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Rethinking the Rise of Inequality

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Many Americans have come to doubt the proposition that college delivers a path to prosperity.

In a poll conducted last month by the College Board and National Journal, 46 percent of respondents — including more than half of 18- to 29-year-olds — said a college degree was not needed to be successful. Only 40 percent of Americans think college is a good investment, according to a 2011 poll by the Pew Research Center.

On a pure dollars-and-cents basis, the doubters are wrong. Despite a weak job market for recent graduates, workers with a bachelor's degree still earn almost twice as much as high school graduates. College might be more expensive than ever, but a degree is worth about $365,000 over a lifetime, after defraying all the direct and indirect costs of going to school. This is a higher payoff than in any other advanced nation, according to the Organization for Economic Cooperation and Development.

Still, the growing skepticism about the value of a degree has fed into a deeper unease among some economists about the ironclad trust that policy makers, alongside many academics, have vested in higher education as the weapon of choice to battle widening income disparities and improve the prospects of the middle class in the United States.

It has given new vigor to a critique, mostly by thinkers on the left of the political spectrum, that challenges the idea that educational disparities are a main driver of economic inequality.

"It is absolutely clear that educational wage differentials have not driven wage inequality over the last 15 years," said Lawrence Mishel, who heads the Economic Policy Institute, a liberal-leaning center for economic policy analysis. "Wage inequality has grown a lot over the last 15 years and the educational wage premium has changed little."

The standard analysis of the interplay between technology and education, developed by economists like Lawrence Katz and Claudia Goldin of Harvard, and David Autor of the Massachusetts Institute of Technology, is based on a simple proposition: Technological progress increased the demand for highly educated workers who could deploy it profitably, increasing their incomes. Like trade, it rendered many less-skilled occupations obsolete, eliminating what used to be solid, middle-class jobs.

This rendition of history suggests that improvements in technology — coupled with a college graduation rate that slowed sharply in the 1980s — have been principal drivers of the nation's widening income gap, leaving workers with less education behind.

But critics like Mr. Mishel point out that this theory has important blind spots.

For instance, why have wages for college graduates stagnated over the last decade, even as innovation continues at a breathtaking pace? Between 2000 and 2008 the typical earnings of men with at least a bachelor's degree fell by more than $2,000, after inflation, to $70,332 a year. Between 2008 and last year they fell a further $3,500. Though somewhat less pronounced, the pattern is similar for women.

Both sides agree that the overall weakness of the job market since the turn of the millennium is a prime culprit. As Professor Katz noted: "The only moments we've had of broadly shared prosperity have been in tight labor markets."

Still, the sluggish job growth of the last decade — following the rapid expansion during the second half of the 1990s — demands an explanation, which the interplay between technology and skill does not provide.

"We have no handle on what happened in the 2000s," Professor Autor told me. "That is a mystery that nobody I know understands, and I can't point to a single policy lever or a single external force that would explain it."

Most notably, the skills-and-tech story leaves aside one of the most perplexing and important dynamics of the last 30 years: the rise of the 1 percent, a tiny sliver of the population that last year took in almost a dollar out of every $4 generated by the American economy.

"I don't think the college to noncollege wage premium gives you any insight into why such a large share of the economic gains has accrued to such a tiny share of the population," said David Card, a noted labor economist at the University of California, Berkeley.

Mr. Mishel's preferred explanation of inequality's rise is institutional: a shrinking minimum wage cut into the earnings of the nation's least-skilled workers while falling trade barriers, deregulation and the decline of labor unions eroded the income of the middle class. The rise of the top 1 percent, he believes, is mostly about executive pay and the growing footprint of finance.

In coming weeks, Mr. Mishel and two co-authors, Heidi Shierholz of the Economic Policy Institute and John Schmitt of the Center for Economic and Policy Research, expect to publish a study called "Don't Blame the Robots: Assessing the Job Polarization Explanation of Growing

Wage Inequality."

In a conversation, Mr. Mishel argued that while education would improve workers' economic mobility, if the ever-deepening concentration of income has little to do with the education gap, more education is unlikely to close it.

"Kids should still go to college, and when a whole lot more do we'll have more opportunity," he said. "But college wages will fall," he added, as the supply of graduates increases. "This won't really bring us broad-based wage growth, which is the central challenge to getting improved social mobility and expanding/rebuilding the middle class."

When it comes to policy, however, the debate about the specific role that education and other factors play in deepening income inequality may contribute less light than heat.

Professors Katz and Autor agree that an array of policies is needed to address the labor market's lopsided distribution of economic rewards. They range from a higher minimum wage to help lift the income of service workers at the bottom of the market to a larger earned-income tax credit.

More technical training could help upgrade the skills of high school graduates. Steeper income taxes on the very rich could curb the accumulation of income at the top. Perhaps most important, the design of macroeconomic policies might give more weight to maintaining low unemployment.

"Education is certainly part of the answer, but it is certainly not a complete answer," Professor Katz said.

There is good reason to resist the proposition that education and technology are solely responsible for growing inequality. It provides political leaders an excuse to cast the problem as beyond the reach of policy.

"It can suck all the air out of the conversation," Professor Autor acknowledged. "All economists should be pushing back against this simplistic view."

Still, education plays a crucial role. A study a few years ago by Thomas Lemieux at the University of British Columbia concluded that increases in the returns on a college education accounted for almost 60 percent of the change in wage inequality between 1973 and 2005.

While Professor Lemieux's data excluded the top few percent of earners, there is a lot of room for improvement left over.

Professor Katz illustrates this with a nifty calculation. Between 1979 and 2012 the share of national income captured by the richest 1 percent of taxpayers increased from 10 percent to 22.5 percent. Had their share instead remained at 10 percent and the rest been distributed equitably among taxpayers in the bottom 99 percent, each would have $7,105 more to spend.

By contrast, between 1979 and 2012 the gap between the annual wages of a typical family of two full-time workers with college degrees and one made up of two high school graduates grew by $30,000, after inflation.

“Nothing we do with the education supply will have a big impact among the top 1 percent,” Professor Katz said. But “could it improve the upward mobility and the prospects of a better job for Americans born in the bottom half of the income distribution? Yes.”

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