Testimony of

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Subcommittee on Workforce Protections
Of the United States House of Representatives

The Growing Income Gap in the American Middle Class

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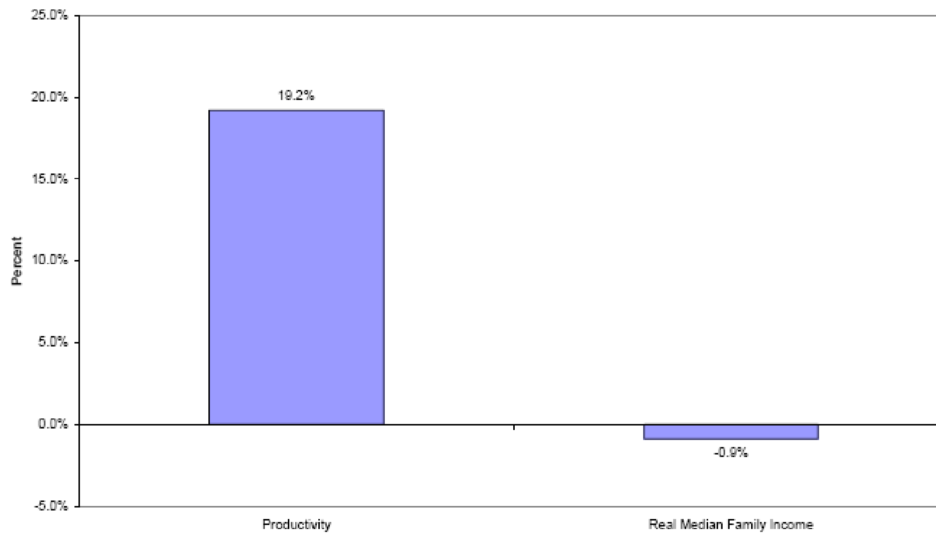
Inequality: Evidence, Causes, and Solutions

Chairman Miller, Ranking Member McKeon, I thank you for the opportunity to testify, and I commend the committee for targeting the critical challenge of economic inequality and the American middle class. In doing so, you are targeting what many economists and policy makers consider the most important economic challenge we face.

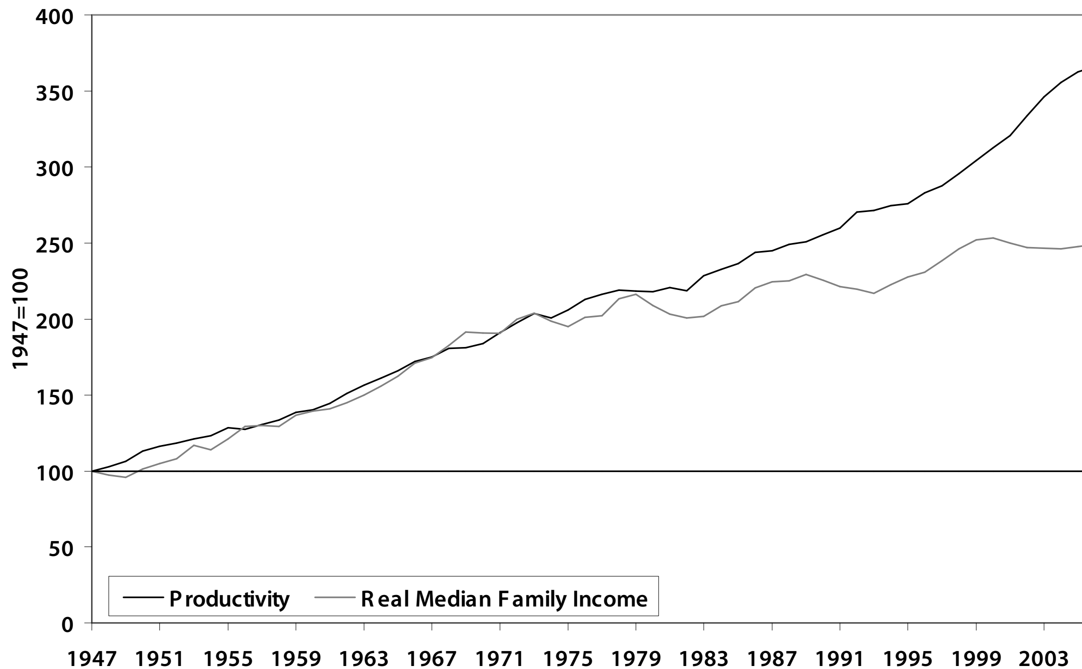
Of course, in the current American economy, challenges abound. We are faced with the aftermath of the bursting of a massive housing bubble, and the spillovers from that event are significantly constraining financial markets. The economy, while not officially in recession, is clearly weak in key sectors, most notably in the job market, where employment is down by about 440,000 jobs on net, and unemployment up about a point compared to one year ago to 5.5%. The underemployment rate, a more comprehensive measure of diminished job opportunities was 9.9% in June. These job market declines, in tandem with spiking prices driven by higher food and energy costs, are leading to real declines in compensation. Simply put, the paychecks of middle-income are falling behind these families' economic needs, and their living standards are sliding.

Though these problems are of recent vintage, and can to some extent be closely tied to the bursting of the housing bubble, they are also microcosm of the topic we are here to discuss today: the inequality of economic outcomes.

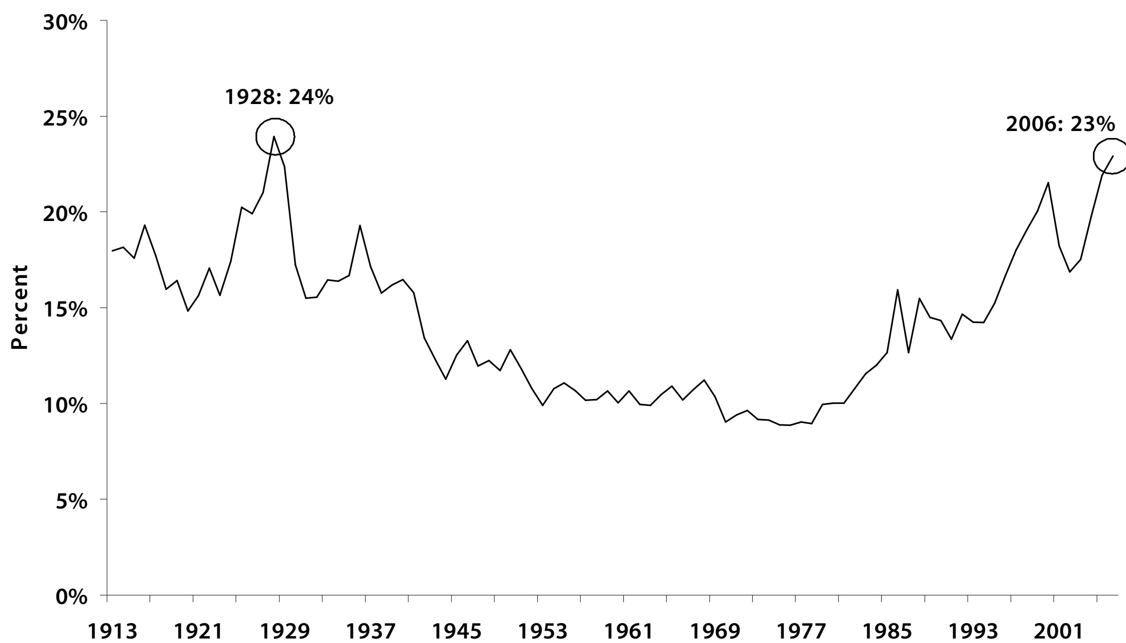
Figure 1 shows this relationship by plotting the productivity of the American workforce against the real income of the median family. While output per hour increase smartly in the 2000s, up 19%, real income for the typical family fell by about 1%. In fact, this split between productivity and median family income has been ongoing since the mid-1970s, and is regarding as one symptom of increasing inequality. When economic growth is concentrated at the top of the income scale, many families responsible for creating that growth will fail to reap its benefits.



This period stands in stark contrast to the first few decades of the post-WWII era, when, as shown in the next **figure**, productivity and median family income grew in lock-step, both doubling over these years. Clearly, the current era of rising inequality began in the mid-1970s, a fact that will be useful in diagnosing the problem later in this testimony.



Since committee staff has asked me to focus on causes and solutions, I will spend little time on the spate of statistics that document the increase in inequality. Those interested in such analysis should examine Chapter 1 of the book State of Working America, wherein myself and co-authors (Mishel, Shiersholz) present the evidence in great detail. Here, I will offer one very long term look at the issue, which tracks the share of national income held by the top 1%, including capital gains (an important component of income/wealth inequality), going back to 1913 (**Figure 3**). In 2006, most recent data point for this series, this share was 23% the second highest in the series. As the figure reveals, there was only one year with a higher share: 1928. Note also that the current share is twice that of the early 1970s.



Such evidence of historically high levels widely accepted. The causes, on the other hand, are hotly debated. And since appropriate solutions require accurate diagnoses, I will spend the rest of this testimony on causes and solutions.

Inequality: Causes and Solutions

Labor Earnings: Most commonly, increased inequality of labor earnings is attributed to technological change and the unmet demands of employers for skilled workers. Often, this explanation is discussed under the rubric of "skill biased technological change," or SBTC. Simply stated, the theory maintains that the production of the goods and services in the economy has become more complex, and employers need more highly skilled workers to undertake the necessary tasks. When the supply of such workers is low

relative to employers' demands for them, the relative wage—the pay of highly skilled workers compared to others—increases, i.e., wage inequality goes up.

In this sense, some economists view wage inequality as a race between technology and the supply of skilled workers. In periods when technological advances win that race, inequality rises, and visa-versa. Offsetting rising inequality in this framework requires an increase in the relative share of skilled workers, which, in the policy debate, usually translates into more college graduates with the skill sets that are complementary to the relevant technologies.

This common-sense explanation certainly makes sense and describes a relevant dimension of the problem, but it is too reductionist. By definition, if inequality is increasing in this model, skill deficits are to blame. Such analysis can only return one policy recommendation: more skilled workers, or, more precisely, raise the relative supply of college graduates. That is generally a good idea for any economy, since skilled labor is integral to a productive economy, but it cannot be the sole reaction to rising inequality.

First, we must recognize that 70% of today's workforce has less than a four-year college degree. Thus, unless we are willing to consign this majority to declining living standards, either relative or absolute (i.e., real income stagnation), simply pressing for higher skills is too narrow an agenda.

Second, in recent years, the college wage premium has actually been fairly flat, as shown in the table below. The values in the table are the wage advantage of college-education over high-school educated workers, controlling for the variety of factors noted above. The measure grew by about 14 percentage points over the 1980s, about half that much over the 1990s, and about zero in the 2000s. Thus, to the extent that wage inequality rose over the 1990s and especially the 2000s, it was increasingly a function of growing disparities within educational groups.

Regression-adjusted college premium

Year	Premium
1979	23.4%
1989	37.8%
2000	45.3%
2006	45.4%

Source: State of Working America, 2006/07

Heuristically, this might be understood be considering a school teacher, a mid-level office manager or HR director, a lower-level computer programmer, compared to an investment banker. All of these workers could be college-educated, but many faced stagnant earnings in recent years (the real college wage rose 2.5%, 2000-07, compared to 15%, over the 1990s), while others—the banker in our example—experienced large gains.

This is an example of "within-group" inequality growth, and it is less amenable to skill upgrading solutions.

Thus, while increasing the share of skilled workers is part of the solution, it is not the sole solution. It remains a critically important one, and I return to it below. But those interested in wielding policy to turn this inequality tide need also consider various mechanisms and institutions within our economy that have historically ensured that the benefits of growth are more broadly shared.

Capital Income:[1] Another important reason why the skills explanation is incomplete is that it refers largely to labor earnings, while non-labor, or capital income—profits, dividends, interest income, capital gains—has become an increasingly important component of rising inequality, particularly at the very top of the income scale.

Two trends have reinforced the increasing important role of capital income: 1) such income has become more concentrated among households at the top of the income scale, and 2) capital income accounts for a larger share of total income.

On the first point, the receipt of capital income has become much more concentrated over the last few decades, according to the data from the Congressional Budget Office. Whereas the top 1% received 34.2% of all capital income in 1979, their share rose to 58.6% by 2000 and rose further to 65.3% in 2005 (the latest year for these data). Thus, the top 1% roughly doubled its share of capital income between 1979 and 2005. Correspondingly, the share of capital income going to the bottom 90% declined from 36.7% in 1979 to just 15.1% in 2005.

Second, the economy, particularly the corporate sector (excluding government, non-profits, and proprietors) is now generating both higher returns to capital income (greater profits and interest), and this has expanded capital's share of total income. For instance, income such as capital gains, interest, and dividend income comprised 18.0% of personal market-based income in 1979 and 24.2% in 2007. This necessarily generates greater income inequality since, as the CBO reveal, most capital income is received by those who are well off.

Likewise, the share of income in the corporate sector going to capital income in the recent recovery was the highest in nearly 40 years: in the 2004-07 recovery capital income accounted for 22.3% of corporate income, a jump from its 19.2% share in the 1976-99 recovery. The share going to compensation was correspondingly at a low point. The resulting historically high returns to capital are associated with the average worker's compensation being 4.4% lower and the equivalent of transferring $206 billion dollars annually from labor compensation to capital incomes.

First, Do No Harm: All of the data and arguments presented this far are in regards to inequality from market outcomes, i.e., before taxes and transfers. And clearly, these

[1] This section is adapted from the forthcoming State of Working America, 2008/09, by Mishel, Bernstein, and Shierholz.

market outcomes have become much more unequal in terms of distribution. It is thus important not to exacerbate the problems we have with policies that further amplify market-driven inequalities. For example, changes since 2001 to the Federal tax code have worsened the distributional outcomes, by disproportionately lowering the tax liabilities of the wealthiest families.

Such regressive tax policies hurt most families both directly and indirectly. Directly, they exacerbate the already excessive inequalities in market outcomes (i.e., the pretax distribution). Indirectly, they diminish revenues such that the Federal government is less able to perform needed functions (without borrowing), many of which, like safety net policies, disproportionately benefit the least well off. While the direct impact of the regressive tax cuts has been extensively measured and is well-appreciated, this indirect effect—the defunding of public services that boost economic security of the least advantaged—is also important and problematic.

Beyond tax policy, other policy "sins of omission" have contributed to higher inequality. We have failed to strengthen workers' legal ability to organize, gutted investments in their skills and training, under-invested in our public infrastructure, or stood by as the employer-based systems of health coverage and pensions slowly unravel.

The following section briefly suggests policies to proactively push back against the trends toward greater inequality.

Reconnection Growth and Living Standards of Middle and Lower Income Families[2]

These policies can be grouped into four categories, bargaining power, macro conditions, safety nets, and investments in human and physical capital.

Bargaining Power: The inability of most workers' to bargain for a greater share of the value they're adding to our economy is at the heart of the various gaps documented above. Historically, a broad set of policies and norms, including unions, minimum wages, defined-benefits pensions, and health care provisions, helped to lift workers' ability to bargain, and were thus associated with more broadly shared prosperity.

Many factors have eroded these institutions and norms. Global competition clearly has strong upsides, as the increased supply of goods and capital has lowered prices and interest rates. But this same increased supply has hurt the bargaining power of many workers in this country, particularly those with less than a college education. Indeed, recent trends in the offshoring of white collar work are reducing the bargaining power of more highly educated workers as well.

Unions play a key role in precisely this area. Research reviewed in Mishel et al (2007, table 3.37) shows that the decline in union density explains one-fifth to one-half the

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[2] Some of this section originally appeared in earlier testimony (http://www.epi.org/content.cfm/webfeatures_viewpoints_testimony_20080213) though I have updated some of the analysis.

increase in male wage differentials over the past 25 years, and union wage premiums remain highly significant, even after controlling for human capital and observable characteristics.

The decline in unions is partly a mechanical function of the loss of jobs in unionized industries, like manufacturing, but the more important explanation is the very unbalanced playing field on which unions try to gain a foothold. In fact, Freeman (2007) argues that slightly more than half of the non-union workforce would like some type of union representation, a finding that is not particularly surprising given the divergence of incomes and productivity shown above.

The problem here is that the legal and institutional forces that have historically tried to balance the power of anti-union employers and their proxies have significantly deteriorated in recent decades, as described by Shaiken (2007). One legislative solution is the Employee Free Choice Act (EFCA), a bill that helps to restore the right to organize in the workplace. A central component of EFCA is so-called majority sign-up or "card-check," which gives the members of a workplace the ability to certify a union once a majority sign authorizations in favor the union. The law also puts much needed teeth back into labor law by ratcheting up the penalties for those who violate the rights of workers trying to organize or negotiate a contract.

Macro-Economic Conditions: Full employment—a tight match between labor supply and labor demand—is another important criterion for reducing the gap between overall growth and living standards of working families. Historically, very low unemployment rates have also been a key contributor to workers' bargaining power, ensuring that employers needed to bid compensation up to get and keep the workers they needed in order to meet the demand for their goods and services.

We do not need to look back too far in time to corroborate such assertions, as the latter 1990s was a period of uniquely low unemployment in the context of the last few decades (unemployment was 4% on average in 2000). Overall poverty fell by 2.5 points, 1995-2000, but declines among minorities that were more than twice that magnitude. In the 2000s, though unemployment did fall to the mid-four percent range at its lowest, job markets were never as tight, job creation was much weaker, and poverty was higher at the end of the cycle than at the beginning.

Such trends are not at all unique to the 1990s cycle: longer term analysis confirms the result. For many of the years over the period 1949-73, the unemployment rate was actually below the so-called NAIRU: the lowest unemployment rate considered to be consistent with stable prices.[3] Recall from Figure 2, however, that this was the period when real median family income grew in step with the overall economy. Conversely, over the post-73 period, the labor market was often slack, as unemployment was higher than the rate associated with full employment. As has been shown, middle-incomes grew much more slowly over these years and inequality increased.

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[3] NAIRU is an acronym for non-accelerating rate of unemployment. These findings are described in Bernstein (2007a).

Of course, the conventional response would be that inflation must have grown more quickly over the earlier period, when job markets were especially tight but, in fact, the opposite is true. Even controlling for the steep inflation of the latter 1970s, inflation actually grew more slowly when the job market was "tight than recommended," at least based on the NAIRU criterion. We relearned this lesson in the latter 1990s, also a period of decelerating price growth, even while the unemployment rate was headed for 30-year lows.

In order to take a closer look at the benefits of full employment, and the costs of its absence, the next table examines these dynamics from the perspective of African-American median income. I take advantage of the Congressional Budget Office's series of the so-called "natural rate" of unemployment (the rate associated with stable price growth). By comparing this rate to the actual unemployment rate, we have a measure of whether the job market was above or below full employment (i.e., slack, meaning lots of job seekers and too few jobs, or taut, meaning the a tight match between the number of workers and the number of jobs).

The first column of the table accumulates the annual percentage-point differences over the two time periods. Thus, if CBO's natural rate was 5% and the actual jobless rate was 4.5%, this would show up as a -0.5 percentage point in the analysis. Between 1949-73, the unemployment rate was often below the "natural rate," cumulatively 19 percentage points. This happens to be about the same number of points that unemployment was above this rate in the latter period. In other words, in the first period, job markets were typically much tighter than in the second period.

When job markets were much tighter—when the unemployment rate average 4.8%—the incomes of black families grew at an average annual rate of 3.7%, compared to less than 1% in the latter period, when unemployment average 6.2%. Of course, many other factors were in play here. As shown above, every group's income grew more slowly in the latter period. The early progress of blacks grew off of a very low base, making it easier to post large percentage gains. Also, a larger share of black families was headed by single parents in the latter period, and this too contributed to the income slowdown. But less favorable job market conditions surely played an important role as well.

The last column in the table is offered to rebut the commonly heard caveat regarding tight job markets: they generate unacceptably high levels of inflation. This simple comparison shows that inflation was lower when job markets were much tighter, contradicting the simple story. Clearly, tight labor markets, persistently below the supposed natural rate, have been associated with much better income growth for African-American families.

Full Employment, African-American Family Income, Unemployment, and Inflation, 1949-2006

	Cumulative Points Below or Above Full Employment	Real Annual Growth, Median Income, Afr-Am Families	Average Unemployment	Inflation*
1949-73	-19.1%	3.7%	4.8%	2.4%

1973-2006	20.7%	0.8%	6.2%	3.7%

* Post-73 comparison leaves out 1979-82 to avoid upward bias. Including these years gives an average of 4.3%.

Sources: CBO NAIRU estimates; Census Bureau, median family income (RS deflator); BLS, unemployment; BLS, CPI-RS deflator.

In this regard, the 2000s were an important reminder of the impact on minorities of less then full employment. Interestingly, once the jobless recovery ended in the fall of 2003, the job market over this cycle was roundly praised by many commentators, mostly with reference to the low unemployment rate. But employment growth was weak over this recovery, and the low unemployment rate partially masked other problems (like declining employment rates) that depressed the bargaining power of minority workers.

The policy levers here, at least in normal times, i.e., outside of recessions, rest mainly with the Federal Reserve, but Congress can also play an important role which I discuss below under the rubric of investment policy.

Safety Nets: Historically, working families in our country have depended on employers to provide health care and pensions, but it is not an exaggeration to observe that this system of employer-based coverage is slowly unraveling. A slow but undeniable shift is occurring, as the economic risks associated with illness and aging out of the workforce are shifting from employers to workers. This shift is not simply affecting the least skilled workers, but, as Gould (2007) shows in the area of employer-based health coverage, it is reaching workers at all wage and skill levels. In the area of pensions, the shift from defined benefits (a guaranteed pension) to defined contribution has been at the heart of the process of shifting risks from firms to workers.

These shifts have motivated a vibrant debate regarding reform of our health care system. Such reform is especially urgent given the realization that the rate of increase in health spending in both the public and private sector is unsustainable. But this debate also has considerable bearing on the inequality debate, since the distribution of health care coverage and even outcomes have increasingly been skewed in a similar manner to other economic variables discussed thus far.[4] And in this regard, certain types of health care reform, such as “pay or play,” or single payer models, could also involve considerable redistribution from the with above average care to those with less (or no) coverage. Similarly, the lack of savings preparedness among many persons approaching retirement (see Weller and Wolfe, 2005) and the shift from guaranteed pension underscores the need for pension reform as well.

It is beyond my scope here to review these plans. I refer interested parties to EPI’s Agenda for Shared Propserity, an initiative by our institute to elaborate in some detail the best plans for meeting these challenges. I raise these issues in the context of this

[4] http://www.epi.org/content.cfm/webfeatures_snapshots_20080716.

testimony because in this era of increasing inequality, health and pension coverage, especially through the job, are eroding, even as the economy expands. As ongoing technological change, globalization, and the lost bargaining power of many in the workforce have led to trends documented above, employers have been in the process of backing off their historical commitments to their workforce in many ways, including these types of coverage. And of course, the least advantaged workers rarely had such coverage to lose in the first place.

The inequality data along with information on profitability reveal that it is not for lack of resources that firms have been cutting back on health and pension coverage, although rising health costs can and should also be viewed as a competitiveness issue. Instead, it is yet another symptom of the unbalanced nature of growth in the current economy, as wealth flows upwards and risks flow down.

As these policy debates unfold, I urge the committee to view the issue of health care and pension reform as one that is intimately related to the findings regarding incomes, wages, and inequality in the first section of my testimony. By helping to provide workers with access to health care and pensions, we take a huge step towards improving job quality and blocking the ongoing risk shift.

Finally, given the changes in the structure of work and the demography of the workforce, our nation's Unemployment Insurance system is also in need of reform and modernization. The Unemployment Insurance Modernization Act, already passed by this chamber, would make such changes, including providing benefits to both part-time workers and those who leave their jobs for compelling family reasons. The bill also accounts for shorter job tenures by considering a worker's most recent work history when determining eligibility for UI benefits.

Investments in Human and Physical Capital: The emphasis in this section thus far has been more towards creating good jobs than on improving the skills of workers. That "demand-side" emphasis is important, because, as noted earlier 70% of the workforce is non-college educated, and we must have a strategy for improving the quality of all jobs, not just those for workers with high levels of education. Similarly, regardless of skill levels, all workers will benefit from more effective and efficient safety nets.

But it's also critical to invest in the skills of the workforce of both today and tomorrow. Unfortunately, our budgetary priorities have been moving in the opposite direction, as federal budgets over the past few decades have shortchanged training programs. Eisenbrey (2007), for example, shows that Federal investment in employment services and training is down about $1 billion in real terms since 1986 (from about $6 to $5 billion, 2006 dollars) even while the workforce has grown in size considerably over those years. The result is a decline in the budget for worker training and services from $63 to $35 per worker, in 2006 dollars.

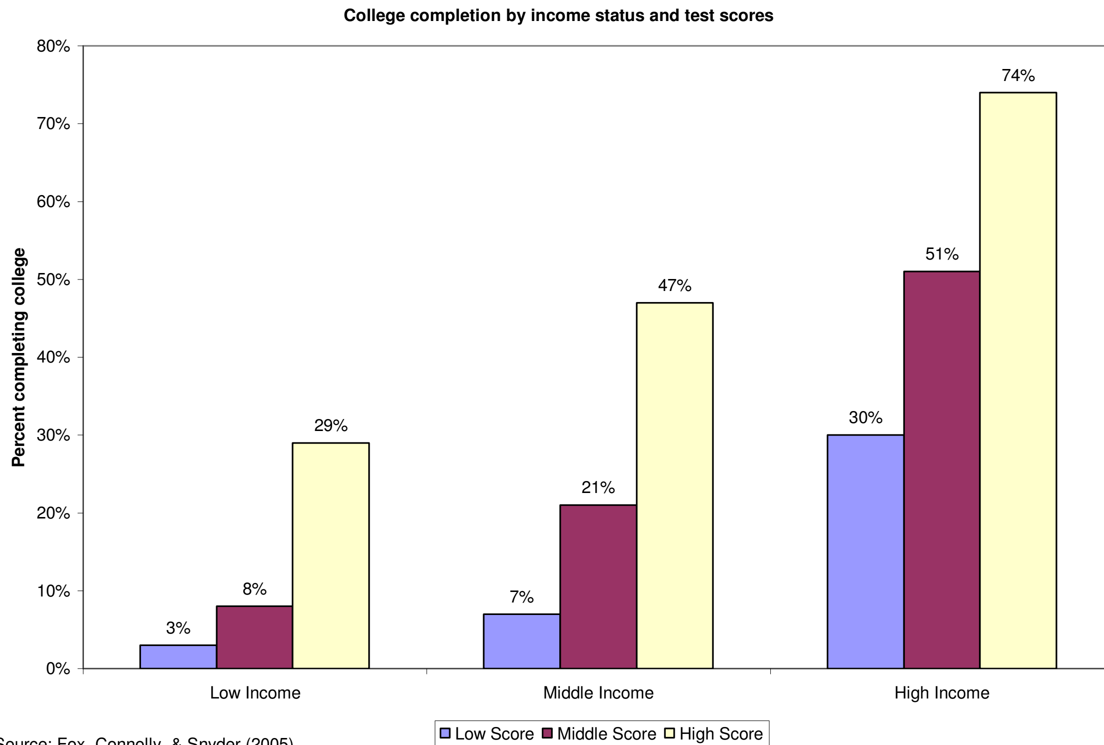
According to the Coalition for Human Needs (2008) analysis of Congressional appropriations for a number of training programs, real declines have occurred in a

number of job training programs between FY05 and FY08. Spending on both adult (-12%) and youth training (-14%) through the Workforce Investment Act are down, as are dislocated worker training (-9%) and adult basic education (-12%).

As Savner and Bernstein (2004) discuss, one reason this disinvestment is misguided is that recent initiatives in worker training have shown considerable promise relative to earlier, less effective approaches. Our analysis was partly motivated by the evident limitations of work-first policies, i.e., programs that placed workers in jobs with little attention to job quality or career opportunities. In reaction, there has been a growing emphasis on programs designed to help job seekers prepare for good jobs and advance to careers. As we wrote:

"This new generation of programs shares several key elements. First, they're grounded in extensive knowledge of the local labor market, focusing on occupations and industries that offer the best opportunities for advancement. Second, they help workers access education and training at community colleges, community-based training programs, and union-sponsored programs that work with employers to design curricula based on the skills that employers actually need. And third, they provide access to remedial services -- often referred to as "bridge" programs -- so that people who have weak basic skills can prepare for postsecondary-level programs."

Savner and I also recognized that even the best training programs will not work when the jobs aren't there. There will always be disadvantage localities beyond the reach of even the strongest macroeconomic booms, and neither full employment in the rest of the economy nor the most integrated training program will help. In these cases, we advocate the creation of public-service jobs to keep people gainfully employed, drawing on the successful experience of transitional jobs programs that have sprung up around the country using public funds to create work for people struggling to get a foothold in the labor market.



Of course, educational disadvantages begin well before most people reach the workforce. Income inequality itself is a factor, preventing children's whose abilities should lead to higher academic achievement, but whose income class blocks their opportunity. Figure 4 shows that even once we control for academic ability, it remains the case that higher income children are more likely to complete college. Each set of bars shows the probability of completing college for children based on income and their math test scores in eighth grade. For example, the first set of bars, for the students with the lowest test scores, shows that 3% of students with both low scores and low incomes completed college, while 30% of low-scoring children from high-income families managed to complete college.

The fact that each set of bars has an upward gradient is evidence against a meritocratic system. The pattern implies that at every level of test scores, higher income led to higher completion rates. The third set of bars, for example, shows that even among the highest scoring students in eighth grade, only 29% of those from low-income families finished college, compared with 74% of the from the most wealthy families. In fact, this 29% share is about identical to the completion rates of low-scoring, high-income students (30%), shown in the first set of bars. In other words, high-scoring, low-income children are no more likely to complete college than low-scoring, wealthy children.

Such barriers to higher education revealed in these last two figures are costly in terms of reduced mobility. Recent research by mobility analysts at the Brookings Institution revealed that among those who lived as children in the lowest income families, college completion was strongly associated with leaving the bottom fifth in adulthood: 16% of

those with a college degree remained low-income as adults, compared to 45% without college. Similarly, 54% of high-income children who completed college were high-income adults. But less than half that share—23%—without a college degree managed to maintain their top-fifth status. That is, 77% of the children who grew up in top-fifth families but failed to complete college, fell to lower income classes as adults.

Though much recent educational policy has stressed accountability and standards, these results should serve to remind us that education policy designed to offset inequality also needs to be concerned with access to educational opportunity. Students with the cognitive strengths to achieve higher educational completion are too often blocked by income constraints, and the costs of such barriers in terms of diminished mobility are very high indeed.

Along with human capital, investments in public physical capital should also be considered. Though such ideas are not typically discussed in the context of inequality, I raise them as such here, because I believe they are an important complement to the macroeconomic discussion above. The reality of a recession-like contraction in the job market means that the bargaining power associated with tighter labor markets is conspicuously absent. As such, workers wages and compensation are falling in real terms, due to slower wage growth and fewer hours of work (faster price growth is also a major factor for real wage losses in the current context). In this regard, investment in public infrastructure can be considered one way to generated much needed labor demand and jobs for those falling behind.

Three facts motivate this contention. First, American households are highly leveraged, and may well be poised for a period of enhanced savings and diminished consumption. In this context, public investment should be viewed as an important source of macro-economic stimulus and labor demand—the creation of new, and often high quality jobs—which is clearly lacking from our current labor market.

Second, there are deep needs for productivity-enhancing investments in public goods that will not be not made by any private entities, who by definition cannot capture the returns on public investments in roads, bridges, waste systems, water systems, schools, libraries, parks, etc. Three, climate change heightens the urgency to make these investments with an eye towards the reduction of greenhouse gases and the conservation of energy resources.

One area of particularly significant job loss has been in construction. Jobs in residential building and contracting are down 480,000 over the past two years, and when we include other jobs related to housing, such as real estate, we find a decline of over 600,000 jobs since June 2006. In other words, there exists considerable labor market slack that will certainly deepen if the economy is in or near recession.

In this regard, infrastructure investment serves a dual role of deepening on investments in pubic capital while creating good jobs for workers that might otherwise by un- or underemployed. One common argument against such investment in the context of a

stimulus package is that the water won't get to the fire in time, i.e., the implementation time lag is too long to quickly inject some growth into the ailing economy. However, research by EPI economists has carefully documented current infrastructure needs that could quickly be converted into productive, job-producing projects (Mishel et al, 2008).

Take, for example, the August 2007 bridge collapse in Minneapolis. The concrete for the replacement bridge began flowing last winter, and the bridge is now halfway done, with full completion expected by December. The American Association of State Highway and Transportation Officials claim that according to their surveys, "state transportation departments could award and begin more than 3,000 highway projects totaling approximately $18 billion within 30-90 days from enactment of federal economic stimulus legislation."[5]

The following are other relevant examples identified by these researchers:

- There are 772 communities in 33 states with a total of 9,471 identified combined sewer overflow problems, releasing approximately 850 billion gallons of raw or partially treated sewage annually. In addition, the Environmental Protection Agency (EPA) estimates that between 23,000 and 75,000 sanitary sewer overflows occur each year in the United States, releasing between three to 10 billion gallons of sewage per year.
- According to a survey by the National Association of Clean Water Agencies, communities throughout the nation have more than $4 billion of wastewater treatment projects that are ready to go to construction, if funding is made available. Funds can be distributed immediately through the Safe Drinking Water and Clean Water State Revolving Funds and designated for repair and construction projects that can begin within 90 days.
- The National Center for Education Statistics (NCES) put the average age of the main instructional public school building at 40 years. Estimates by EPI find that the United States should be spending approximately an [additional] $17 billion per year on public school facility maintenance and repair to catch up with and maintain its K-12 public education infrastructure repairs.
- According to a 1999 survey, 76% of all schools reported that they had deferred maintenance of their buildings and needed additional funding to bring them up to standard. The total deferred maintenance exceeded $100 billion, an estimate in line with earlier findings by the Government Accounting Office (GAO). In just New York City alone, officials have identified $1.7 billion of deferred maintenance projects on 800 city school buildings.
- The U.S. Department of Transportation has identified more than 6,000 high-priority, structurally deficient bridges in the National Highway System that need to be replaced, at a total cost of about $30 billion. A relatively small acceleration of existing plans to address this need—appropriating $5 billion to replace the worst of these dangerous bridges—could employ 70,000 construction workers,

[5] http://www.transportation.org/news/96.aspx

stimulate demand for steel and other materials, and boost local economies across the nation.

- The House Committee on Transportation and Infrastructure has identified more than $70 billion in construction projects that could begin soon after being funded. An effective short-term stimulus plan could include resources directed at projects for roads, rails, ports, and aviation; only projects that can begin within three months would be considered.

Finally, while I have discussed these infrastructure needs in the context of recession and stimulus, it is important to recognize that a) these are all necessary and productivity-enhancing investments that should be made regardless of the state of business cycle, and b) recent history suggest that it is a mistake to think that labor market slack will no longer be a problem when the recession officially ends.

This last point deserves a bit of elaboration. Much of the current recession/stimulus debate has stressed that recent recessions—the ones in 1990-91 and 2001—were both mild and short-lived, and perhaps the next recession will follow the same pattern. It is critical to recognize that these claims are based solely on real output growth, and not on job market conditions. The allegedly mild 2001 recession, wherein real GDP barely contracted, was followed by the longest "jobless recovery" on record. Though real GDP grew, payrolls shed another net 1.1 million jobs. The unemployment rate rose for another 19 months and for just under two years for African-Americans. The pattern was similar, though not quite as deep, after the early 1990s recession.

Part of the explanation for this disjuncture has to do with the way recessions are officially dated by the committee at the National Bureau of Economic Research, as they have apparently given less weight to the job market and greater weight to output growth. But policy makers are likely to give greater consideration to working families whose employment and income opportunities are significantly weakened as unemployment rises and job growth contracts. Thus, from a stimulus perspective, these investments will be still be relevant well after the recession is officially ended.

Conclusion

The existence of historically very high levels of income concentration in the American economy is well documented. While there is certainly debate about the causes of this trend, one factor widely agreed upon is education, in that skilled workers clearly have a large and growing wage and income advantage over less skilled workers. But other factors, including weakened distributional institutions, the absence of full employment, and deficient safety nets and investment are also problematic. At the same time, changes in tax policy have exacerbated inequalities that are already being driven up by imbalanced market outcomes.

I have elaborated ways to strengthen the mechanisms which historically have been called upon to ensure a fairer distribution of the fruits of growth. I recognize that many of these steps are ambitious, such as creating greater access to higher education by economically

disadvantaged children. Others, such as tight labor markets or infrastructure investment, cut across many committees in Congress and even across government institutions, like the Federal Reserve.

Such an ambitious agenda is necessary, if we are to accomplish what must be a foremost goal of public policy: the reconnection of growth and living standards. The existence and expansion of this gap strikes at the heart of our core economic values, such as the belief that working families' living standards should reflect their contribution to the economy's growth. Every year that productivity rises, but middle incomes stagnate, poverty increases, and children are blocked from the opportunities to realize their potential, is another year in which the basic American economic contract is broken. I commend the committee for investigating this serious problem and look forward to working with in any way that would to helpful to fix it.

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