Poverty, Inequality and Trends in the Labor Market

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Overview

- Since the 1980s we have seen little improvement in poverty despite steady economic growth
- At the same time, inequality is increasing, with more resources for skilled and high income groups
- Here I examine these trends and investigate the causes of poverty and inequality, paying particular attention to the labor market causes
- We conclude by discussing the efficacy of policies to address these concerns

Roadmap

1. Facts on poverty and inequality in the U.S.
2. Linking the trends in poverty and inequality to trends in the labor market
3. Identifying the driving forces of these trends in the labor market
4. Policy solutions

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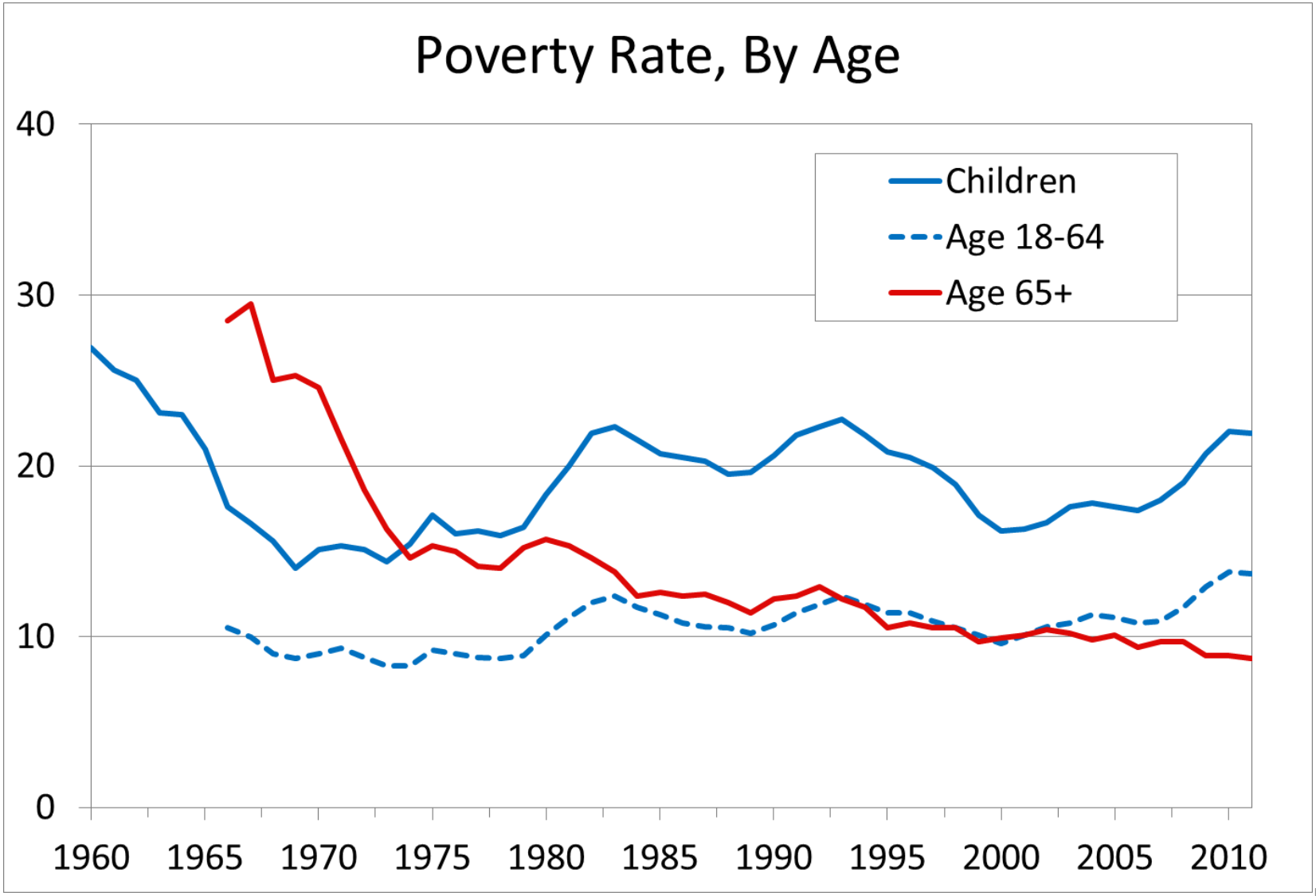
Trends in Official Poverty



Limitations of official poverty measure

- Income measure is *pre-tax family income*; includes only cash income
  - Does not include Food Stamps (SNAP) or Earned Income Tax Credit (the most important government benefits for low income families!)
  - Not adjusted for work-related expenses
- Not adjusted for regional variation in costs of living (e.g., housing)
- Definition of poverty has not changed since measure developed in early 1960s
- Recent Supplemental Poverty Measure released by Census; addresses these concerns

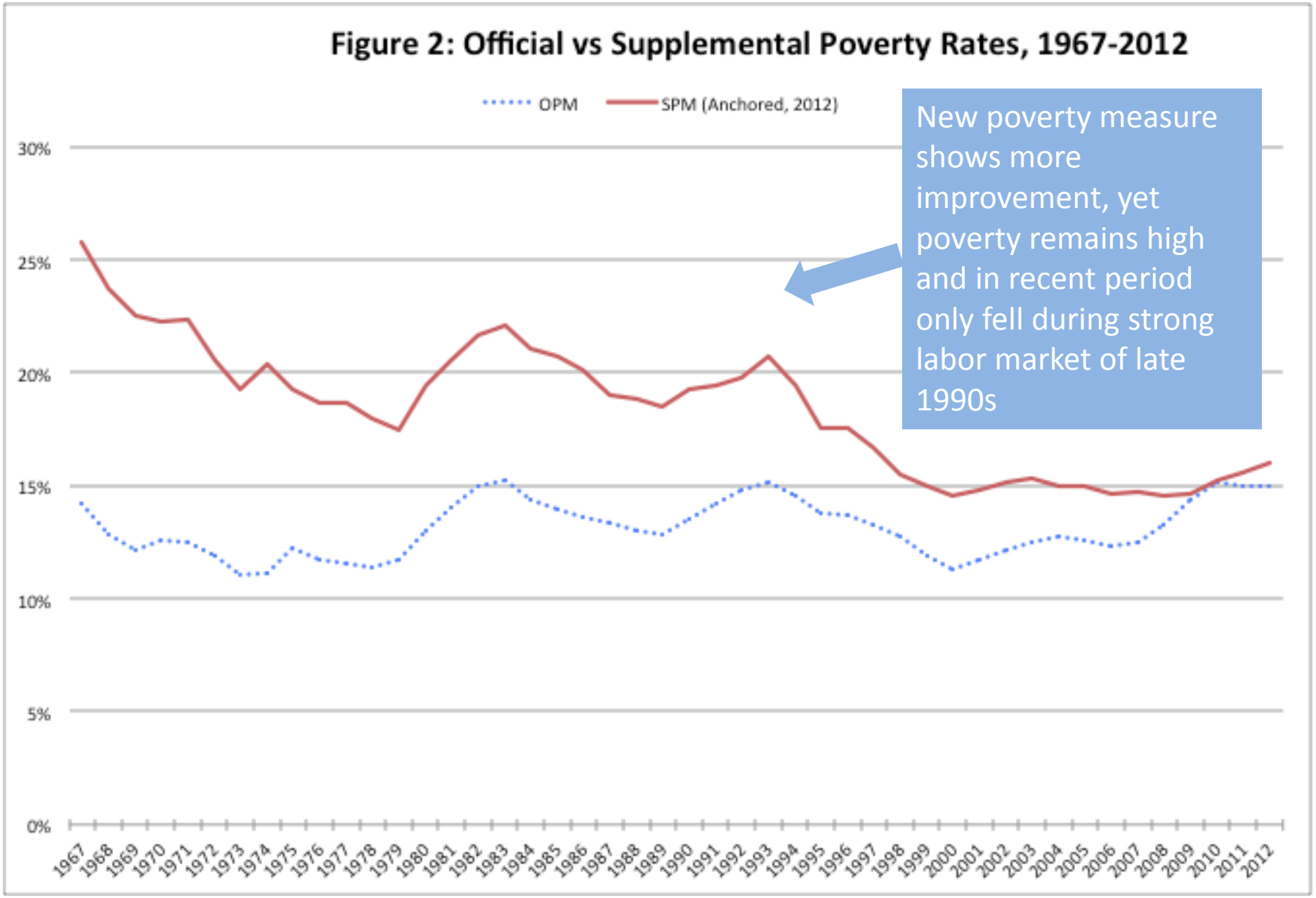
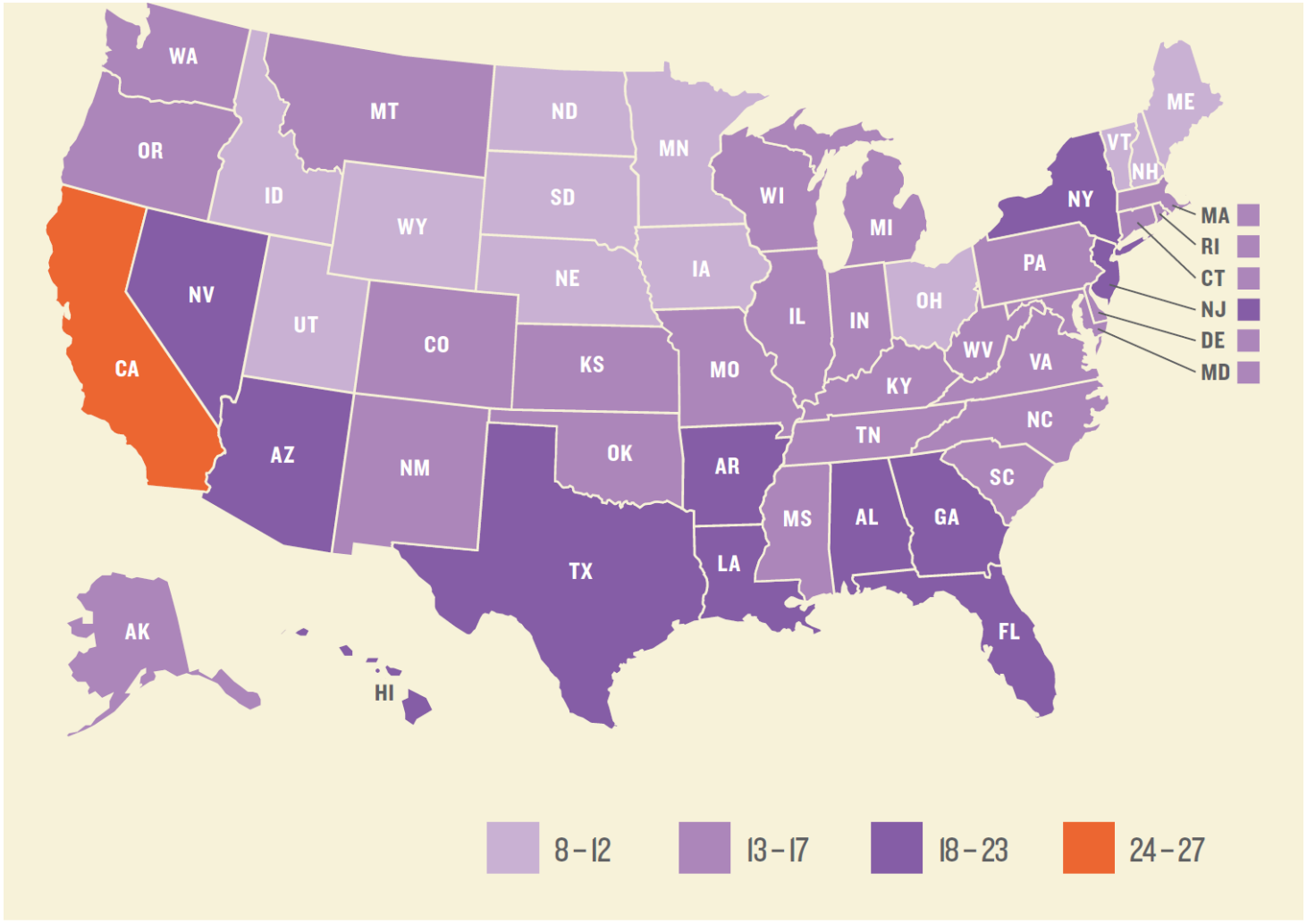


Figure 2: Official vs Supplemental Poverty Rates, 1967-2012
OPM
SPM (Anchored, 2012)
New poverty measure shows more improvement, yet poverty remains high and in recent period only fell during strong labor market of late 1990s
30%
25%
20%
15%
10%
5%
0%
1967 1968 1969 1970 1971 1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012

State Child Poverty by State, SPM 2011-2013



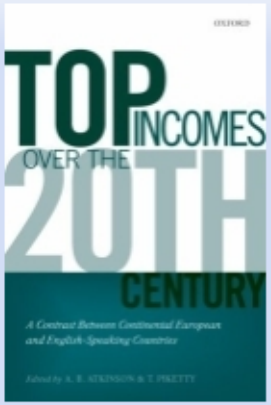
SOURCE Population Reference Bureau's analysis of the U.S. Census Bureau, Supplemental Poverty Measure Public Use Research files, 2012–2014.

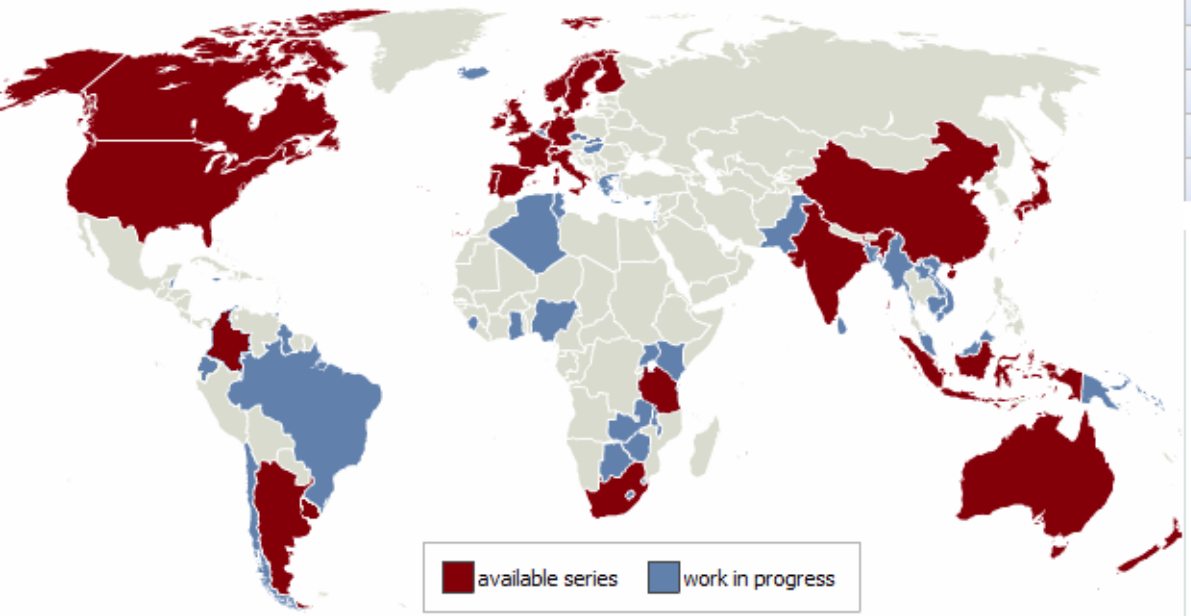
Annie E. Casey, Data Snapshot and Kids Count, Feb 2015

Trends in Inequality

- Piketty and Saez have developed a world database for measuring inequality
- Getting data to measure the level and trend in incomes at the very top of the distribution is hard. Standard survey data does not have enough information on these high income earners.
- Piketty and Saez came up with the novel idea of using data from income tax returns to estimate trends in top incomes. This is high quality data that is provided by most countries.

The World Top Incomes Database





- Home
- Introduction
- The Database
- Graphics
- Country Information
- Work in Progress
- Acknowledgments

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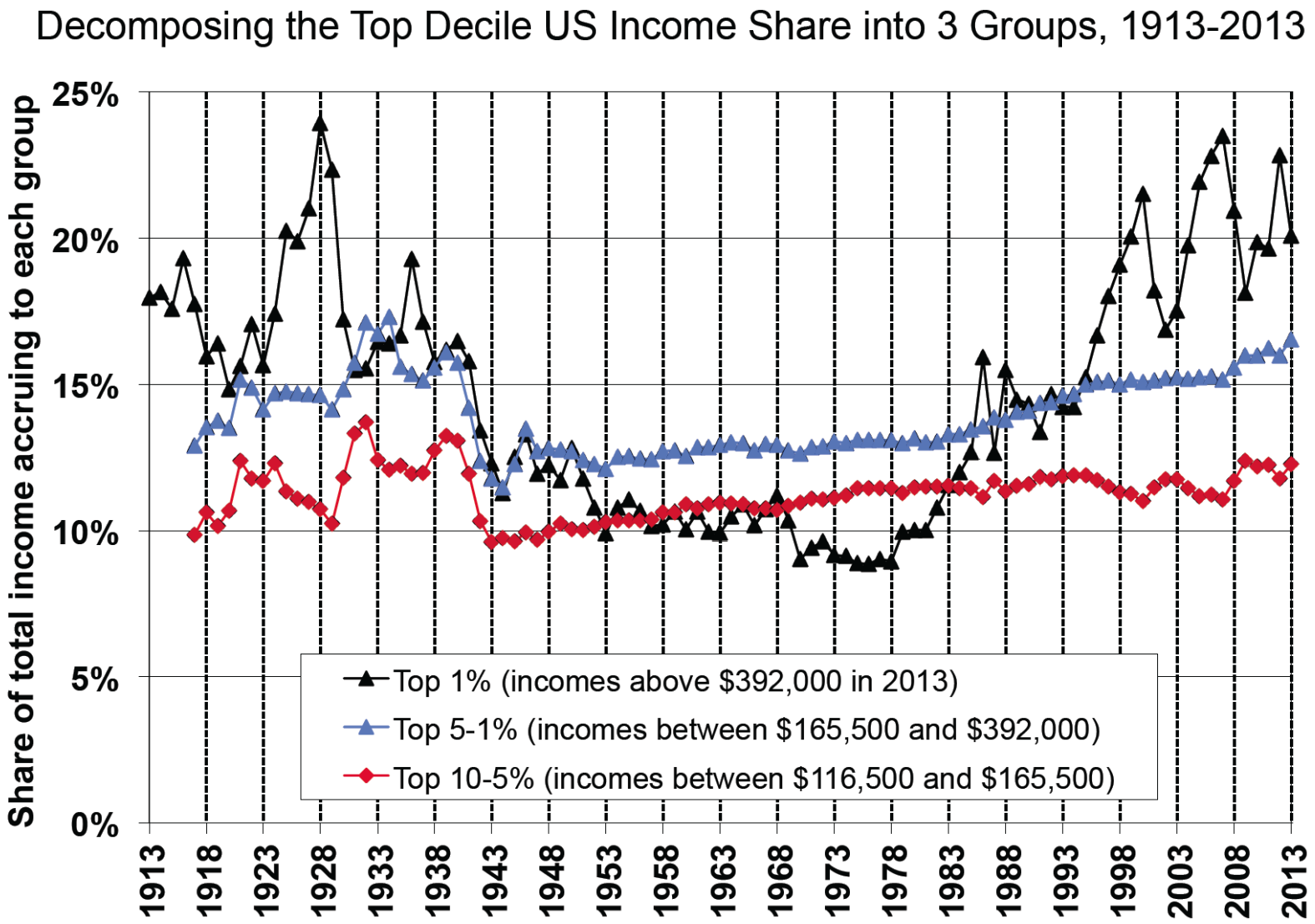
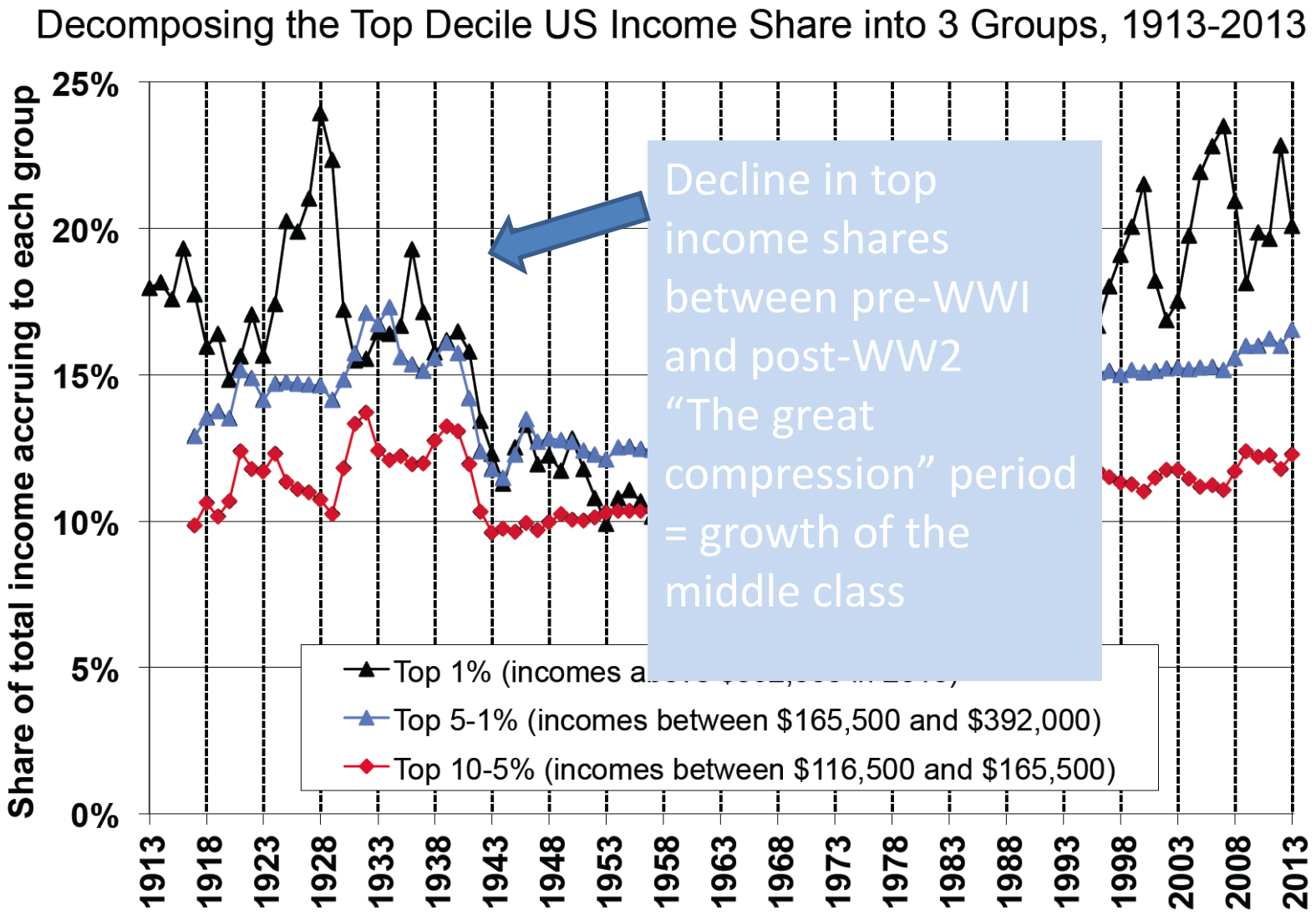
Inequality: The facts for the U.S.



Source: Piketty and Saez (2003) updated to 2013. Series based on pre-tax cash income including realized capital gains and excluding government transfers.



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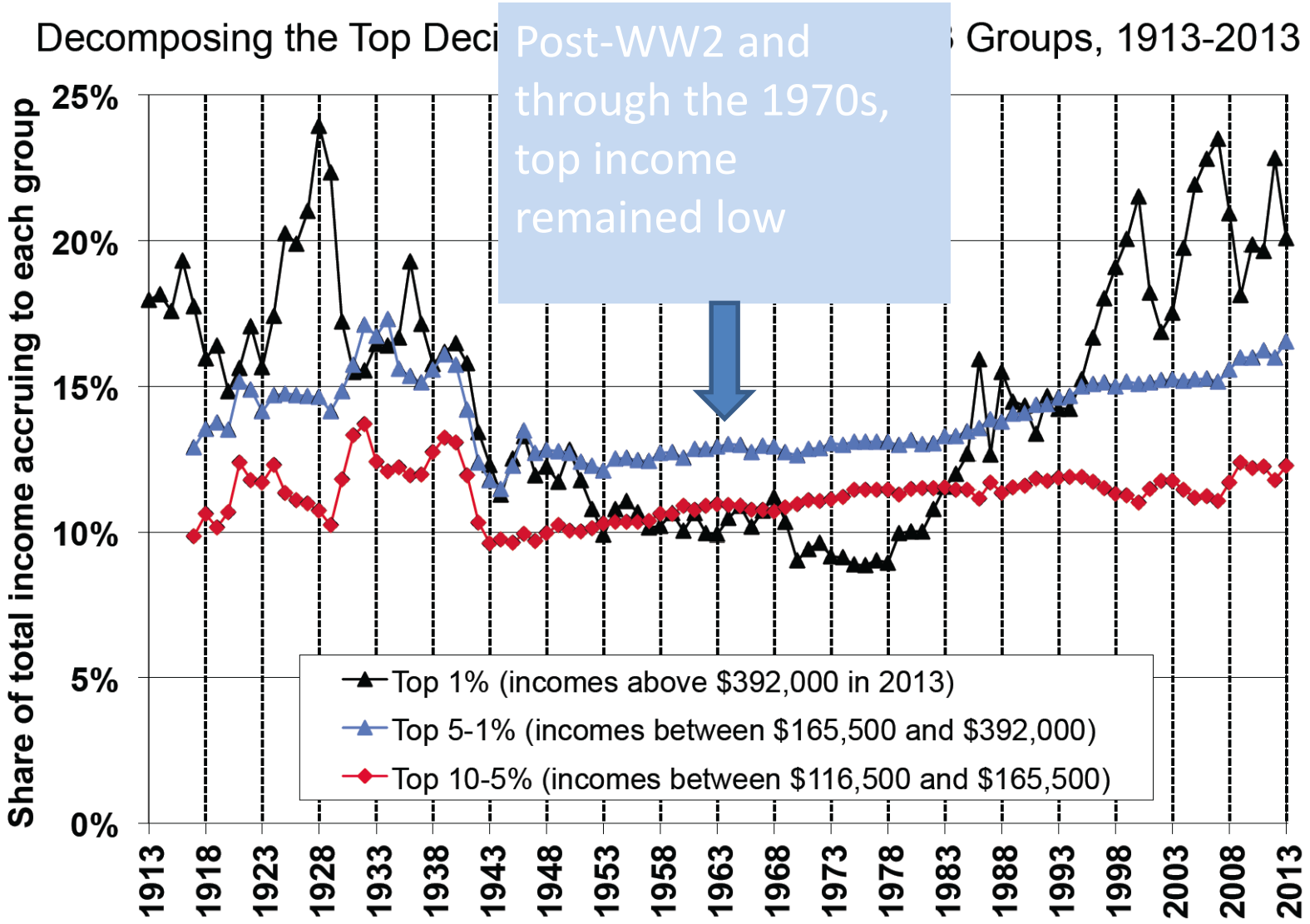

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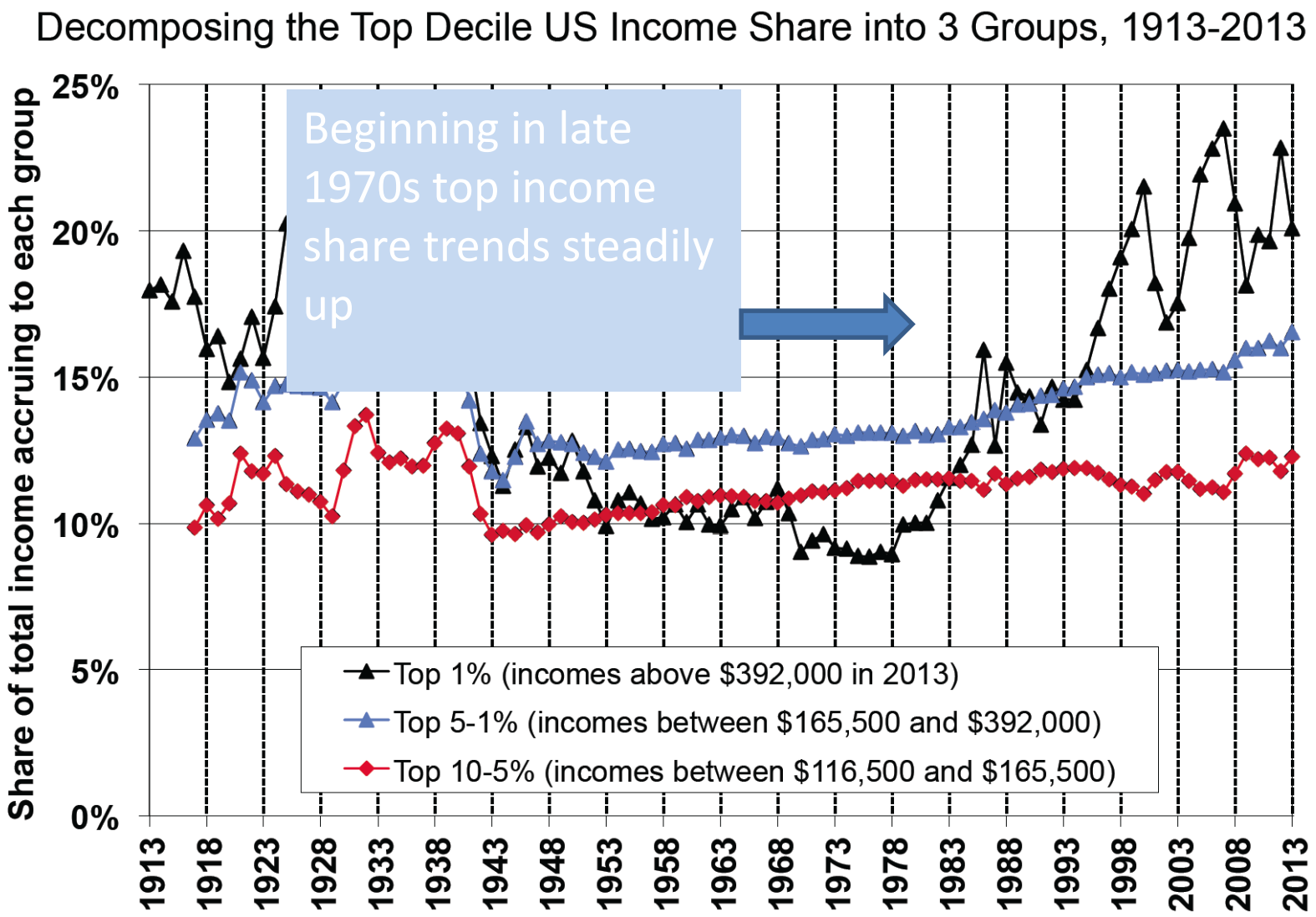

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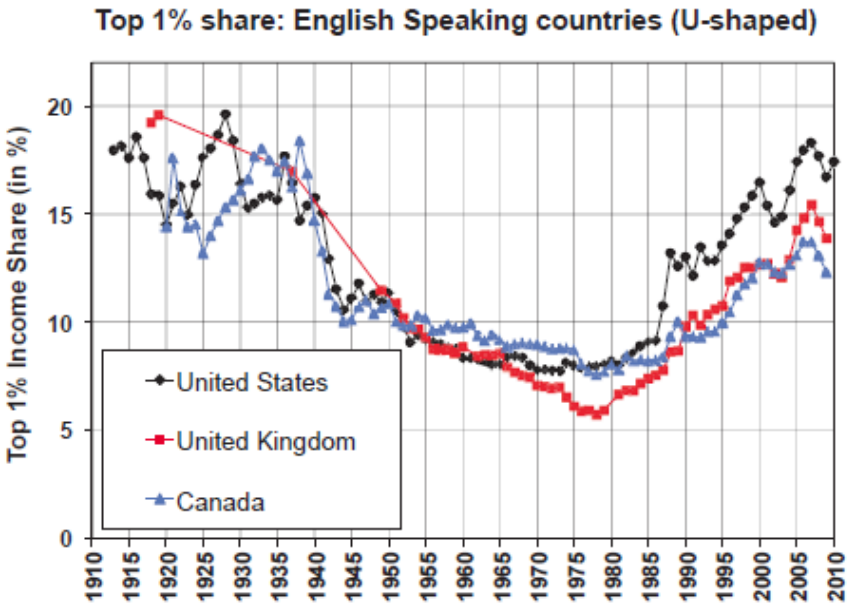
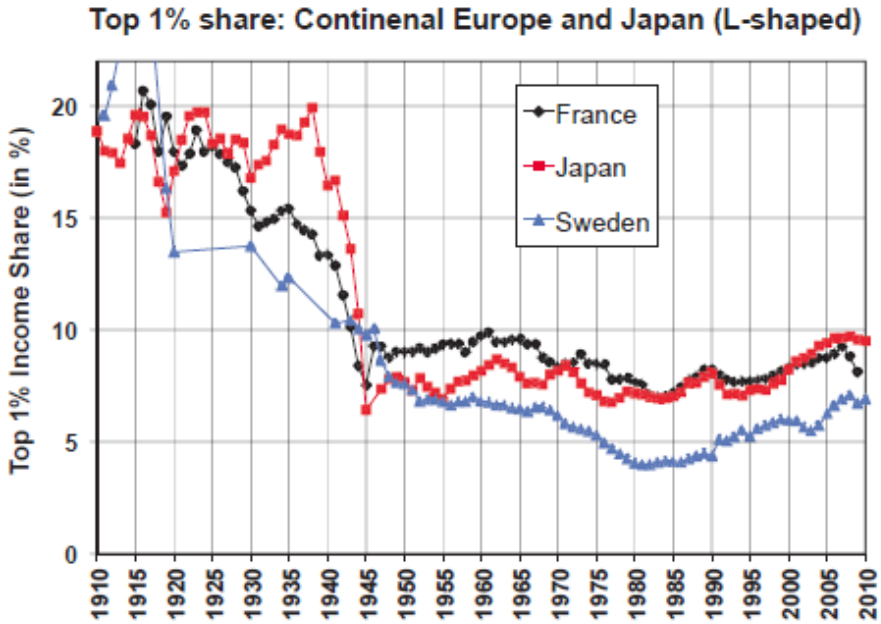
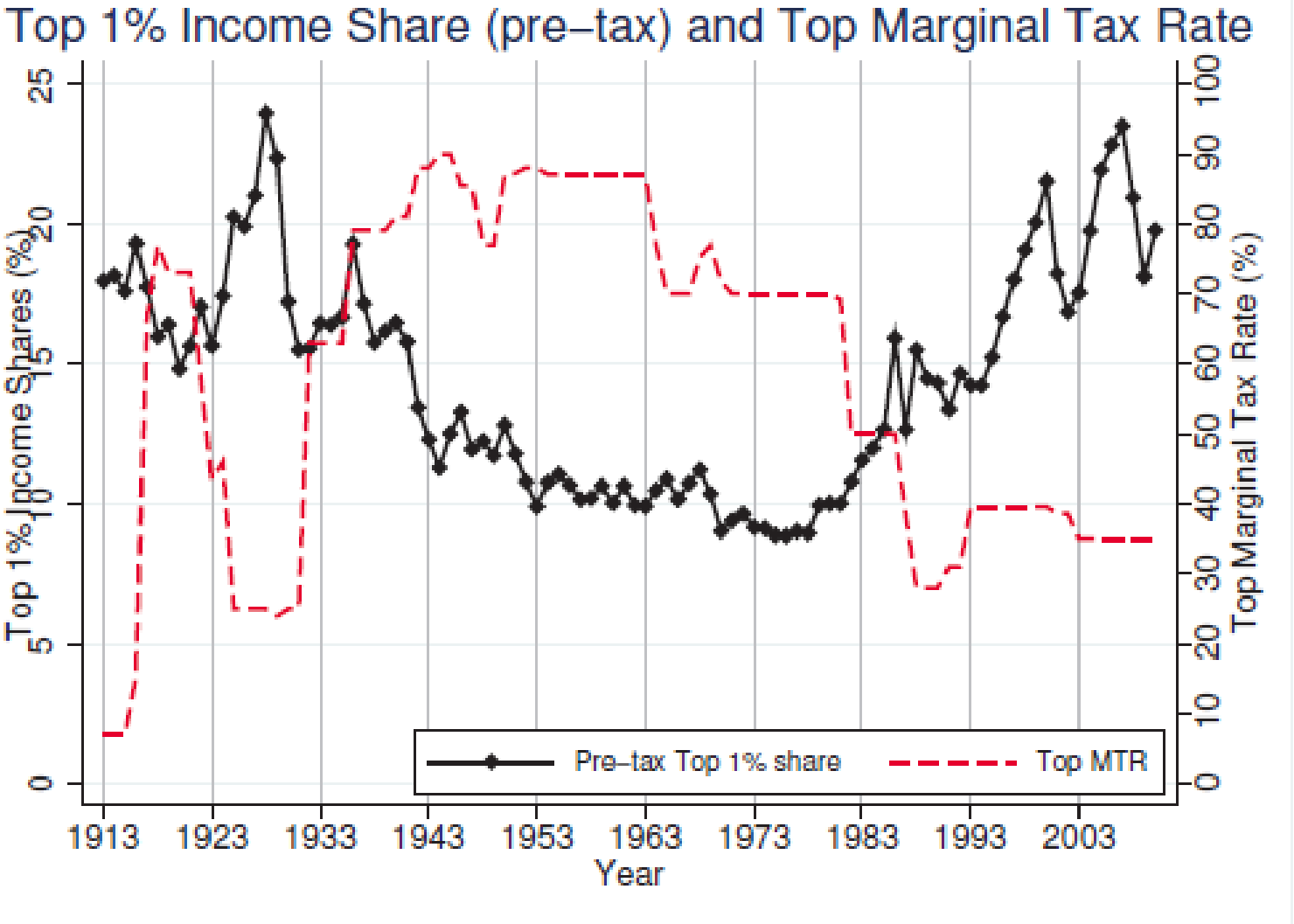
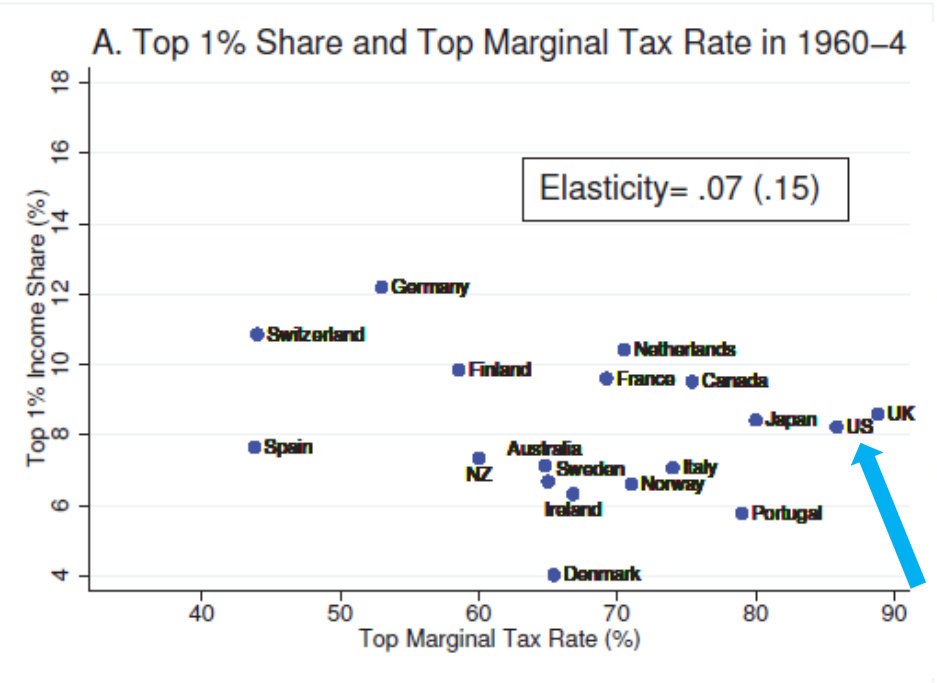


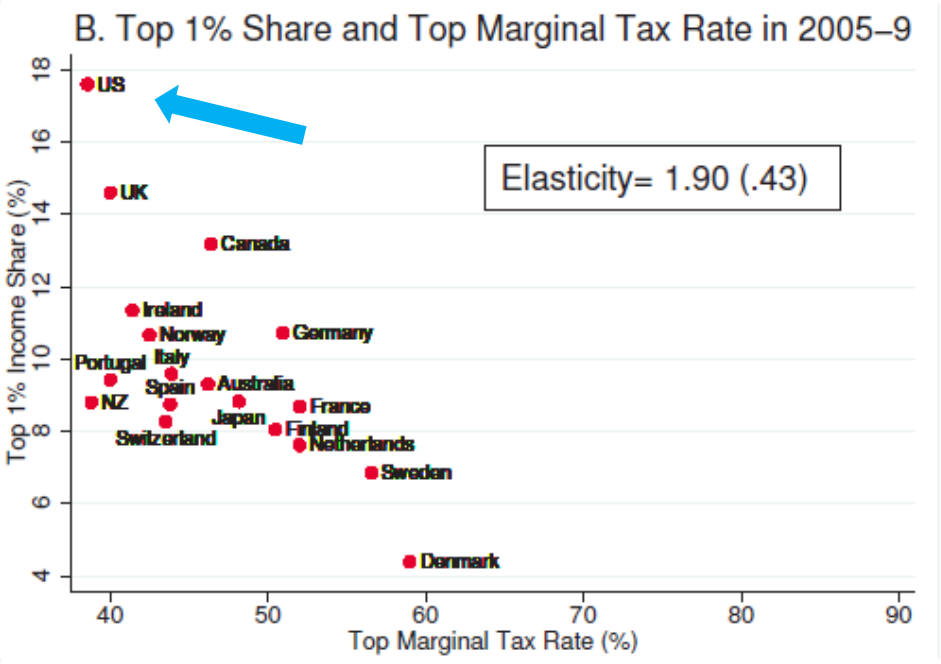


- The period through the 1970s was similar in the U.S. compared to other countries → suggesting that global factors were responsible
- The upward trend beginning in the late 1970s IS NOT experienced by all countries → suggesting that global factors CAN NOT explain the trend

Greater progressive taxation (higher top MTR) is associated with LESS inequality







Comparisons across countries shows that:

- Back in the early 1960s the US was on the HIGH end of progressivity of the income tax (and the middle of the pack in inequality)
- Today we have the highest inequality and very low progressivity

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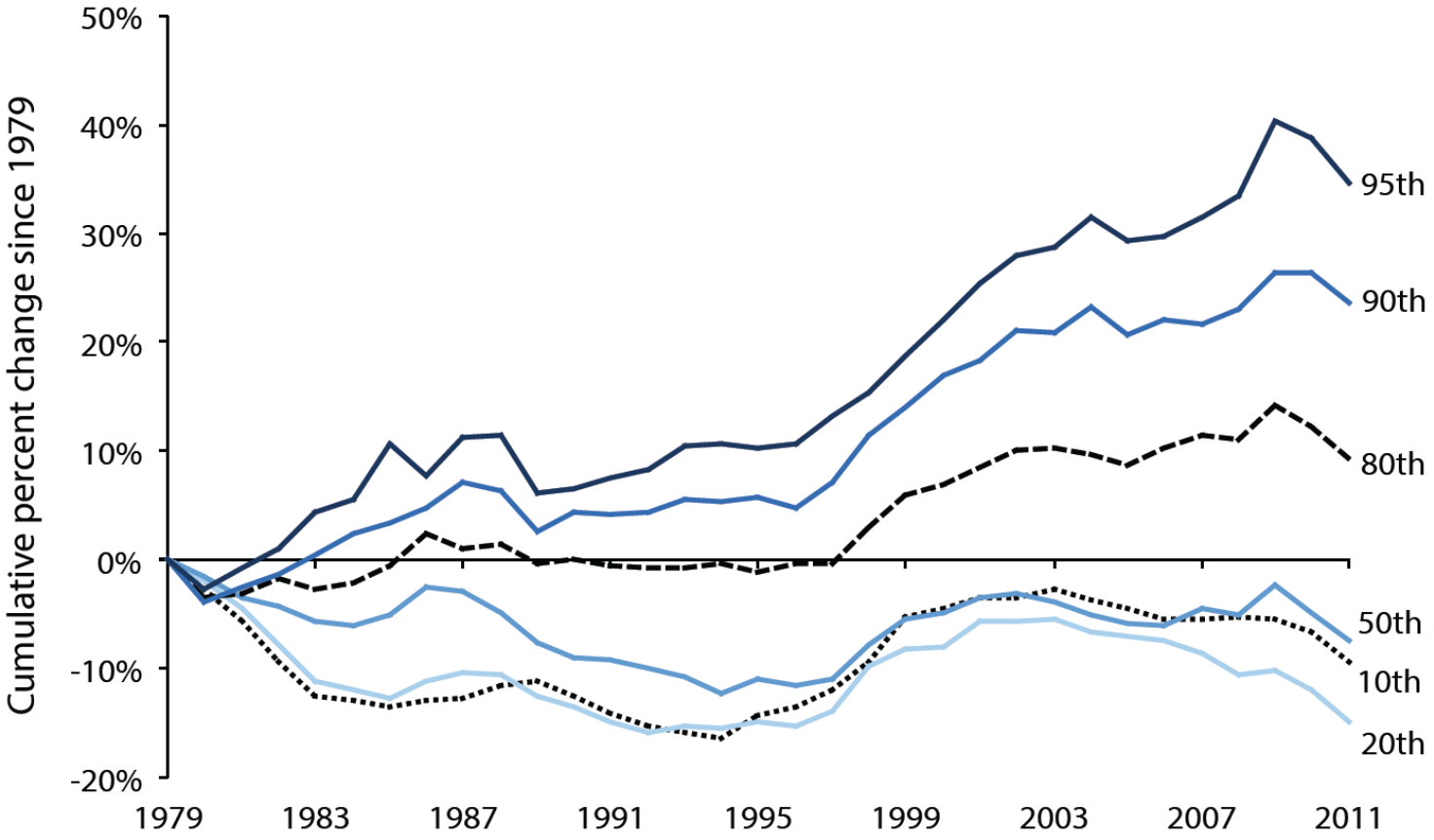
The big picture

- Since the mid 1970s, there has been little gain in wages for less skilled workers, especially for men
- Additionally, labor force participation rates are declining for prime age men, and more recently, prime age women
- The implication is stagnant family incomes for the bottom quintile of Americans
- The growth of real wages and the distribution among workers is a crucial factor for determining trends in poverty.

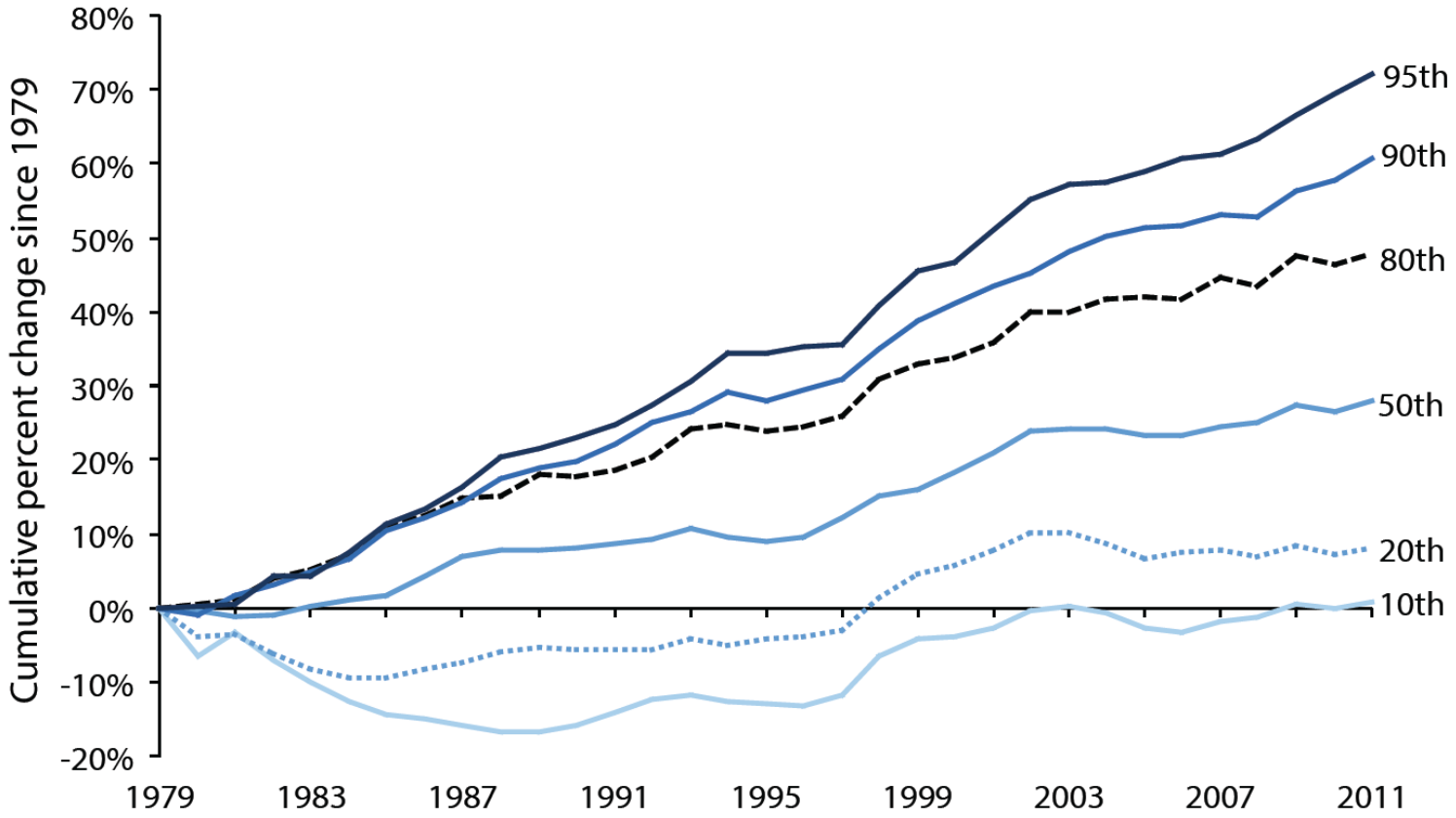
Figure 4C Cumulative change in real hourly wages of men, by wage percentile, 1979–2011



Source: Authors' analysis of Current Population Survey Outgoing Rotation Group microdata

EPI, State of Working America.

Figure 4D **Cumulative change in real hourly wages of women, by wage percentile, 1979–2011**

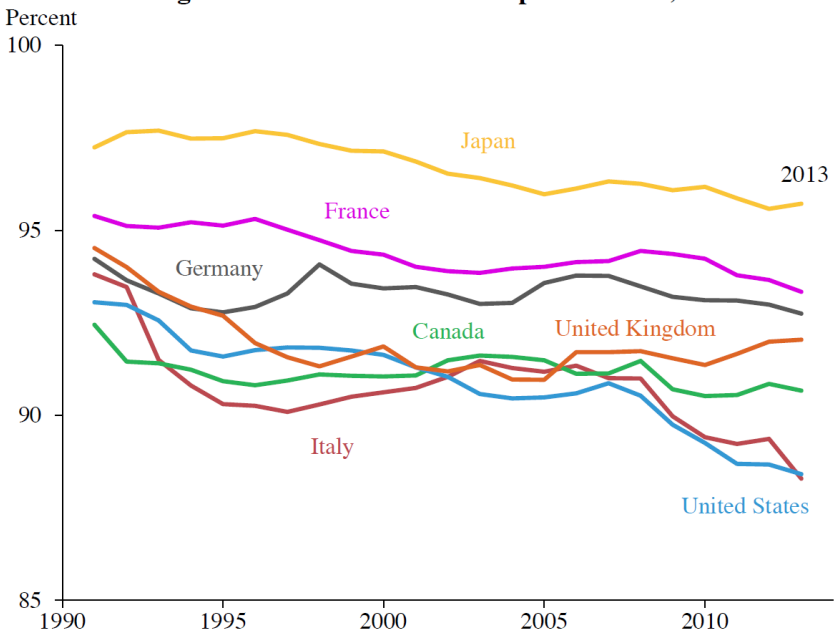


Source: Authors' analysis of Current Population Survey Outgoing Rotation Group microdata

EPI, State of Working America.

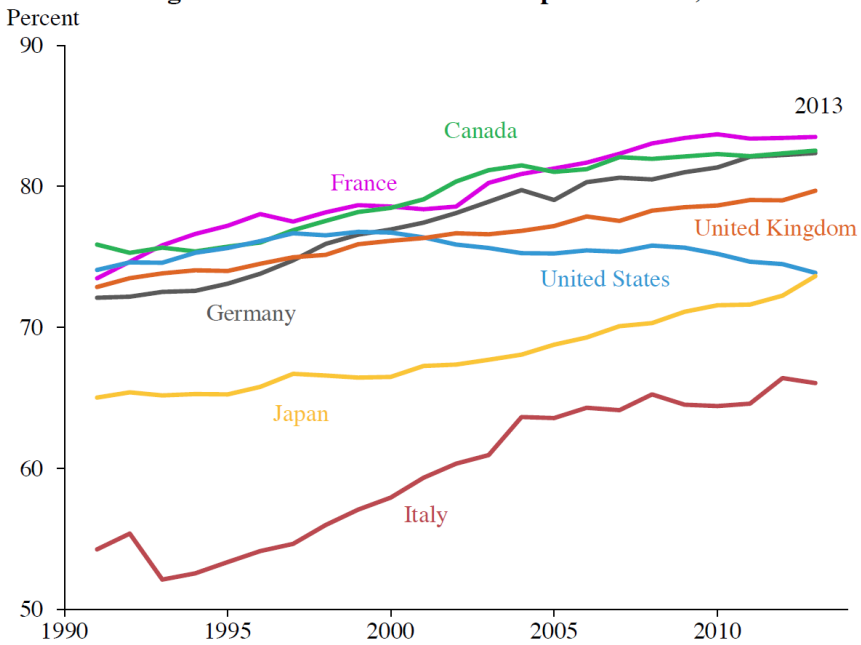
Declines in labor force participation

Figure 1-9
Prime-Age Male Labor Force Participation Rates, 1991–2013



Source: Organisation for Economic Co-operation and Development.

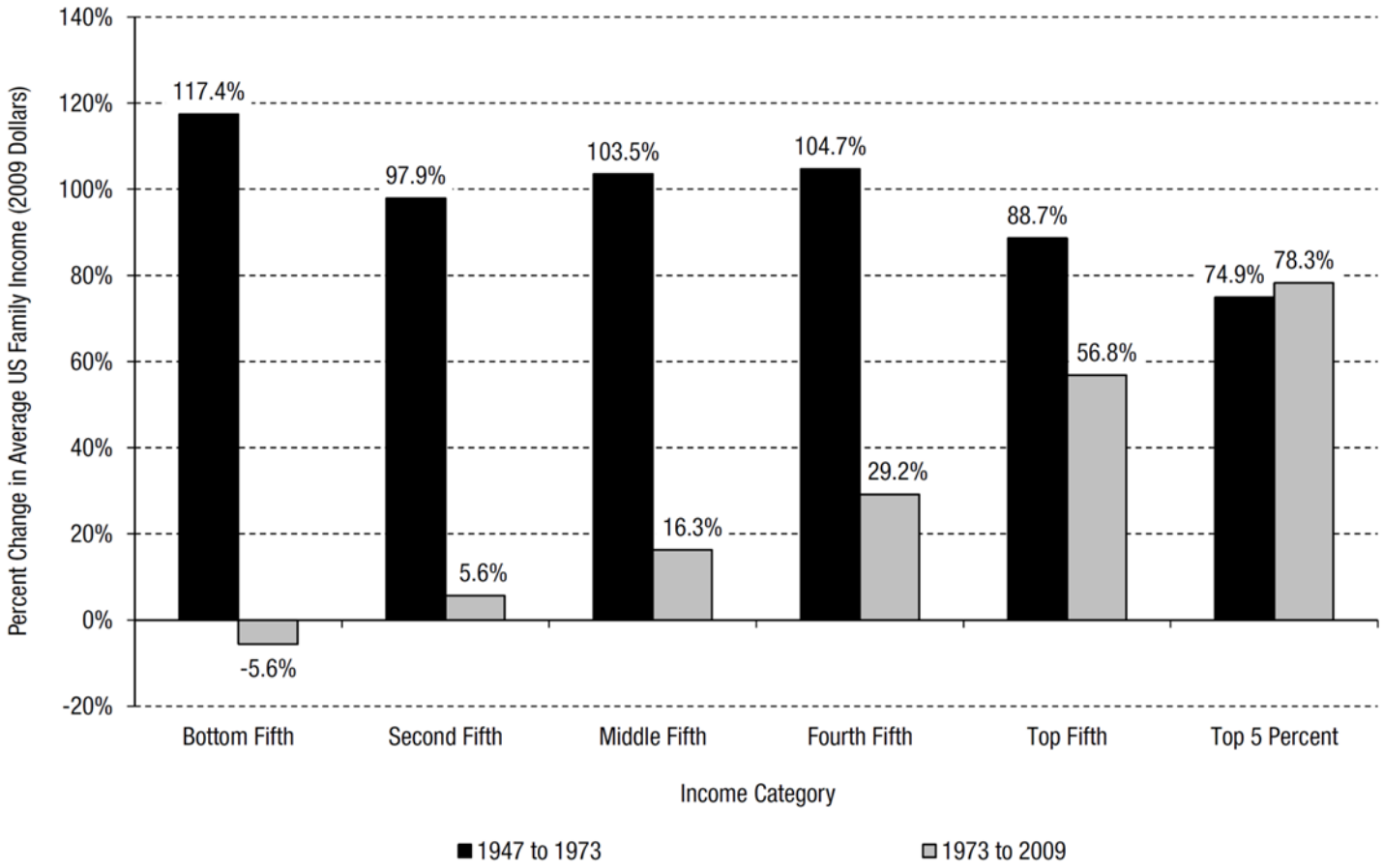
Figure 1-10
Prime-Age Female Labor Force Participation Rates, 1991–2013



Source: Organisation for Economic Co-operation and Development.

Economic Report of the President, 2015. Prime age is 25-54.

Broadly Shared Prosperity Ended in the Early 1970s, and a Generation of Widening Inequality Began



Source: Economic Policy Institute

- These changes in wage and income distribution contribute fundamentally to trends in poverty
- This factor would be putting upward pressure on poverty rates over time; thus the observed trends should be interpreted against this finding.
- But taking a step back, what do we know about why these labor market trends are occurring?

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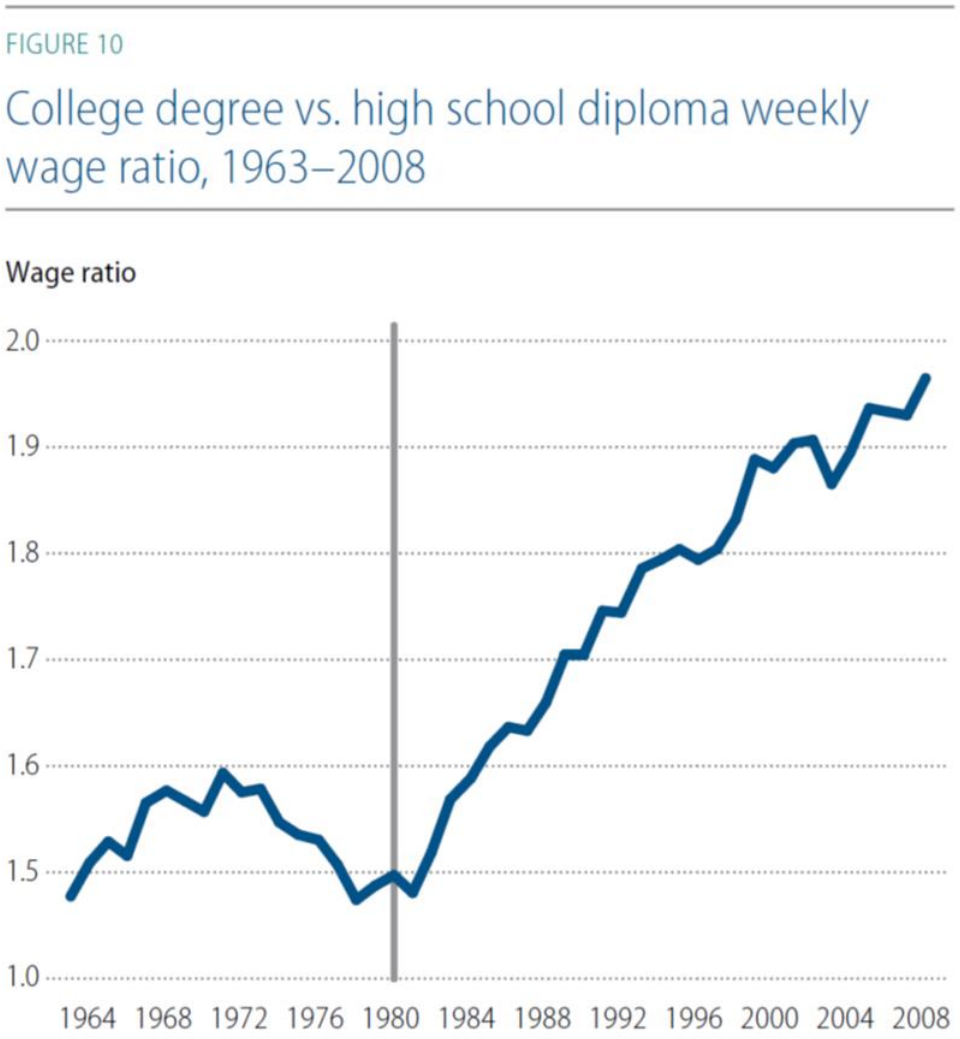
“Returns to Skill” – earnings gap between college and high school degrees

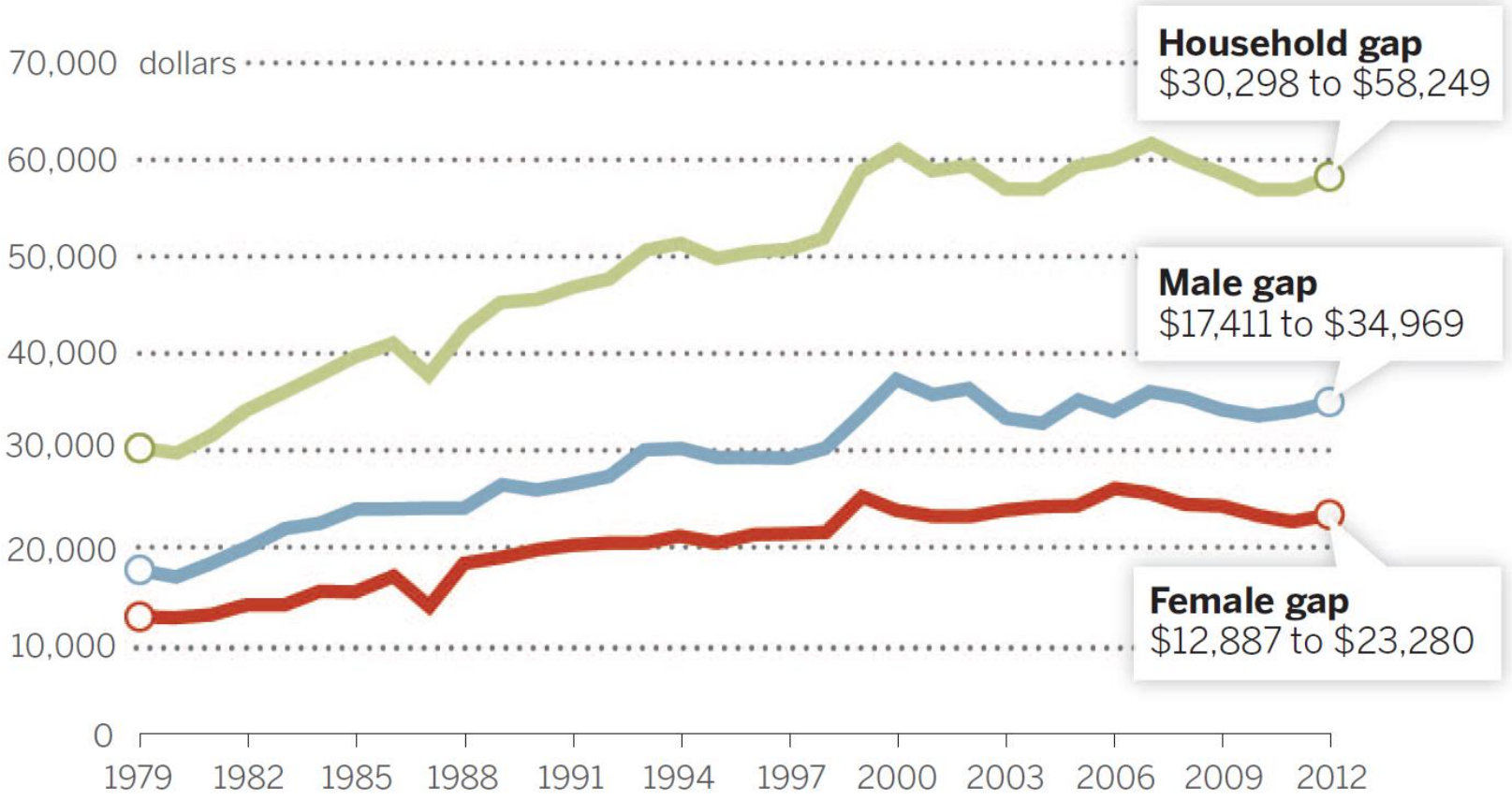
- Rising steadily; doubled between 1979 and 2012
- This trend is also experienced by other countries



Autor, The Hamilton Project.

College/high school median annual earnings gap, 1979–2012

In constant 2012 dollars



Autor, Science.

Rising Skill Premium is explained by demand and supply factors

- DEMAND
  - Over last 100 years innovation has led to reduction in demand for physical labor (technological change)
  - In recent decades the process of machine substitution for routine human tasks has reduced demand for those doing routine tasks (where workers are substitutes) and increased the demand for those who excel in more abstract tasks (where workers are complements)
- SUPPLY
  - Educational attainment increases slowed beginning in 1980s
- Overall →if demand for skilled labor keeps increasing AND the supply of skilled labor does not keep up, then the wages of skilled labor increase.

Trends in education

- 1960s/1970s: supply of young college educated increased rapidly relative to high school educated
- Since then educational attainment slowed (though still increasing) especially for men.
- Research by Goldin and Katz (2008) and others shows that more than half of the increase in wage inequality is due to the rising premium to skill (and thus the slowdown in educational attainment)

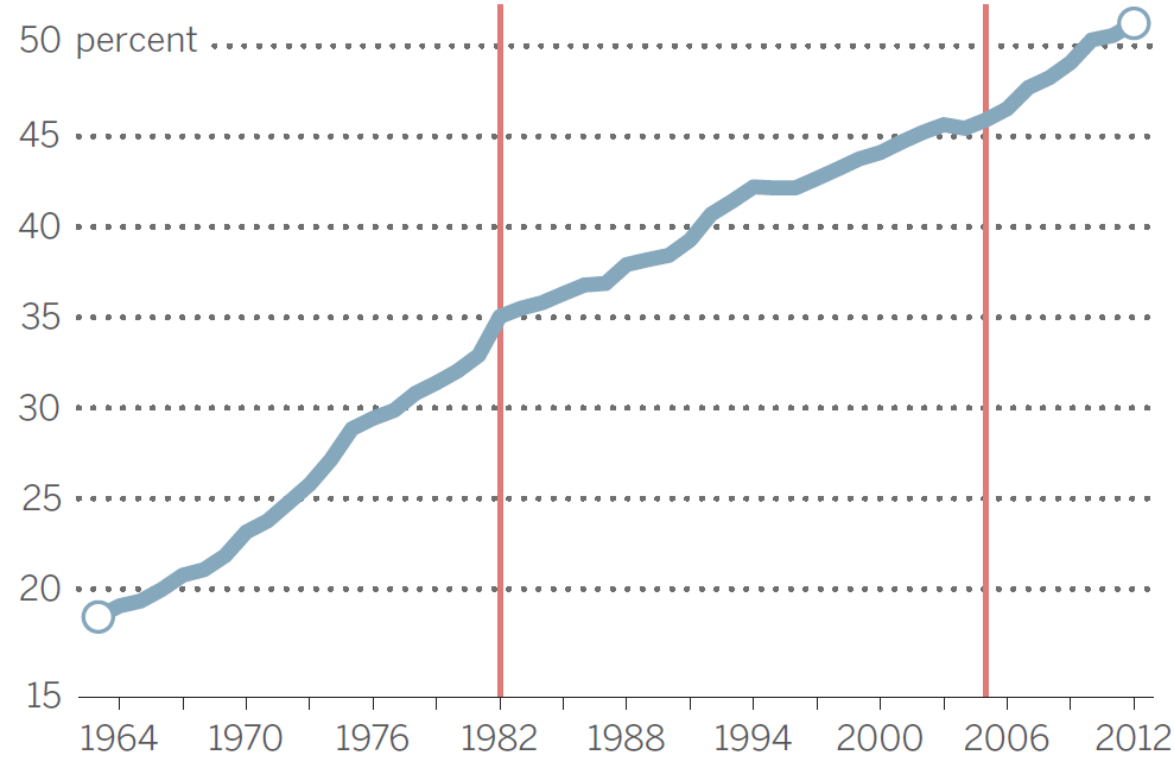


Fig. 3. The supply of college graduates and the U.S. college/high school premium, 1963–2012. (**A**) College share of hours worked in the United

Autor, Science.

Trends more compelling when you look at new labor market entrants

FIGURE 9

College degree vs. high school diploma log relative supply, 1963–2008

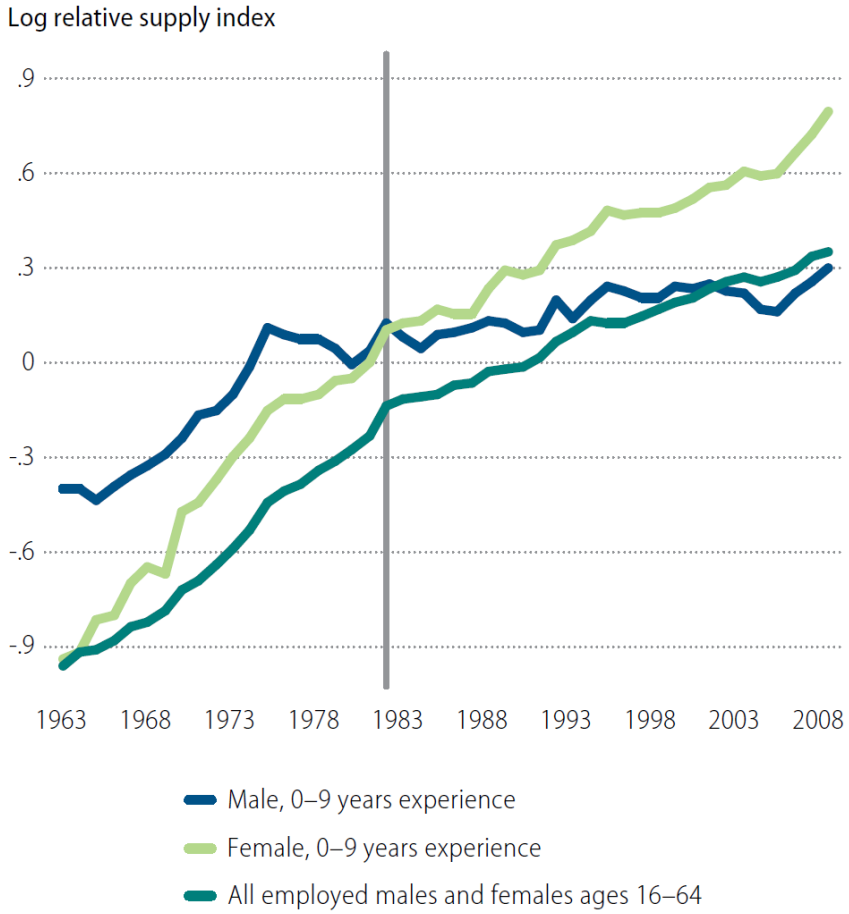
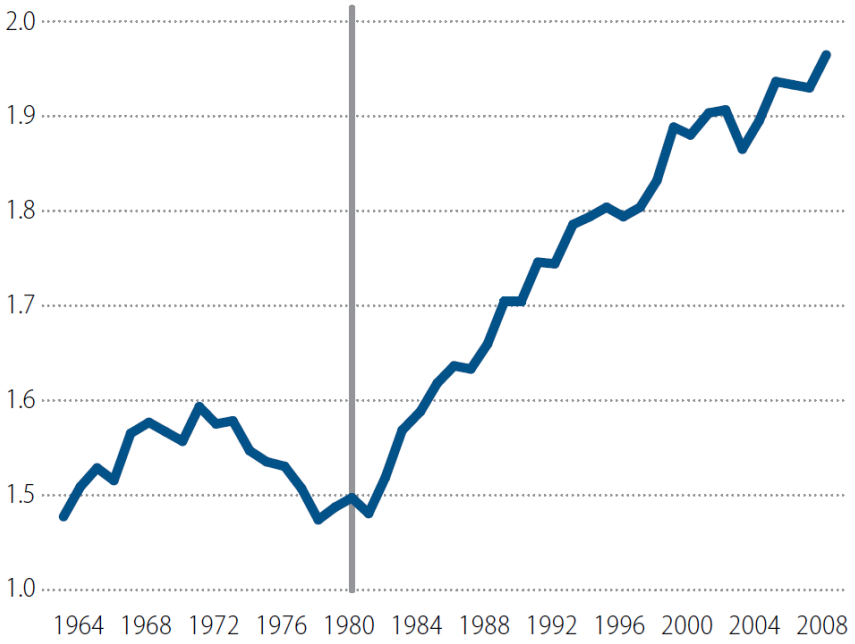


FIGURE 10

College degree vs. high school diploma weekly wage ratio, 1963–2008



Source: March CPS data for earnings years 1963-2008. Log weekly wages for full-time, full-year workers are regressed in each year on four education dummies (high school dropout, some college, college graduate, greater than college), a quartic in experience, interactions of the education dummies and experience quartic, and two race categories (black, nonwhite other). The composition-adjusted mean log wage is the predicted log wage evaluated for whites at the relevant experience level (5, 15, 25, 35, 45 years) and relevant education level (high school dropout, high school graduate, some college, college graduate, greater than college). The mean log wage for college and high school is the weighted average

Autor, “The Polarization of Job Opportunities in the U.S. Labor Markets,” The Hamilton Project.

In addition to trends in relative wages, non-college workers are experiencing absolute reductions in real wage levels

- What is leading to reductions in real wages for less skilled workers?
  - Technological change (as above)
  - Globalization: Chinese manufacturing gains led to reduction in manufacturing in the US and thus declines in wages in those industries
  - Fall of unions
  - Fall in real value of minimum wages

Changes in real wage levels of full-time U.S. workers by sex and education, 1963–2012

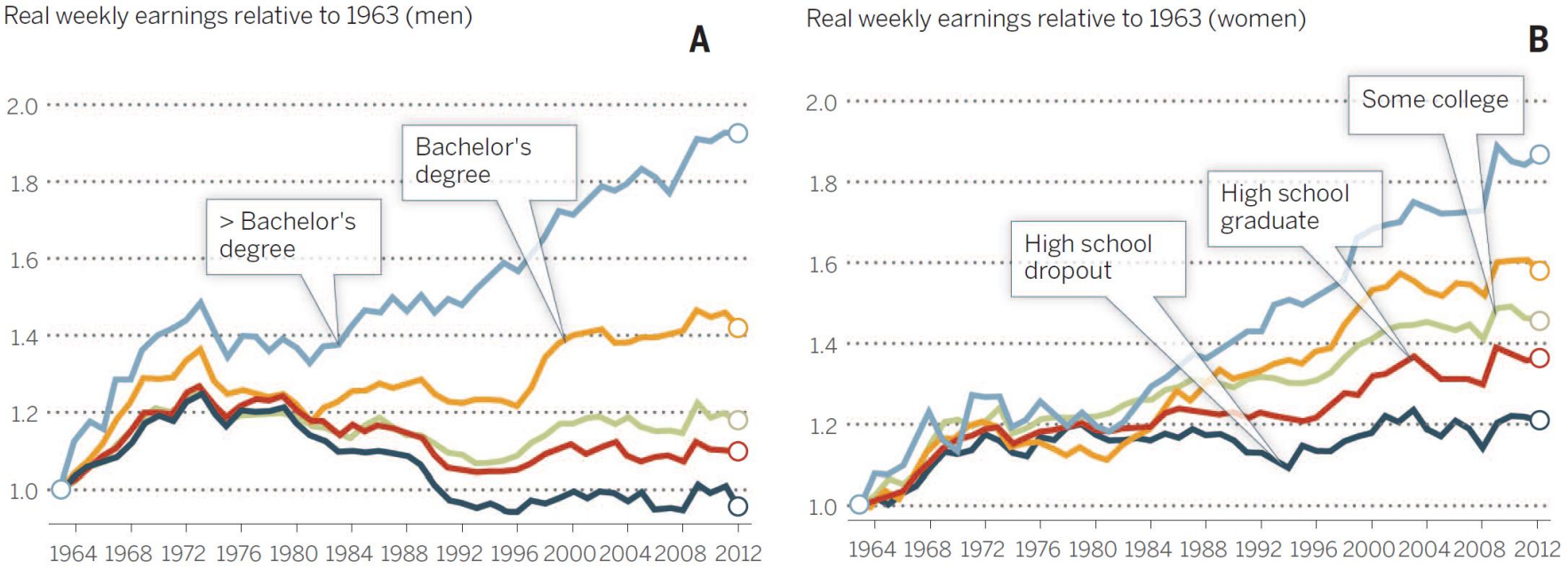


Fig. 6. Change in real wage levels of full-time workers by education, 1963–2012. (**A**) Male workers, (**B**) female workers. Data and sample construction are as in Fig. 3.

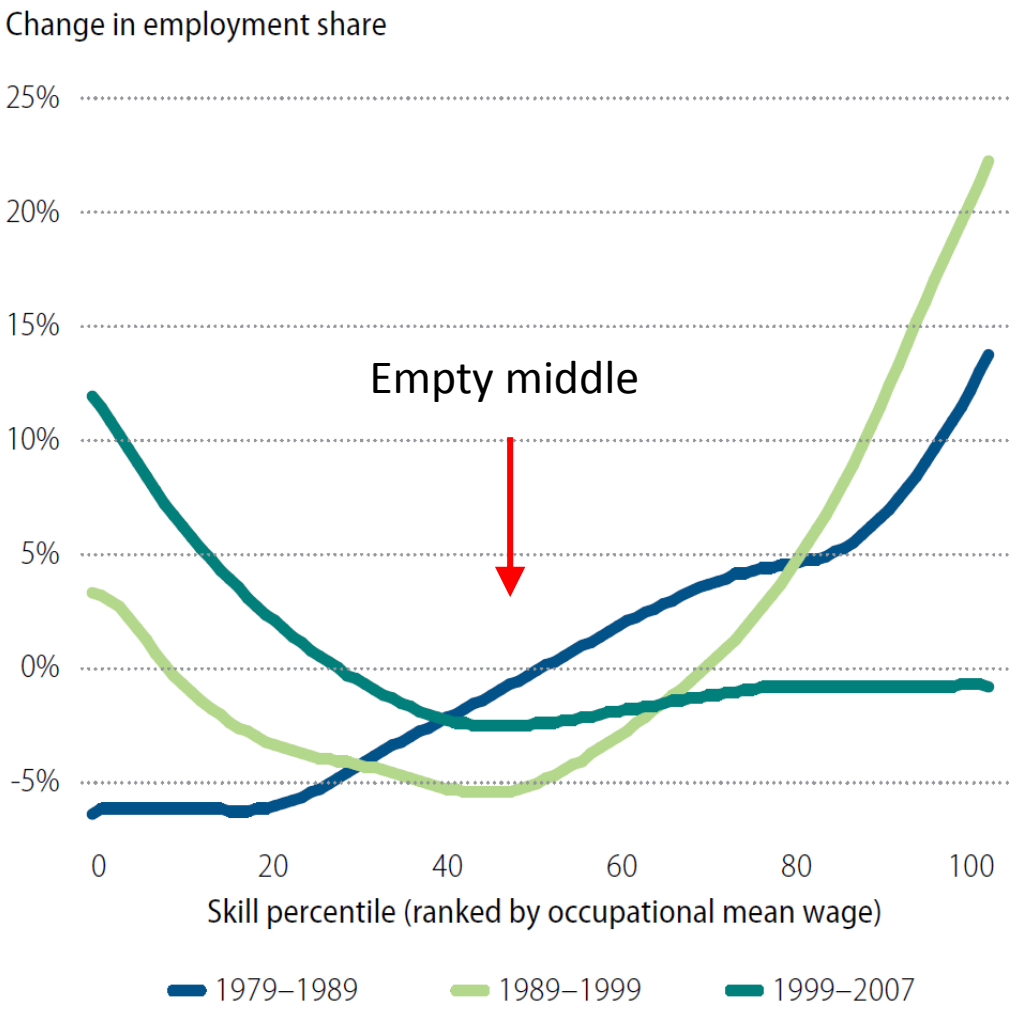
Autor, Science.

The result

- Employment growth is “polarizing” into relatively high-skill, high-wage jobs and low-skill, low-wage jobs [at the expense of middle skill jobs]

FIGURE 1

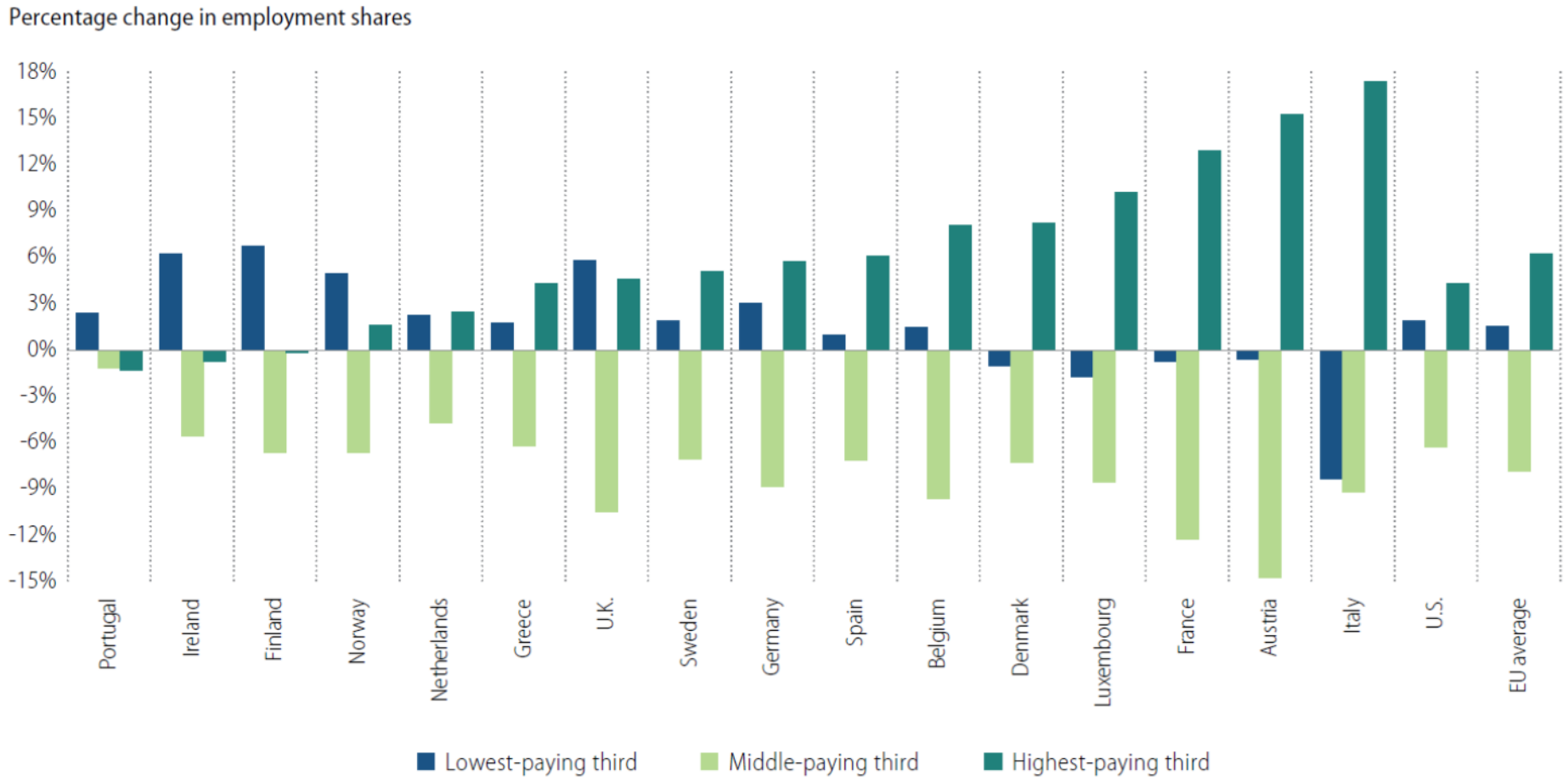
Smoothed changes in employment by occupational skill percentile, 1979–2007



Autor, “The Polarization of Job Opportunities in the U.S. Labor Markets,” The Hamilton Project.

FIGURE 6

Change in employment shares by occupation in 16 European countries Occupations grouped by wage tercile: Low, middle, high, 1993–2006



Autor, “The Polarization of Job Opportunities in the U.S. Labor Markets,” The Hamilton Project.

“Polarization” – Key forces

1. The slowing rate of four-year college degree attainment among young adults, particularly males
2. Changes in technology, international trade, and the international offshoring of jobs, which affect job opportunities and skill demands
3. Changes in U.S. labor market institutions affecting wage setting, including labor unions and minimum wage legislation

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Policy Solutions (Pre-Market)

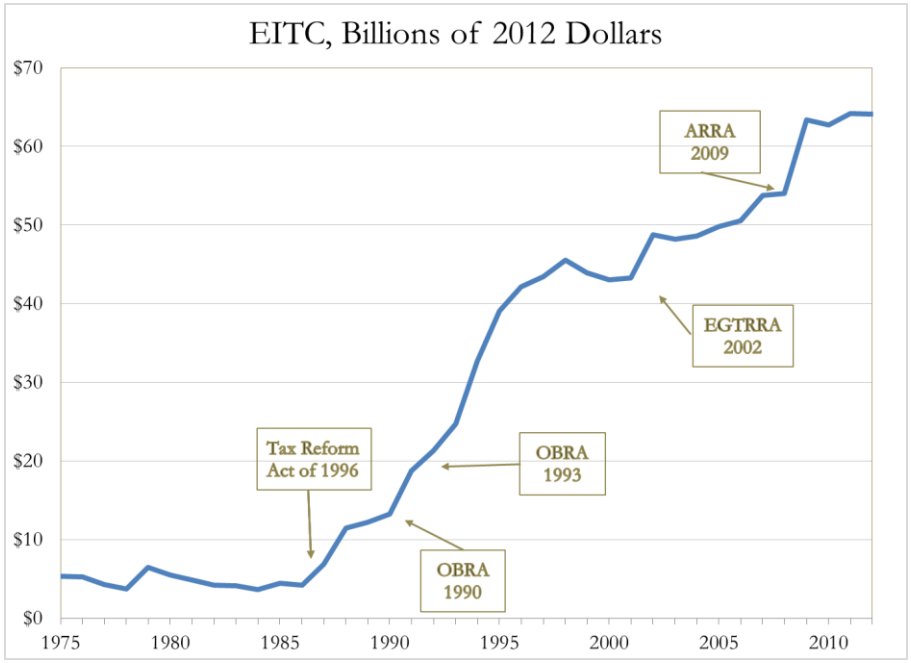
- Minimum wages
- Promote unionization
- Promote skills: Pre-K, K-12
- Increase college access
- Funded perhaps with higher MTR

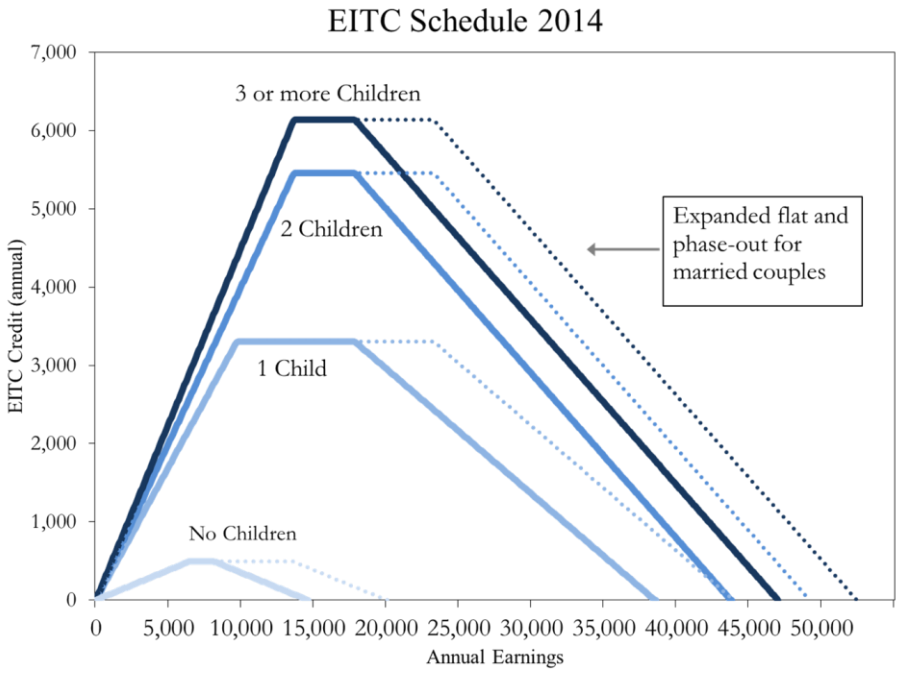
The Earned Income Tax Credit:
Effective policy given trends in the labor market

- The EITC is the main post-market policy that affects the twin concerns of low employment and stagnant income

Earned Income Tax Credit

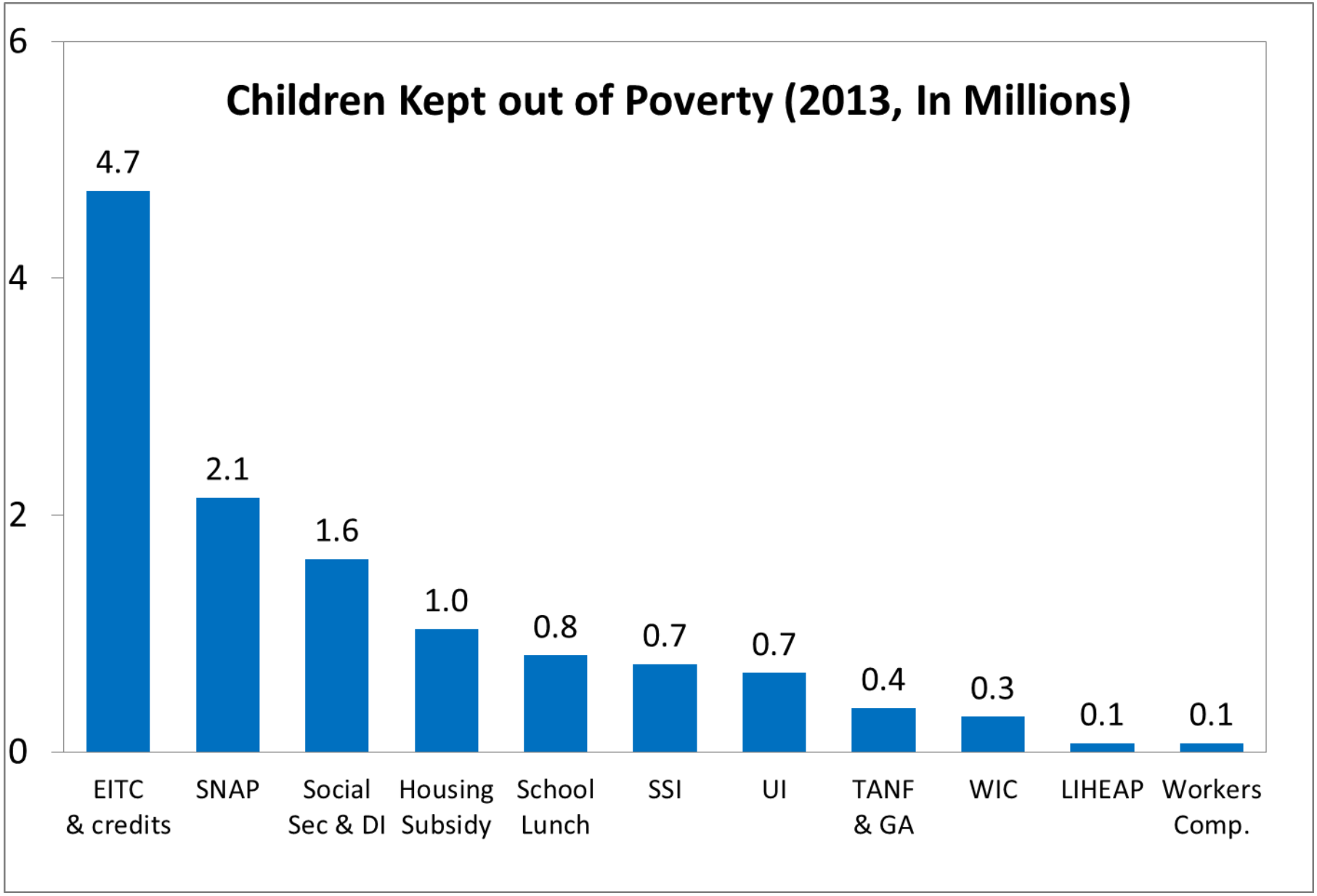
- In-work, tax based assistance
- Refundable tax credit for low income families
- Credit varies by number of children (small credit for childless), earnings (and AGI)





The effect of the EITC on employment and income

- THE EITC requires earned income. Research shows that the EITC leads to robust and large increases in employment particularly for single women with children.
- Therefore, the EITC increases family after-tax income through two channels
  - *Credit effect*: direct EITC payments
  - *Earnings effect*: incentivized increase in earnings
- Potential to substantively reduce lower tail inequality



Source: Calculations based on *Supplemental Poverty Measure, 2013* (Kathleen Short), U.S. Department of Census, Current Population Report P60-251.

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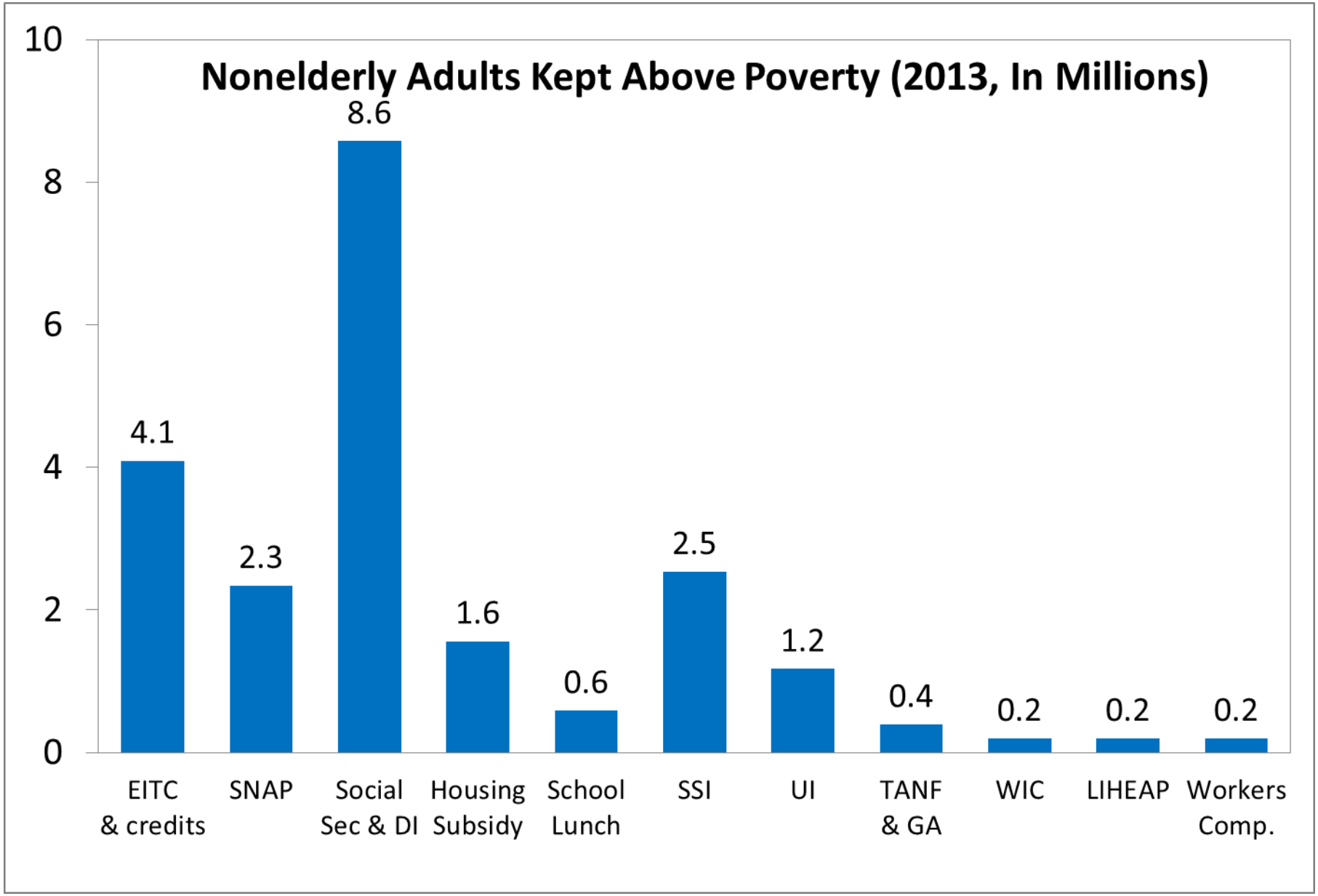

Source: Calculations based on *Supplemental Poverty Measure, 2013* (Kathleen Short), U.S. Department of Census, Current Population Report P60-251.

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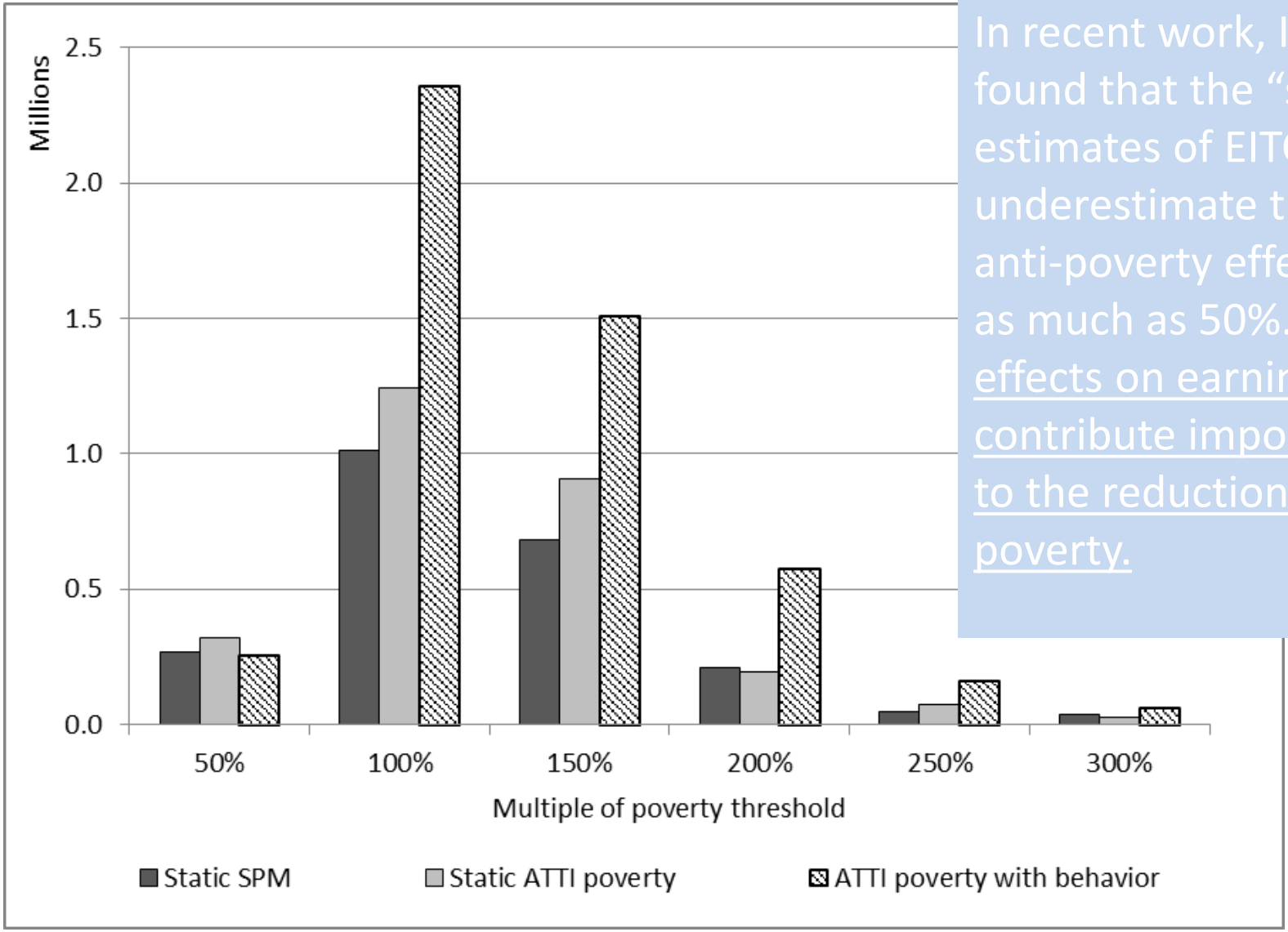
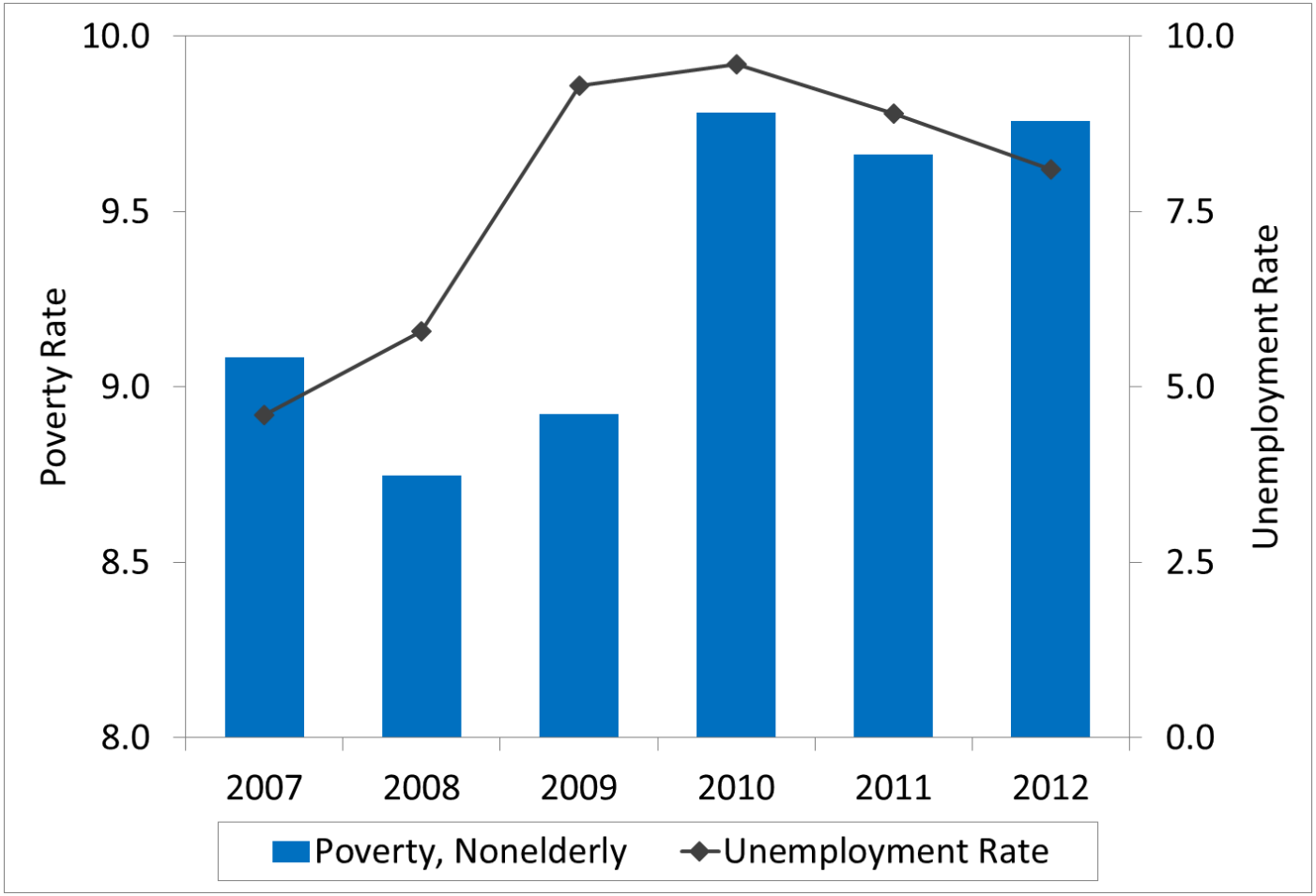
The Effect of the EITC on the Aggregate Number of Children Above a Multiple of the Poverty Threshold



In recent work, I have found that the "static" estimates of EITC underestimate the anti-poverty effects by as much as 50%. The effects on earnings contribute importantly to the reductions in poverty.

Source: Hoynes and Patel (2015)

The Great Recession as a test of the social safety net
Poverty rates rose with unemployment …



Source: Bitler and Hoynes "The More Things Change, the More They Stay the Same? The Safety Net and Poverty in the Great Recession," forthcoming, *Journal of Labor Economics*.

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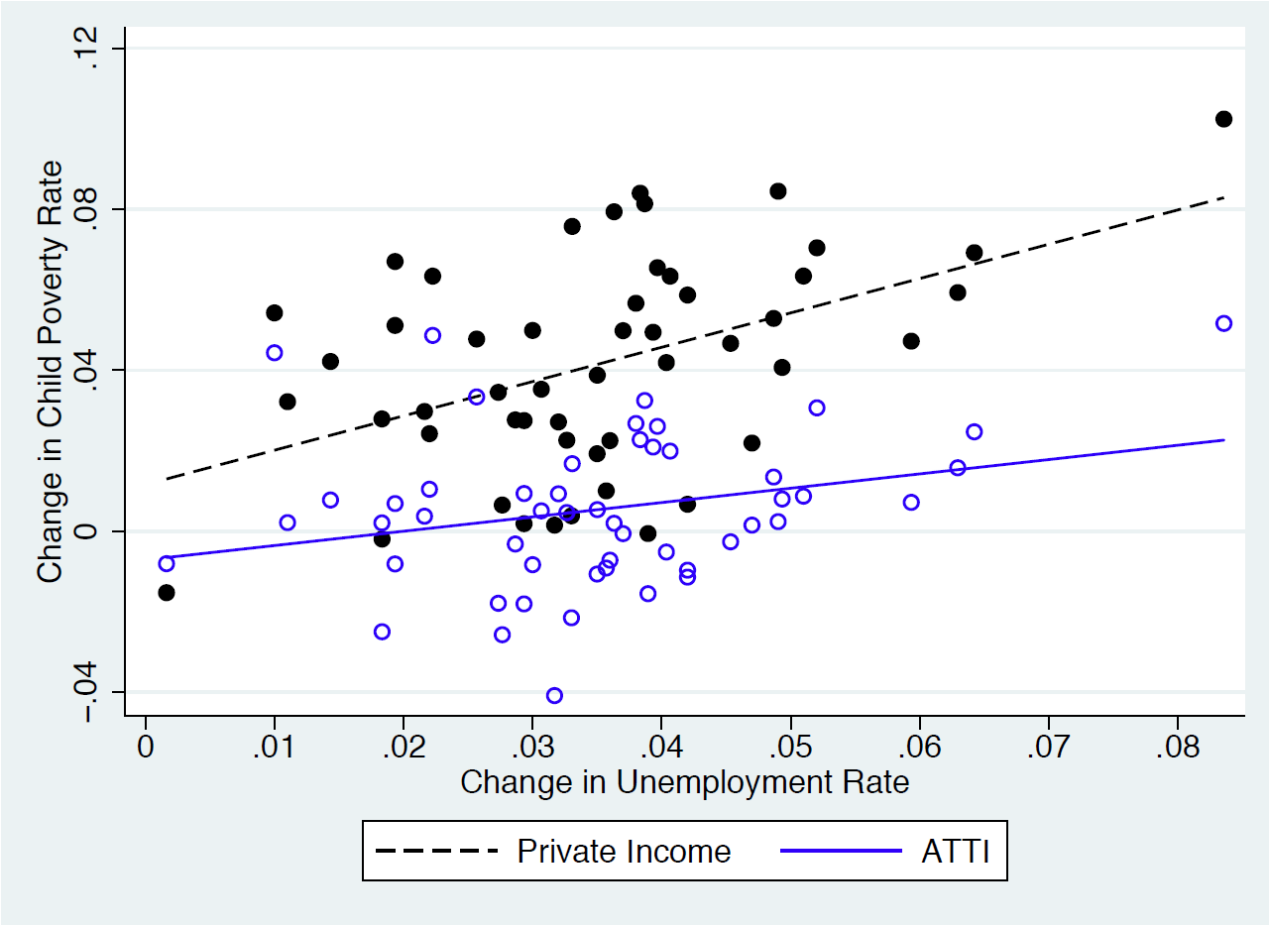
State Scatterplot of Change in UR against Change in Child Poverty, *Great Recession Period*

… but the social safety net provided important protection



Source: Bitler, Hoynes and Kuka "Child Poverty in the Great Recession."

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Concluding comments

- Since the 1980s we have seen little improvement in poverty despite steady economic growth
- The main driver for these trends are declines in real wages for low skilled workers
- Against this backdrop, the social safety net makes important improvements in the resources for low to moderate income families
- The broader trends call for renewed attention for human capital investments, from pre-school through college