US: Education no escape from stagnant wages

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As with the rest of the American workforce, the income of college graduates has not kept pace with the growth of productivity, according to a paper delivered June 5 by Massachusetts Institute of Technology (MIT) economists Peter Temin and Frank Levy.* Their findings refute the claim that social inequality is the result of an increased demand for educated workers, itself the product of technological change.

By way of preface, the report notes that the past 25 years have seen an increase in non-farm business productivity of 67.4 percent, while over the same period "median weekly earnings of full-time workers rose from $613 to $705, a gain of only 14 percent." Conversely, 80 percent of all income gains reported on federal tax returns between 1980 and 2005 went to the wealthiest 1 percent of the population, with this group's share of total annual income more than doubling during the past 25 years.

The most significant feature of American economic life over the past quarter century, and of the first years of the new millennium in particular, has been the polarization between the super-rich and everyone else. But the official representatives of capitalism have sought to couch the enrichment of a tiny elite in terms of a differentiation of skilled and unskilled workers.

Federal Reserve Chairman Ben Bernanke presented this argument in a speech to the Omaha Chamber of Commerce last February. Bernanke attributed the intensification of social inequality to technological change, and stressed education as the principal factor determining whether or not workers suffer wage stagnation.

Further, he claimed that income inequality is justifiable to the extent that talented people born into a social stratum with stagnant income can go to college and thereby overcome the problem of stagnant wages. "Although we Americans strive to provide equality of economic opportunity, we do not guarantee equality of economic outcomes, nor should we," he said.

Bernanke's assessment comes up against some inconvenient facts. A recent report published by the Pew foundation, in collaboration with a number of other think tanks, noted that, as a group, the current generation of American males in their 30s has a median income 12 percent lower than that of their parents' generation.

The report also notes a decrease in social mobility within the United States, stating that "using the relationship between parents' and children's incomes as an indicator of relative mobility, data show that a number of countries, including Denmark, Norway, Finland, Canada, Sweden, Germany, and France, have more relative mobility than does the United States." The report continues, "Compared to the same peer group, Germany is 1.5 times more mobile than the United States, Canada nearly 2.5 times more mobile, and Denmark 3 times more mobile."

The question arises: Does, as Bernanke and others suggest, a college degree provide a guarantee against wage stagnation? Levy and Temin note that the years 1947 to 1975 saw the median income of an American household grow lockstep with productivity. By the early 1980s, however, productivity growth continued while the rate of wage increases fell off. For the past several years in particular, median wages have declined even as productivity growth has accelerated.

Levy and Temin point out that from 1945 through the late 1970s, "income equality increased, as very high incomes grew more slowly than labor productivity." By 1986, however, incomes in the top 1 percent began growing rapidly and have outpaced productivity growth through to the present day. By contrast, both college graduates and non-graduates have seen their wages stagnate relative to productivity since the 1980s.

The authors ask: "Is the average bachelor's degree still sufficient to catch the rising tide? In the case of most men, at least, the answer is no. More generally, something over three-quarters of the labor force currently faces insufficient demand to keep compensation growing in line with economy-wide productivity."

Contrary to the standard explanation of income inequality as the natural outcome of technological development, Levy and Temin conclude that their findings reflect a concerted shift in US government policy—that is, a determined attack on the unions coupled with low taxes on the rich and the destruction of the social safety net.

This shift in policy was exemplified by the reduction in income taxes on the highest bracket and the stagnation of the minimum wage. "In 1938, annual earnings at the first minimum wage represented 27 percent of the economy's average output per worker. Between 1947 and 2005, the value of the minimum wage would exceed that percentage in only four other years, and stands at something less than half that percentage today."

At the same time, the past 50 years have seen a dramatic reduction in taxation on the highest income bracket. The top federal income tax rate was approximately 90 percent in the 1950s, then fell to 50 percent in the '70s, 40 percent in the '90s, and, with the Bush administration's tax cuts, has sunk even lower.

Levy and Temin argue that the explosion in the income growth rate of the top 1 percent during the mid-1980s, at least in the short term, can be seen as a product of policies implemented by the Reagan administration and deepened by subsequent presidencies.

They write: "In Reagan's first year in office, he made three decisions that proved central to wage determination. He gave [Federal Reserve Chairman Paul] Volcker's anti-inflation policy his full backing. He introduced a set of supply-side tax cuts, including lowering the top income tax on non-labor income from 70 to 50 percent to align it with the top rate on labor income. And, when the air traffic controllers' union, one of the few unions to support Reagan, went out on strike, he gave them 48 hours to return to work or be fired. His stance ultimately led to the union's decertification."

These policies were followed by a drastic decline in manufacturing sectors, which facilitated the destruction of working class jobs and an attack on wage and benefits gains achieved by workers over previous decades. Concurrently, there was a boom in the banking, finance and legal professions. As a result, Levy and Temin observe: "Between 1980 and 1995, the share of economy-wide compensation and profits in the Finance, Insurance and Real Estate Industry rose from 6.75 percent to 10.03 percent, while manufacturing's share fell from 27.9 percent to 20.4 percent."

These changes coincided with a profound redistribution of income between labor and capital, with the latter's share of the national income rising from 24 percent in 1980 to 31 percent in 2005. In summation, the report notes: "The declining bargaining power of the average worker has resulted in two observable changes: a shift of income from labor to capital and a shift of both labor and capital income to the top of the income distribution."

This conclusion points to the fundamental issue involved in wage stagnation. The basic antagonism expressed in deepening social inequality is not one between different sections of the working class, but between capital and labor, i.e., roughly speaking, between the super-rich and everyone else.

* Levy, Frank S. and Temin, Peter , "Inequality and Institutions in 20th Century America" (May 1, 2007). MIT Department of Economics Working Paper No. 07-17 Available at SSRN