

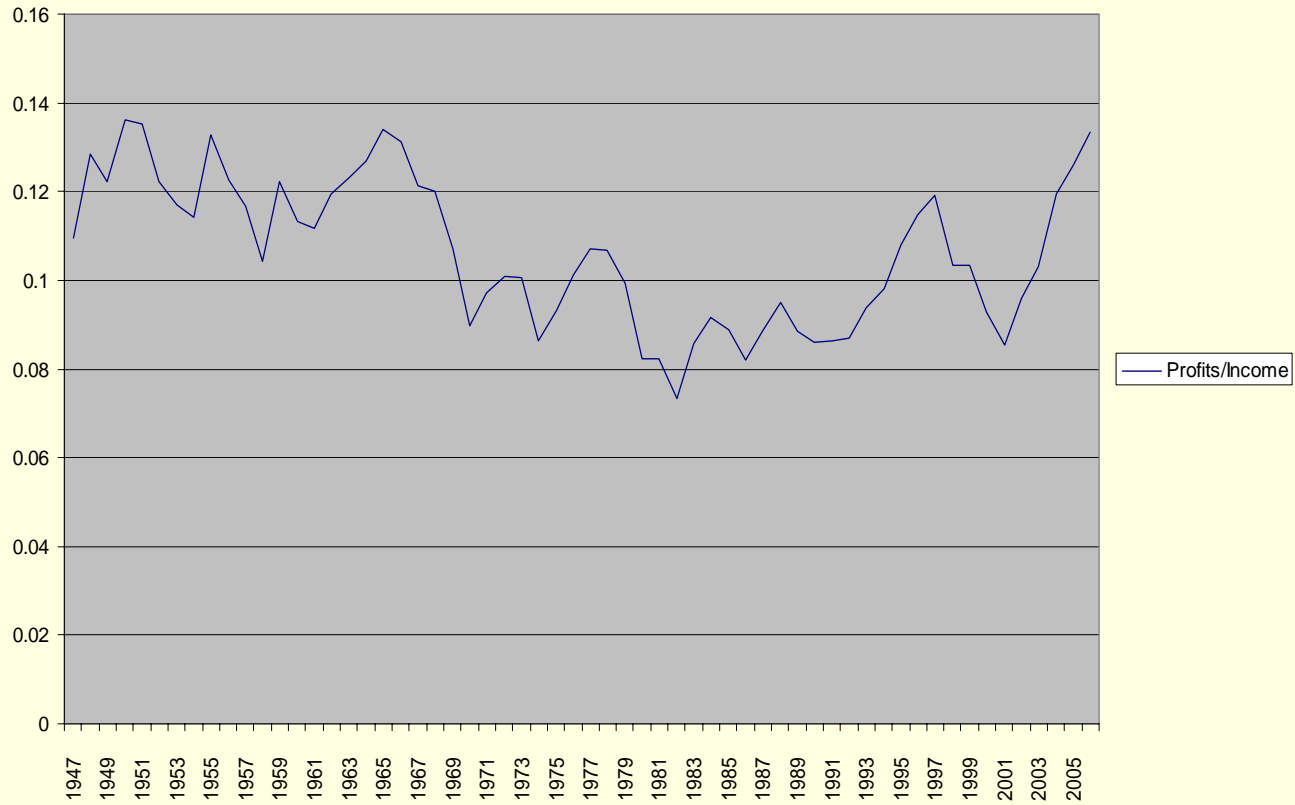
# Blue-Collar Blues: Is Trade to Blame for Rising US Income Inequality?

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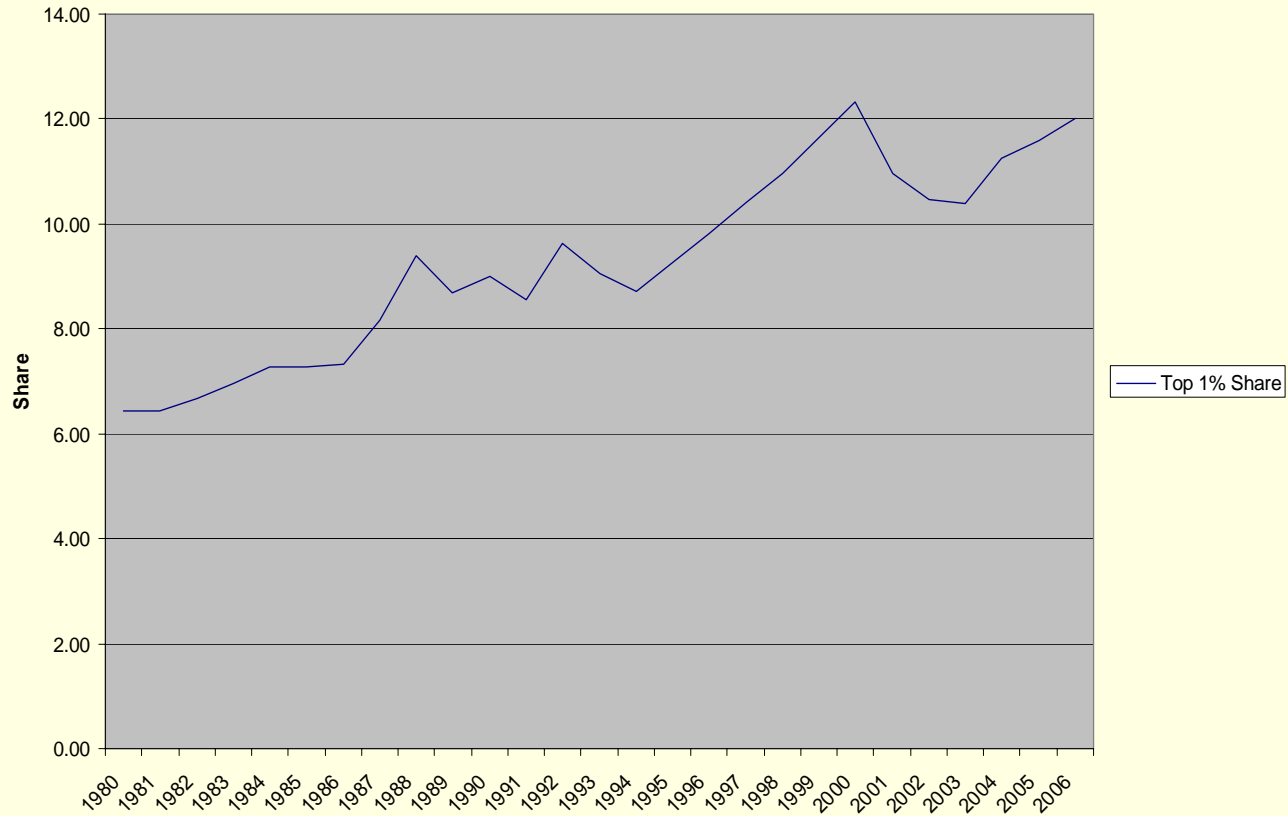
# Corporate profits near all-time highs

Share of Corporate Profits in US National Income



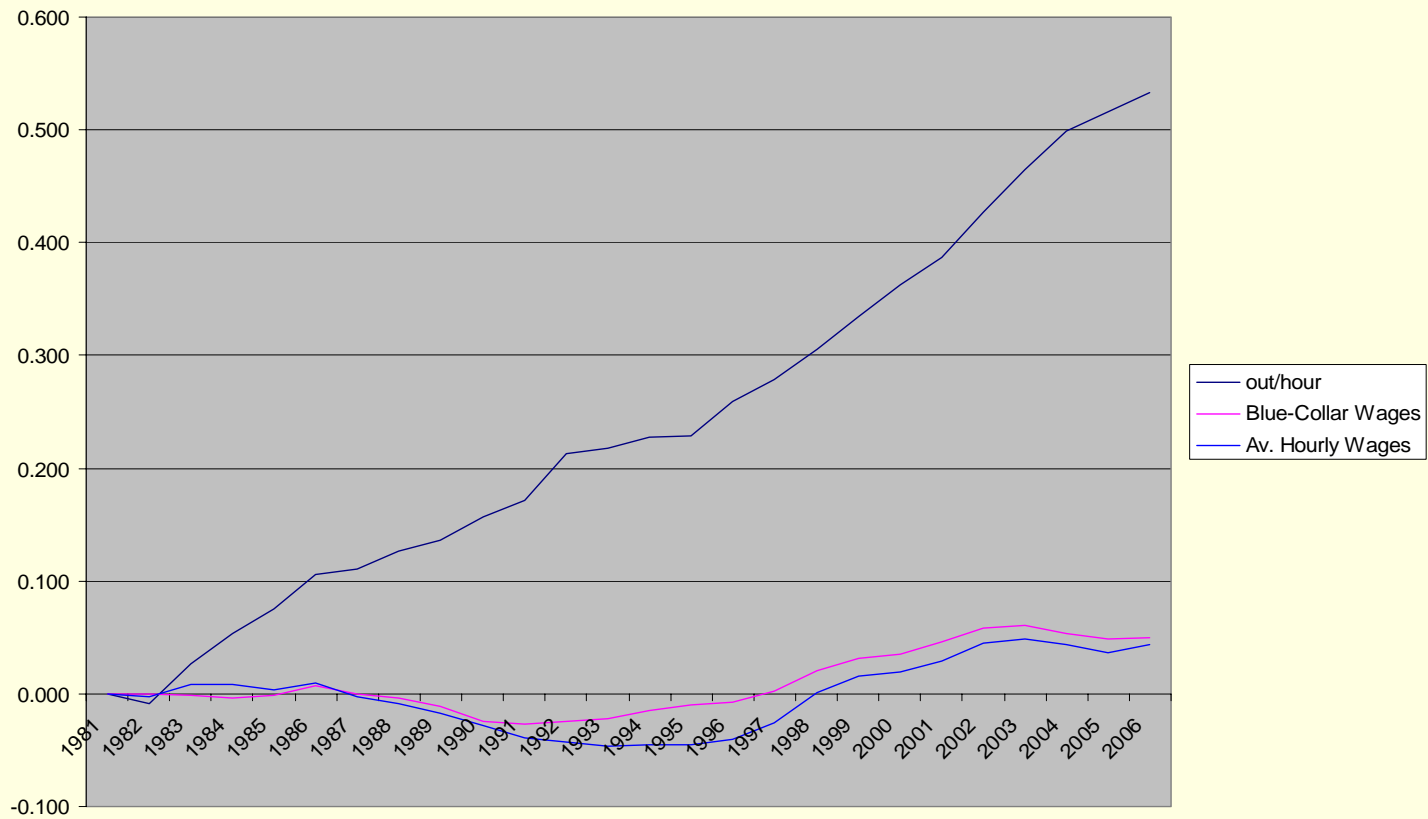
# Share of the top 1% of wage-earners: doubled in 25 years

Share of Top 1 Percent in Tax Return Wage Income



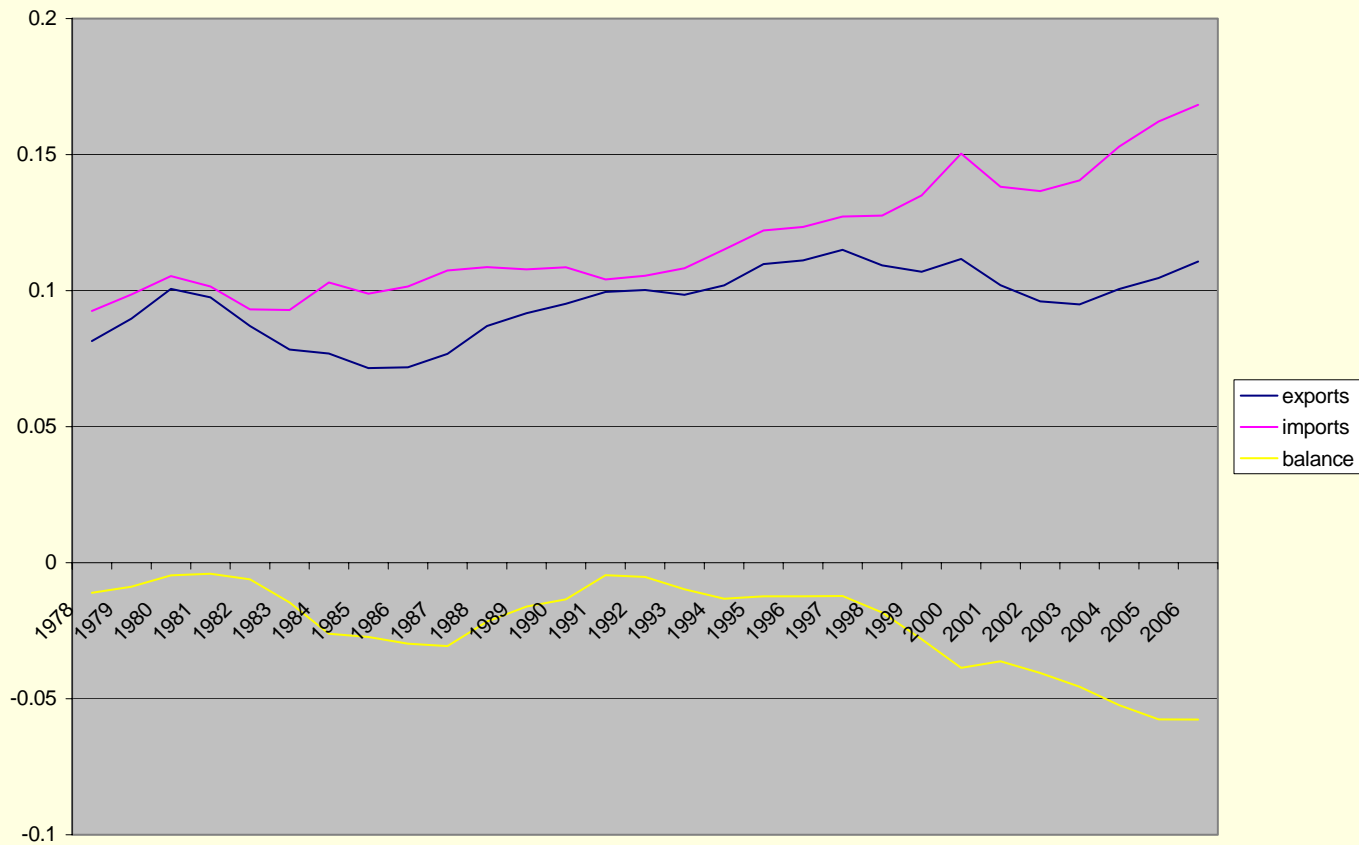
# US real average wage growth remarkably slow

Business Output per Hour and Real Hourly Wages



# The US economy has also become increasingly open to trade.

Goods and Services Trade as a Share of GDP



Trade/GDP rising, imports and deficit growing

Many people link these developments.

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- Paul Krugman:
- "It's no longer safe to assert that trade's impact on the income distribution in wealthy countries is fairly minor. There's a case that it is big and getting bigger."
- Polls tell us Americans are increasingly disenchanted with trade.

# But is trade to blame?

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- Qualifications

- Globalization is a very broad notion; I will focus narrowly on trade to relate to the debate about trade policy and trade agreements.
- Inequality also has many dimensions; I will focus narrowly on hourly compensation and other pre-tax and pre-transfer measures.
- Three different kinds of inequality.
  - Wage inequality.
  - Super-Rich Inequality
  - Class Inequality.

# The questions

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- First, if income growth had been the same, but income shares not changed, how much higher could blue-collar wages have been?
- Second, what role has trade played in increasing each type of inequality?

# Main finding: trade is not to blame!

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- *Despite the growth of imports from developing countries, trade's impact on recent wage inequality has not been large; indeed, since 1999 by many measures, wage inequality has not increased at all.*
- Increased inequality between 1980 and 2000 explains about 30 percent of the productivity-wage gap; measurement and technical factors explain the rest.
- Even though the United States has become more open to trade, labor's share in income over the long run has been constant. The decline in labor's share since 2000 is in line with previous cyclical behavior
- Trade is not a disproportionate source of the gains of the Super-Rich: Most of their increased income is made in the United States.
- Trade *has however* caused dislocation – but it is only one of several factors.

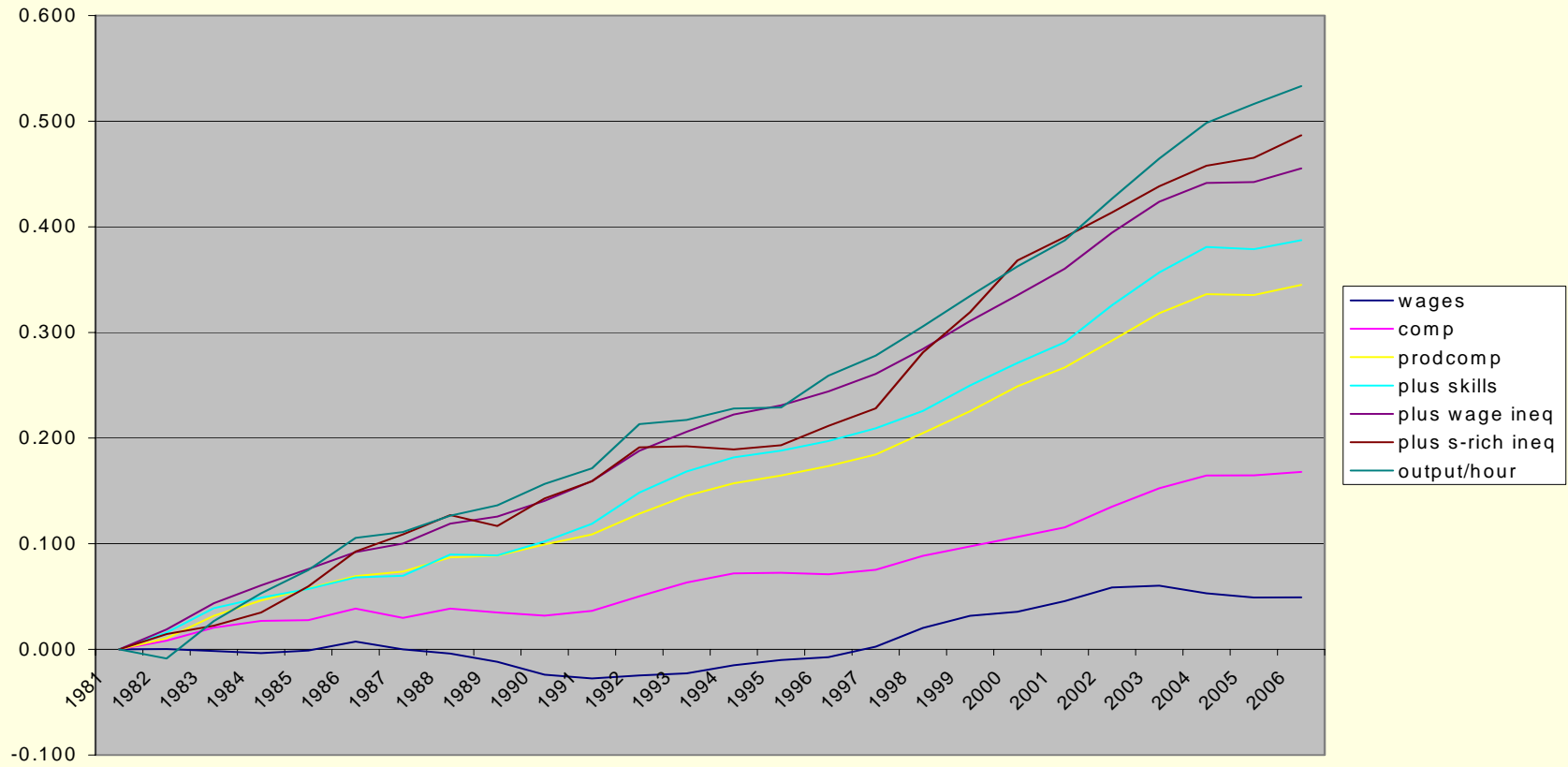
# I: Decomposing the gap

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- Wages are take-home pay, the full cost of labor includes benefits.
- "Real" wages reflect consumer prices, "Product wages" reflect producer prices.
- The increased levels of education of white-collar workers contributes to the gap between blue-collar wages and output-per-worker.

# Decomposing the gap

Decomposing the Wage-Productivity Gap



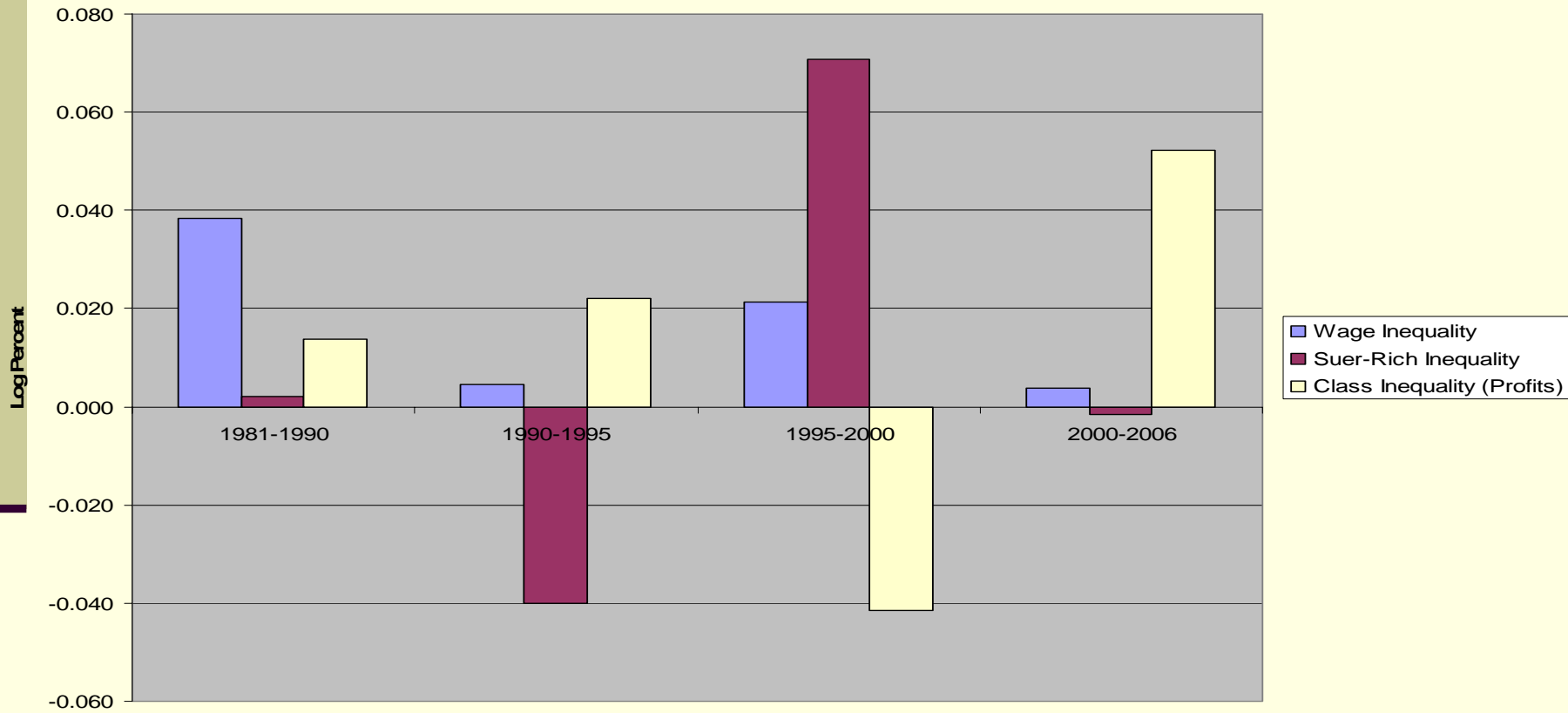
# Decomposing the gap

**Table 1: Accounting for the Gap Between Real Wage and Labor Productivity Growth 1981-2006 (Log Points)**

Growth in Real ECI Blue-Collar Wages 1981-2006	4.9
Growth in Output-per Hour Business Sector 1981-2006	53.3
<b><u>Difference</u></b>	<b><u>48.2</u></b>
due to	
<b><u>Technical Factors</u></b>	<b><u>33.5</u></b>
of which	
Benefits (Compensation vs. Take-Home Pay)	11.9
Prices (Product vs. Consumption)	17.7
Skills (Relatively Rapid White-Collar Skills Growth)	3.9
<b><u>Inequality</u></b>	<b><u>14.8</u></b>
of which	
Wage Inequality	6.8
Super Rich Inequality	3.4
Class Inequality (Profits)	4.6

# Complex timing

Contributions of Inequality to the Productivity-Wage Gap

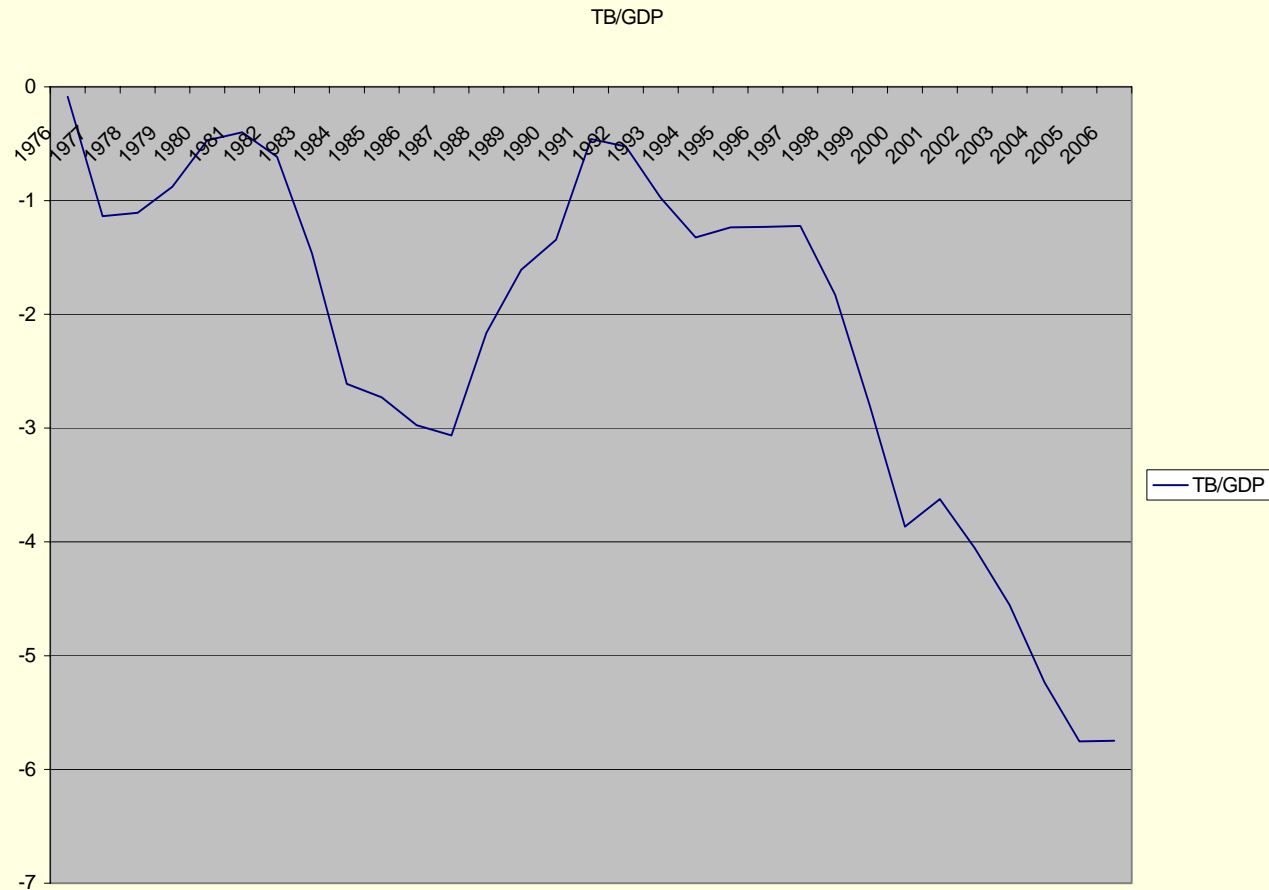


# II: Wage inequality

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- The debate among economists:
  - Trade versus skill-biased technical change.
  - (though also de-unionization, immigration, minimum wages).
  - Literature focused on period 1980 through 1995.
  - Major conclusion: Trade accounts for maybe 20 percent.  $0.2 * 6.8 = 1.4$  percent.
- **So without trade's impact over 25 years blue-collar wages would be 1.4 percent higher than they are today.**
- But let's look at recent experience:

# Big volume shock: ratio of trade balance to GDP

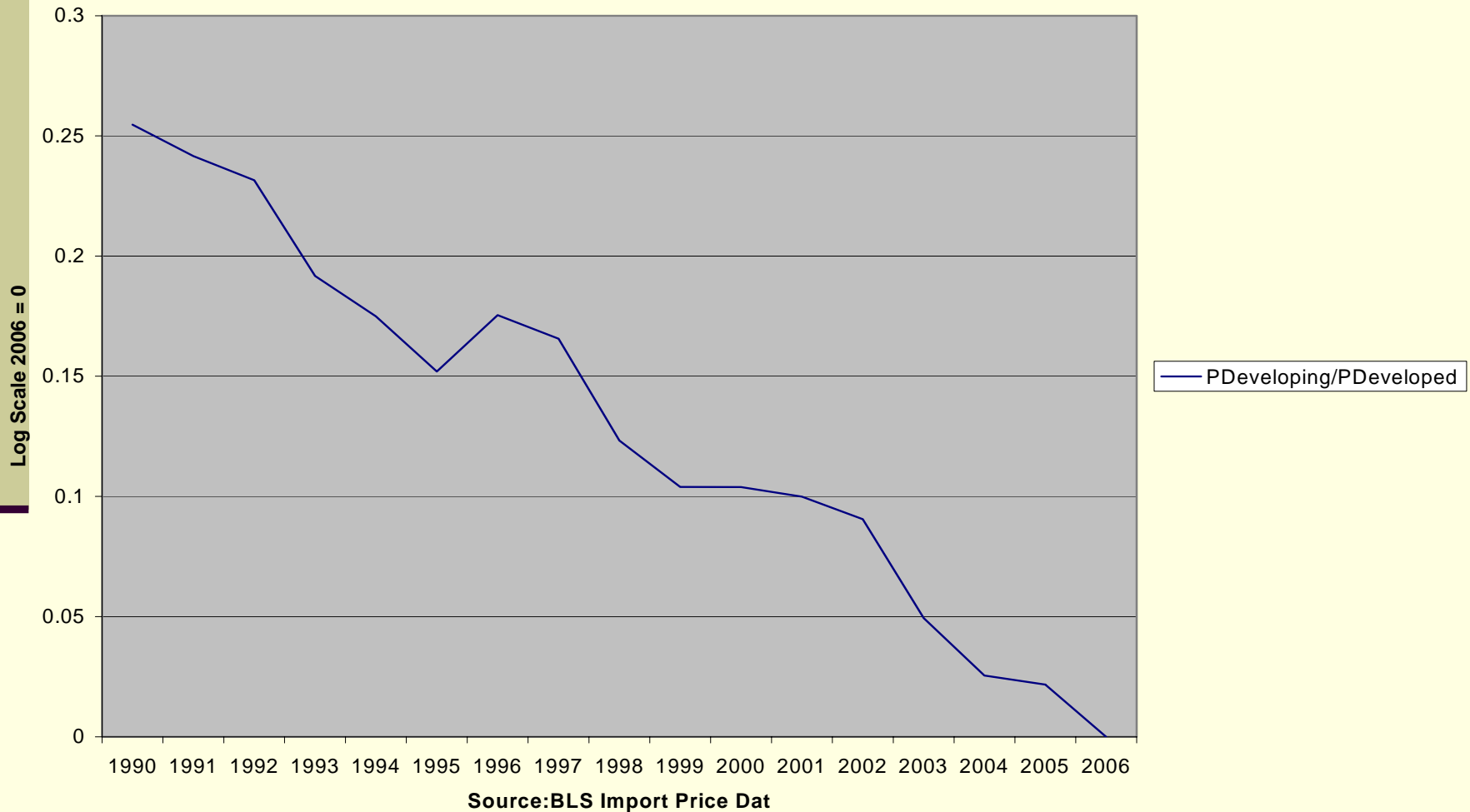


# Manufactured imports from developing countries: rapid growth

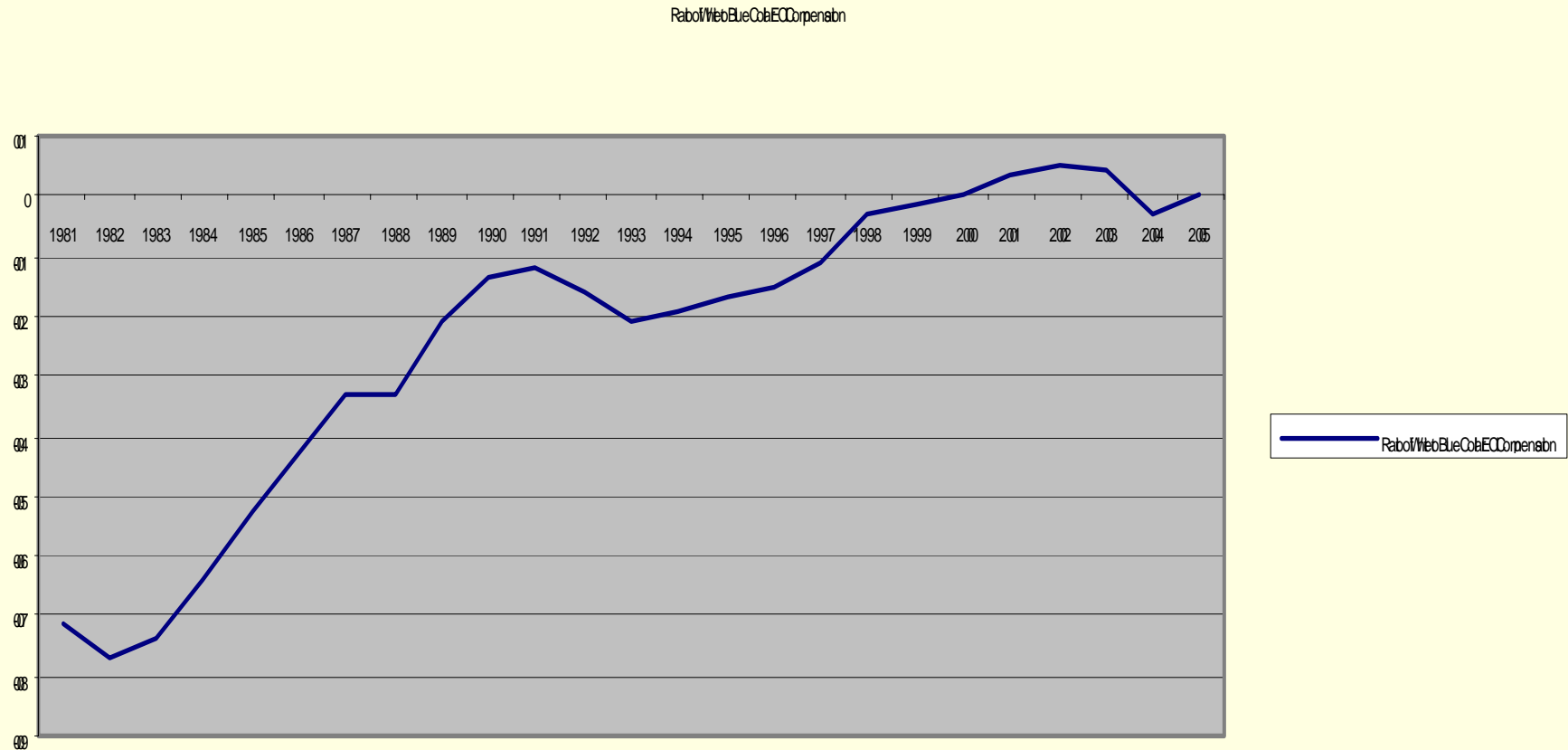


# Import prices of manufactured goods from developing countries falling relative to prices of imports from developed countries

Ratio of Manufactured Goods Import Prices

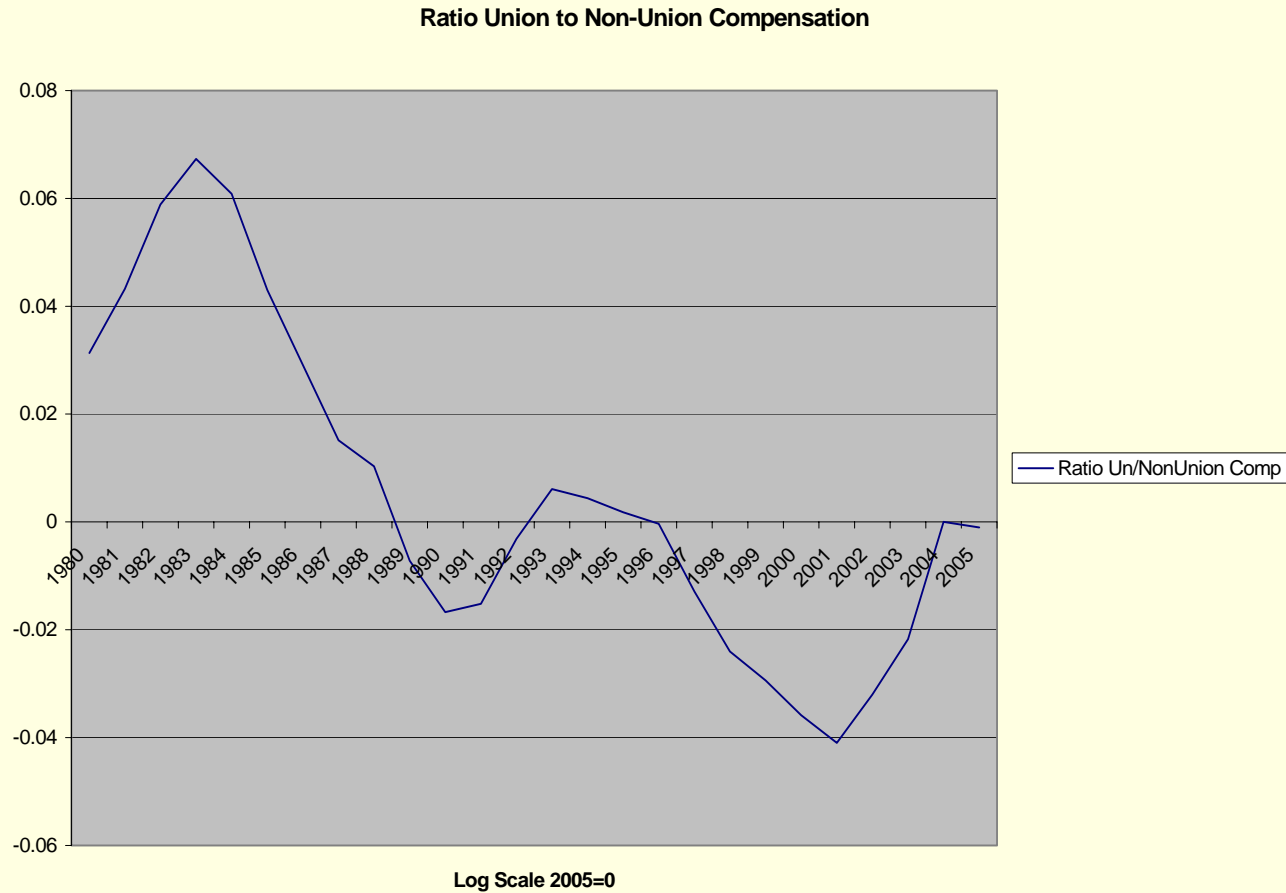


# Yet ratio of white- to blue-collar compensation: stopped rising!



Much of the wage inequality in the 1980s

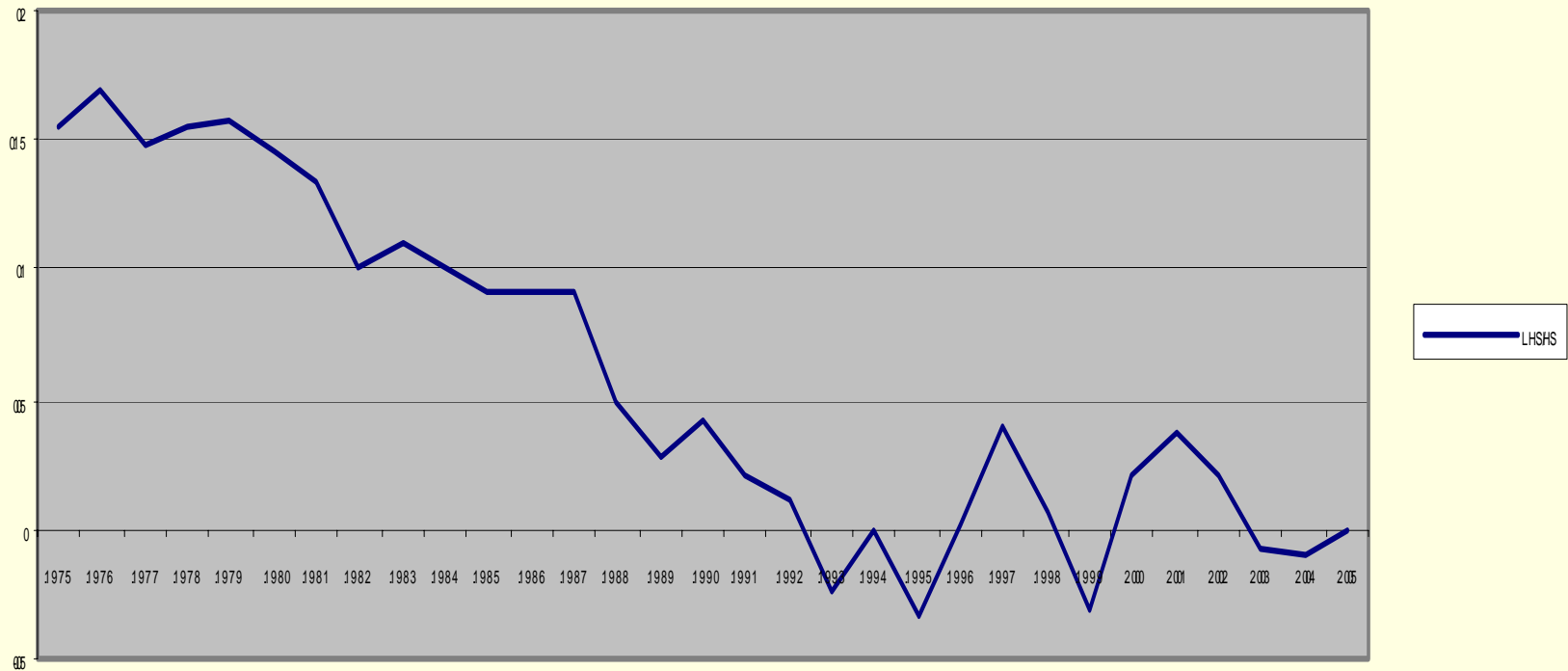
# Yet relative union compensation: stopped falling!



Union Wages: Actually Keeping Up

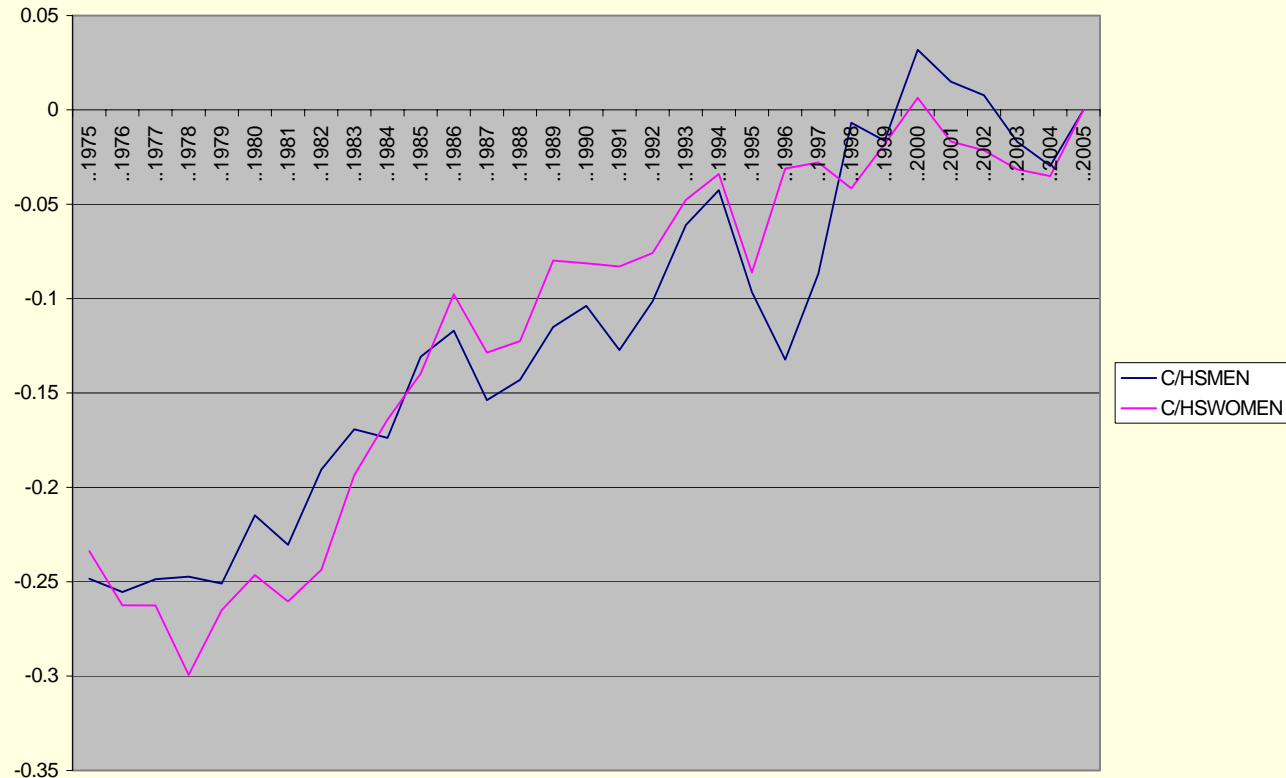
# Yet relative earnings of high-school dropouts: no longer falling

Ratio of Annual Earnings of Drop Outs to High School Graduates



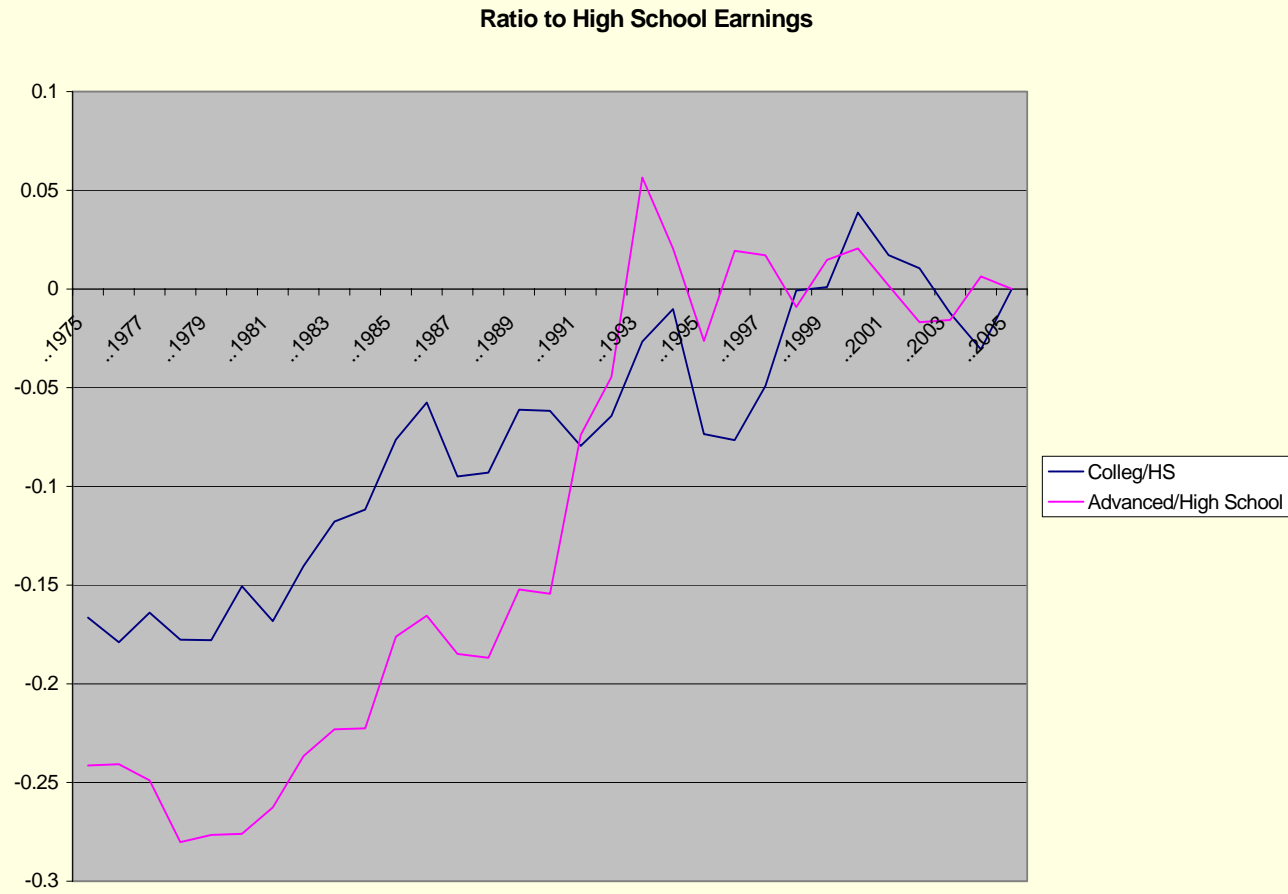
# Yet ratio of college–high school earnings—no longer rising

Ratio of College to High School Earnings



Source: Census

# Yet ratio of earnings of advanced degrees relative to high school diploma stable



# The globalization paradox: more trade yet little increased wage inequality

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## ■ (a) Complete specialization

- As globalization advances, many products are no longer produced in the United States. Thus we benefit from cheaper prices, and there is no pressure on wages.

## ■ (b) Skill-intensive imports

- Global production chains mean products from developing countries contain sophisticated components.

## ■ (c) Increased automation (factor-intensity reversal)

- Steel example: United States responded to international competition by automation and using more skilled workers. So while earlier steel imports displaced less educated workers, now they displace more educated workers.

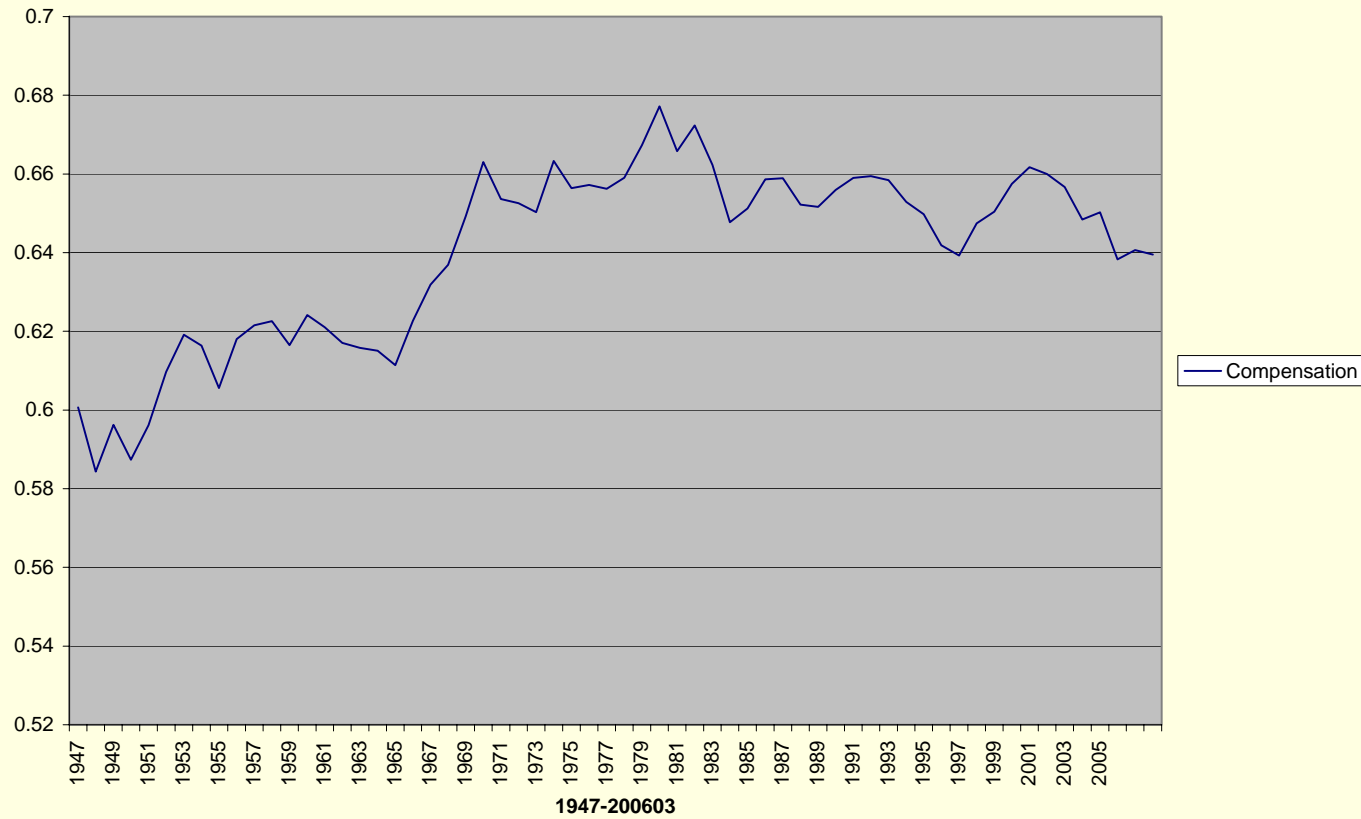
# Imports: not low wage if produced in United States

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- Manufacturing industries competing with imports pay wages 14 percent higher than national average.
- Estimates using input-output tables indicate that workers displaced by trade since 2000 have earnings and education levels similar to the rest of the labor force.

# III. Recent class inequality: globalization or cycle?

Compensation Share in National Income



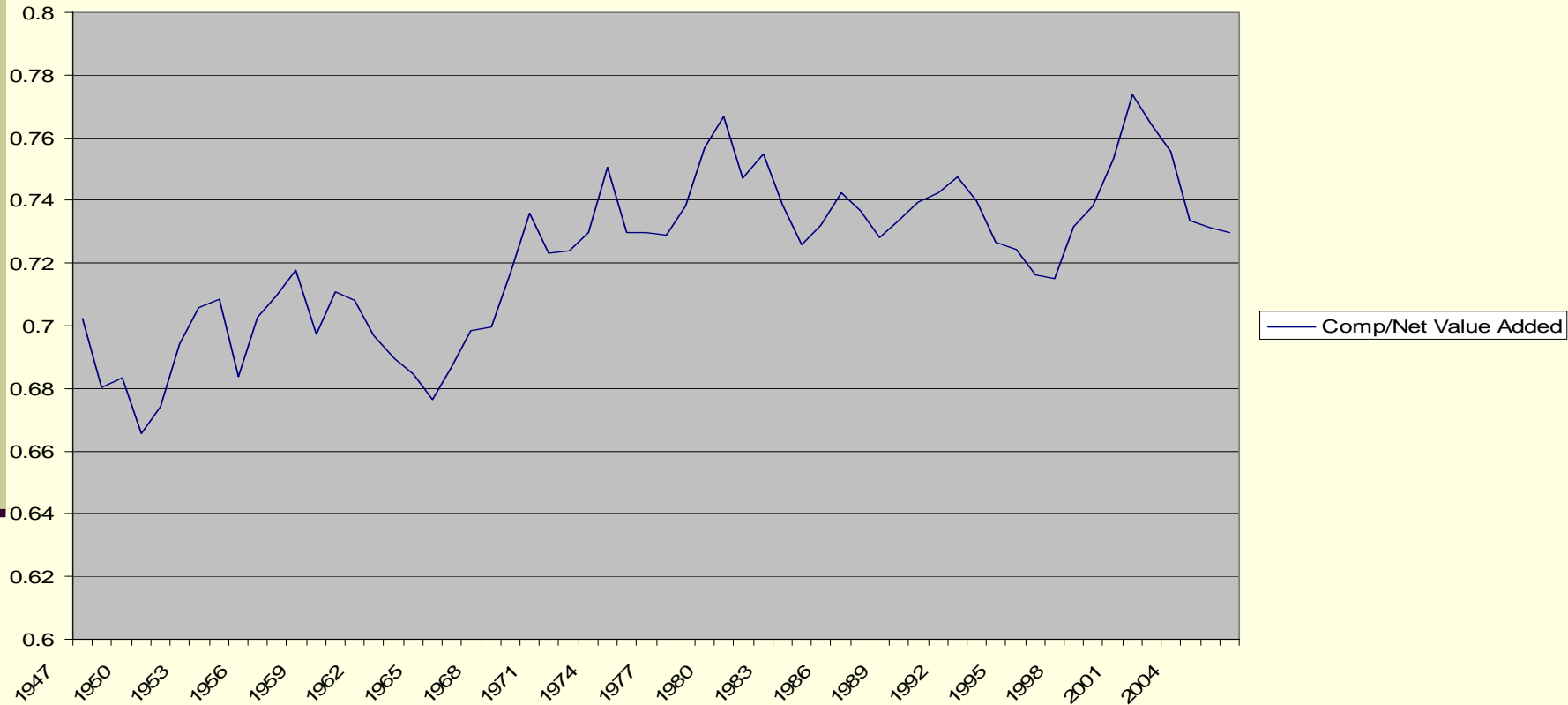
# Low share of compensation

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- (a) Share moves with cycle. 2006 share similar to 1997.
- (b) No long run decline in labor share in income.
- (c) Profit growth not concentrated in manufacturing but in finance.
- (d) Manufacturing compensation relatively strong until 2005.

# Class inequality: less in non-financial companies

Chart 14: Share of Labor Compensation in Net Value Added of Non-Financial Corporations



# IV: The super-rich

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CEOs “skimming” or perfect markets?

Close correspondence between super-rich and stock market. 1994 tax changes.

US multinationals. 1980 through 2000. Value-added in US parents increased at same rate as in foreign affiliates.

US Profits: Mostly made in the United States.

# US multinationals not increasingly globalized!

## Share of US Parents in Multinational Activity

	Value Added (millions)		
	Total	Parents	Share
1982	1019734	796017	0.78
1990	1364878	1044884	0.77
2000	2748106	2141480	0.78
2004	3040136	2215800	0.73

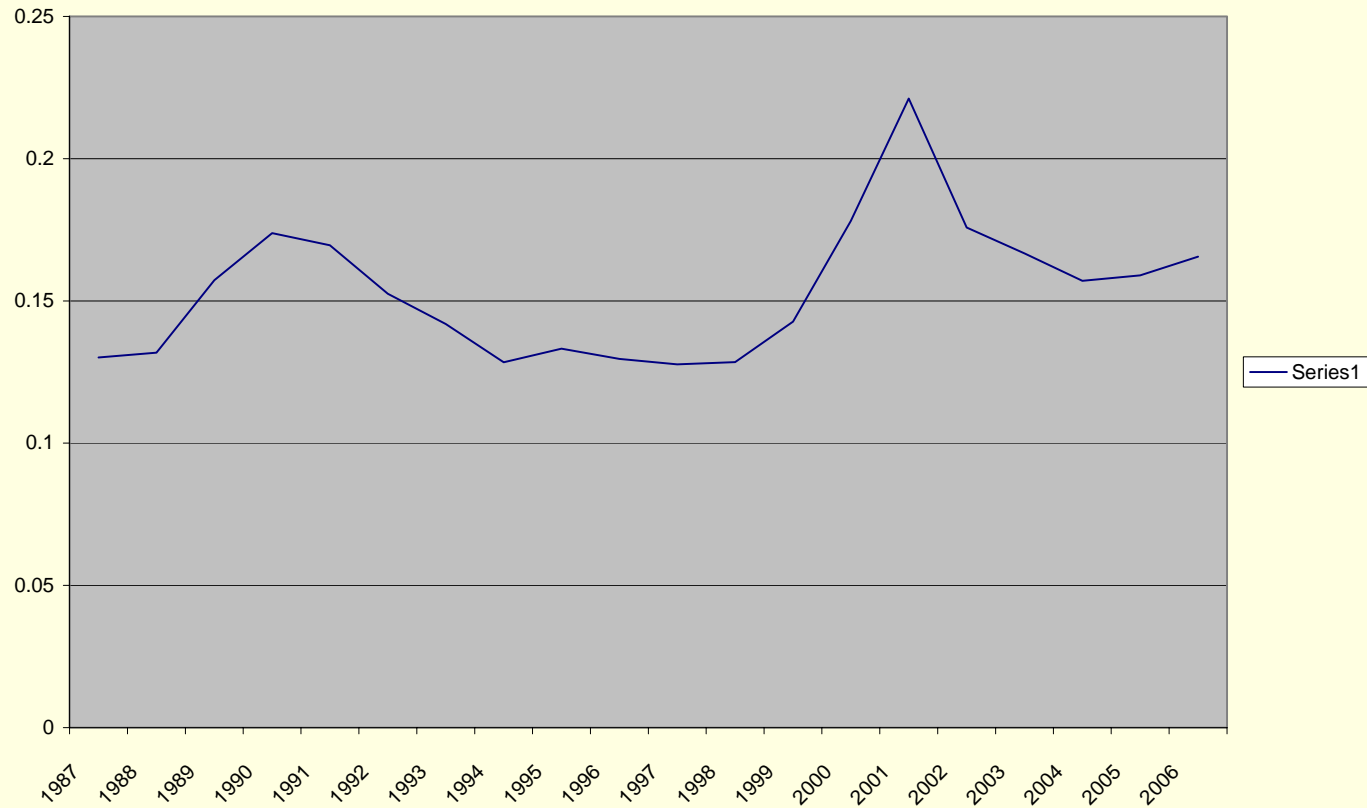
## Employment (1,000s)

	MOFA+PARENTS	Parents	Share
1982	23727	18705	0.79
1990	23785	18429	0.77
2000	32056	23885	0.75
2004	29995	21378	0.71

Source: Mataloni Raymond J and Daniel R Yorgas "Operations Of Multinational Companies" Survey of Current Business November 2006.

# Profits: made in the USA

Share of Corporate Profits from the Rest of the World



# Conclusions and implications

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- Very little recent wage inequality to be explained.
  - Super-rich inequality: mainly US.
  - Profits: cyclical and financial.
  - Dislocation: trade only part of the story.
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- Implications: Protection not the answer
    - Control health care costs to raise take-home pay.
    - Progressive tax system.
    - Broad adjustment assistance for workers regardless of reasons for displacement.