INEQUALITY AND POLICY

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OUTLINE

1. Recent trends in Inequality & job structure
   ─ Overall Inequality
   ─ Extreme inequality
   ─ Polarization
   ─ Social Mobility

2. Causes

3. Policy
US MALE WAGE INEQUALITY, 1937-2005


Source: Autor and Wasserman, 2013
UK 90-10 LOG WEEKLY EARNINGS RATIOS

Notes: UK data, 1968-96 (NES) 1997-2009 (ASHE);
Source: Machin and Van Reenen (2010)
OUTLINE

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   — Social Mobility

2. Causes

3. Policy
Income shares at the very top over last 100 years: US top 1% increases from 9% in 1978 to 22% in 2012

Source: Atkinson, Piketty & Saez; High Income Database
Income shares at the very top: UK top 1% increases from 6% in 1978 to 14% in 2009

Source: Atkinson, Piketty & Saez; High Income Database
Income shares at the very top: US vs. UK: similar trends

Source: Atkinson, Piketty & Saez; High Income Database
## OUTLINE

1. Recent trends in Inequality & job structure
   - Overall Inequality
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The Squeezed Middle: Occupations in middle third of wage distribution are declining in all OECD countries (1993-2006)

Source: Goos, Salomons and Manning (2009)
1. Recent trends in Inequality & job structure
   - Overall Inequality
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2. Causes

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Has social mobility increased to offset rise in cross sectional inequality? No!

- No evidence that people are moving more quickly around the earnings or income distribution

- Inter-generational mobility fell in UK between birth cohorts in 1958 & 1973

- “The Great Gatsby Curve”: more unequal societies have lower social mobility between generations.
  - Wider the rungs of the income ladder, the harder it is to climb
Cross-Sectional Income Inequality and Intergenerational mobility

The Great Gatsby Curve: More Inequality is Associated with Less Mobility across the Generations

*Source:* Corak (2013) and OECD.
1. Recent trends in Inequality & job structure

2. Causes
   - Demand: Technology & Trade
   - Supply of skills
   - Institutions

3. Policy
Information Technology Accounted for ~40% of US Business Investment, 2010
## A TAXONOMY OF TASKS: CLASSIC

<table>
<thead>
<tr>
<th>Task type</th>
<th>Task description</th>
<th>Example of occupations</th>
<th>Effect of ICT</th>
<th>Education Levels</th>
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<tbody>
<tr>
<td>Routine</td>
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<td>Rules based; repetitive; procedural</td>
<td>Assembly line workers;</td>
<td>Direct substitution</td>
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<tr>
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<td>Abstract problem solving; mental flexibility</td>
<td>Managers; doctors; lawyers; scientists</td>
<td>Strongly complementary</td>
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# A TAXONOMY OF TASKS: NUANCED

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<tr>
<td></td>
<td>Rules based; repetitive; procedural</td>
<td>Assembly line workers;</td>
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<tr>
<td>Non-Routine</td>
<td>Non-Manual</td>
<td>Clerical; Book-keepers</td>
<td>Direct substitution</td>
<td>Middle</td>
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<td>Abstract problem solving (analytic); mental flexibility</td>
<td>Managers; doctors; lawyers; scientists</td>
<td>Strongly complementary</td>
<td>High</td>
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<td>Non-Manual</td>
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<tr>
<td></td>
<td>Manual</td>
<td>Environmental adaptability; Interpersonal adaptability</td>
<td>Broadly Neutral</td>
<td>Low</td>
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<td></td>
<td>Maids/Janitors; security guards; waiters; drivers</td>
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Implications of task-based technical change

• Demand for the most highly skilled continues to strongly rise (analytical, non-routine, non-manual jobs)
• Demand for manual jobs with non-routine manual tasks stabilizes/increases
• Demand for routine non-manual (& manual) jobs falls dramatically. Many safe, middle class jobs gone & going
• Globalization has similar effects in some dimensions (e.g. face to face services cannot be offshored)
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1. Recent trends in Inequality & job structure

2. Causes
   - Technology & Trade
   - Supply of skills
   - Institutions

3. Policy
Premium to college degree rises Composition Adjusted College/High-School Weekly Wage Ratio, 1963-2008, US

Composition Adjusted College/High-School Log Weekly Wage Ratio, 1963-2008

Log Wage Gap

Slowdown of skill supply: Composition Adjusted College/High-School Relative Labor Supply, US
1. Recent trends in Inequality & job structure

2. Causes
   - Technology & Trade
   - Supply of skills
   - Institutions, regulations

3. Policy
Figure 10. Top 1 Percent Share: Nordic and Southern Europe (U/L-shaped), 1900–2006

Atkinson, Piketty, Saez 2011
Figure 9. Top 1 Percent Share: Middle Europe and Japan (L-shaped), 1900–2005

Atkinson, Piketty, Saez 2011
Extreme Inequality

• Market forces?
  – Similar forces of trade & technology to overall distribution
  – Plus “superstar” effect: rare skills leveraged over a larger scale

• Something else?
  – Norms, institutions, low taxes, etc.
  – **Financial services** play big role in accounting for the growth of top 1% (especially in UK). 60% of increase in share of top 1% in decade before Great Recession was finance wages
  – Huge market failures in finance. Better regulation vs. lobbying

• Even if market forces, policy response is similar:
  – Some higher tax on top 1% to be spent on raising human capital on those in low & middle part of wage distribution
1. Recent trends in Wages and Skills

2. Causes

3. Policy
   - Human capital
   - Taxation
   - Labour standards
   - Macro policy
Human Capital

- Double dividend of an effective skills policy on inequality & growth
- Failure to continue increasing increase in college graduation in US (esp for men)
- Standards in government run schools (esp for lower ~third of ability)
- School to work transition
  - Major issue given polarization. What do the non-college bound do?
- Early years
- Welfare benefits & skill acquisition
OUTLINE

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Elasticity = .47 (.11)

Source: Piketty, Saez and Stantcheva, forthcoming
Changes in Top Marginal Rates and GDP per Capita Growth Rates, 1960/64 – 2006/10

Source: Piketty, Saez and Stantcheva, forthcoming
OUTLINE

1. Recent trends in Wages and Skills

2. Causes

3. Concerns

4. Policy
   - Human capital
   - Taxation
   - Labour standards
   - Macro policy
US Minimum Wages help reduce 10/50 Inequality

<table>
<thead>
<tr>
<th>Year</th>
<th>Real value of average state/federal mins</th>
<th>Real value of fed. min.</th>
<th>log(p10)-log(p50), female</th>
<th>log(p10)-log(p50), male</th>
</tr>
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<tbody>
<tr>
<td>1974</td>
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<td>2010</td>
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</tbody>
</table>

Note: Annual data on state and federal minimum wages and log percentiles. Minimum wages are in 2011 dollars.

Source: Autor, Manning and Smith, 2013
No Compelling Evidence that Modest Minimum Wages Reduce Employment

• Decades of intensive study and debate
  – Remarkably little evidence of adverse employment impacts of minimum wages
  – Yet minimum wages do reduce inequality

• Unions reduce inequality, but renaissance of private sector unionism unlikely

• Polarization suggests a role for standards as job ladders harder to climb?
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Youth Suffer a lot in Recession

Effect of State Unemployment Rate on Group Employment Rate, by Single Year of Age

*(percentage points)*


Source: Hoynes, Miller and Schaller 2012
Minorities & Low Education Adults Suffer in a Recession

Effect of State Unemployment Rate on Group Unemployment Rate, by Race/Sex and Education

(percentage points)


Source: Hoynes, Miller and Schaller 2012
Good macro policies are also good for inclusive growth

- Initial response to recession, good, but excess austerity has unnecessarily prolonged pain of recession
- In longer-run sustained growth will raise living standards of workers
  - LSE Growth Commission focused on skills, infrastructure & innovation
Back Up & Further Reading