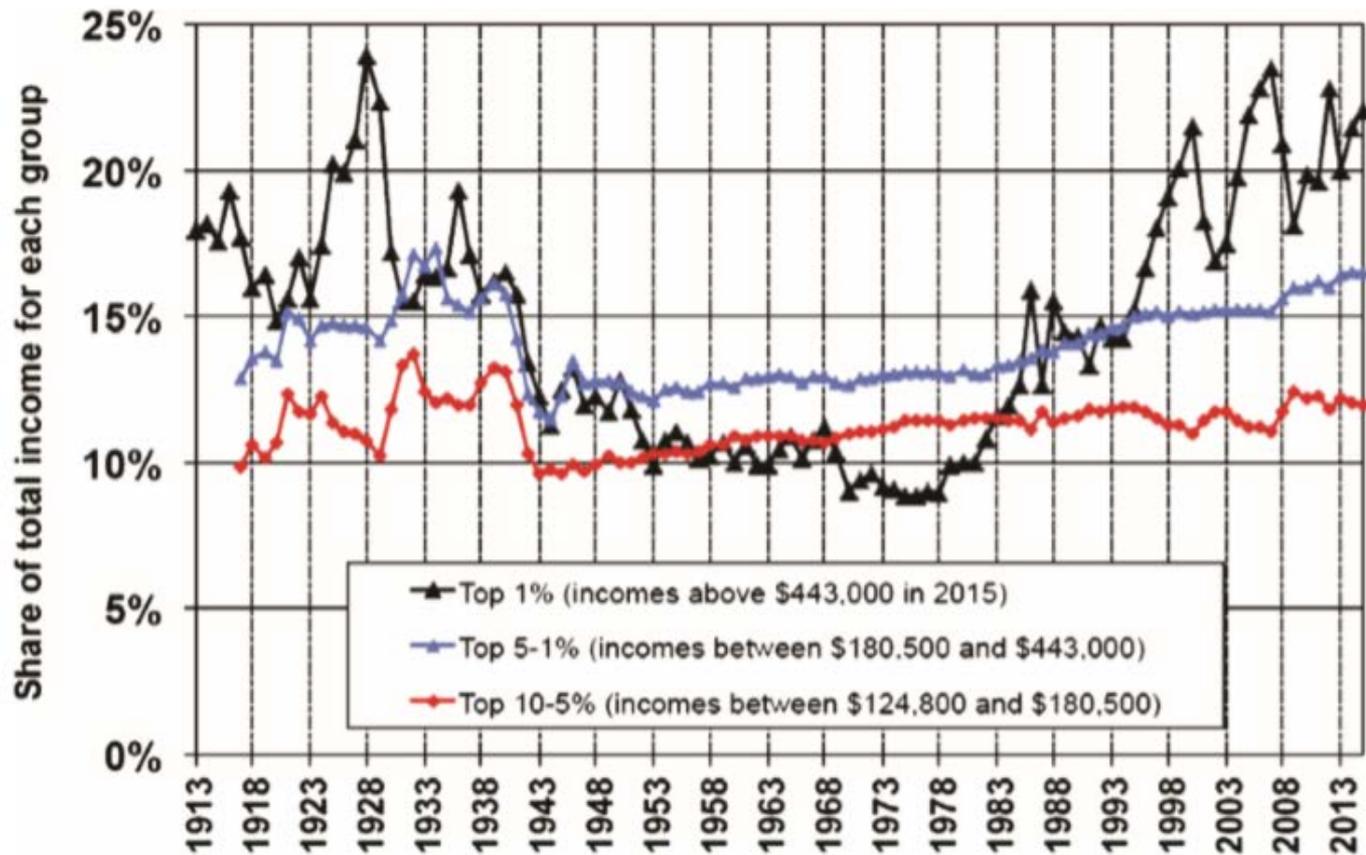
# Social Norms

## 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



Source: Emmanuel Saez. *Income and Wealth Inequality: Evidence and Policy Implications*. 2017



# 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.



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