CAN EDUCATION REDUCE INCOME DISPARITIES?

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ABSTRACT

The U.S. has the most unequal income distribution among the developed nations and the income disparities are increasing. They will likely lead to an increasingly polarized political landscape that needs to be addressed as a matter of policy and principle. There are wide disagreements as to what measures could possibly decrease income disparities but education has been widely regarded as a useful tool. The thesis addresses globalization and its effects on the American life and society, factors influencing income disparities, and how education and other policy measures could reduce income inequality. Income inequalities are influenced by various factors, including technological change, globalization, demographics, and social factor. Education is currently the strongest policy instrument in the U.S. to address income disparities because it has wide political support as providing the principal means of upward social mobility and opportunity to all. The past history also shows that education has helped reduce income disparities, or at least slowed down the increases. The current Administration has established a strong education policy that combines actors and measures from both the public and private sectors. The main elements of the education reform are the improvement of the quality of education, accountability and efficiency, higher completion rates in high school and college, and broader access to post secondary education. Education is not, however, sufficient by itself to structurally change income distribution. Other strong policy measures are, however, not politically feasible because the American public and policymakers remain divided on how much government should influence income distribution. This is reflected on
their views on the effectiveness and desirability of redistributive policy measures such as progressive taxation, transfers, and other social policy measures. Therefore, the educational efforts are the most important policy measures in the coming years, but not necessarily by their greater impact but by virtue of political feasibility.
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CHAPTER 1
INTRODUCTION

Increasing income disparities have been a constant phenomenon in the U.S. in the last two decades: currently the U.S. has the most unequal income distribution among the developed nations. Reasons for increasing disparities that have been cited include technological change and globalization, including international trade, changing demographics, social change, and deliberate policy decisions. Globalization and attendant changes in the U.S. industrial structure have favored the educated and skilled workers who have earned premium wages. On the other hand, unskilled workers with lower educational attainment have seen their wages and benefits erode.

Increasing income disparities are considered by many to be a serious societal issue that will likely lead to an increasingly polarized political landscape and that needs to be addressed as a matter of policy and principle. However, there are also other observers who think that increasing income disparities are a normal and welcome phenomenon of the market economy that can motivate people to try harder. There are also wide disagreements as to what measures could possibly decrease income disparities; but education has been widely regarded as a tool that could possibly have a significant effect on incomes. Claims have been made that over the past few decades education in the U.S. has not kept pace with the technological change and the demand for skilled workers in the economy. Economists Claudia Goldin and Laurence Katz argue that lack of educated workers led to increasing income disparities during the last quarter of the 20th century, and increasing the quantity and quality of educated workers would reverse that trend. From that vantage point, the increase of college educated workers would be a key objective for the U.S. educational system.
In this thesis, I focus on the relationships between the growing income disparities in the U.S. labor market, globalization, technology change, and educational attainment. The relationship is complicated by a polarization of income levels and fundamental changes in the U.S. economy: America is moving from manufacturing jobs to services and the jobs no longer last for a lifetime but are more transient and changing. The sociologist Saskia Sassen argues that globalization, erosion of workers’ gains in manufacturing, and the general shift to a service economy has increased the share of low-wage jobs and the overall result is an increased income polarization; in other words, an increase of low- and high-wage jobs and a diminishing middle class. Sassen has also introduced the term global cities, defined as world command centers for multi-national corporations that have production across the world, for instance New York City and Los Angeles. She claims that centers like these are becoming increasingly detached from the rest of the economy and will follow a logic of their own.

Louis Jacobson and Christine Mokher have looked at high school students in Florida and conclude that higher education is associated with higher earnings, even after a two-year college. They have also concluded that high school preparation is a key indicator on academic attainment. However, they have noted that education also strengthens the existing differences since students from low-income families are underrepresented at every stage of the education, and the underrepresentation increases the higher one goes towards a four-year college degree. Moreover, some authors such as Richard Arum and Josipa Roksa fear that the current educational system does not produce those skills that are needed in the labor market; the U.S. Chamber of Commerce has also made the same point. Therefore, education would not necessarily have a positive impact on income disparities if it is unable to service the changing needs of the U.S. economy.
This paper starts with some general observations on globalization and its effects on the American life and society such as the above-mentioned polarization and decline in manufacturing which have an influence on how the U.S. can address income inequality. These general observations are followed by a summary on how income disparities are measured and what factors can influence them. The main part of the paper concentrates on the effects of education on income, suggestions made to improve the educational system, and measures introduced by the current Administration. The last part of the paper will look at what other policy measures could possibly be taken, how effective they could be, and how feasible they are.

Since the current Administration has accepted the view presented by several scholars that raising the supply of highly skilled work force will have a beneficial effect on income distribution as well as international competitiveness, the education reform has become the main policy tool to address income inequality. It is currently the strongest policy instrument to address income disparities because it has broad political support; it also has beneficial effects on society and individuals' lives in general by creating a prime conduit for upward social mobility. The U.S. has also a strong interest to maintain the high standard of post secondary education which is one of the most successful and attractive sectors in the U.S. economy; one that may have a beneficial effect in attracting other sources of economic activity.

However, an education reform would not likely be sufficient by itself to structurally change the increasing income disparities; they are not only influenced by the distribution of labor earnings but also by increasing globalization, demographics, and social factors. Addressing these elements would require drastic measures on income transfers and social policies. Moreover it might also need to revamp the respective roles of states and the federal
government in order to increase the efficiency of social policies and to reduce geographical disparities. Furthermore, factors such as demographics and social conventions are difficult to address by public policy measures.

The wide political support for the need for an educational reform may have its roots on the idea of education as the principal means for upward social mobility, leaving it open to individuals' choice to pursue or ignore it and making it consonant with the traditional American ethos of free choice and opportunity for all. The current Administration has also nimbly combined public and private actors to work together.

With regard to the other policy measures that could possibly address income disparities and their negative effects, the interest and views of different interest groups and observers are widely diverging, reflecting a traditional fault line of the American society; namely the role of the individual and the role of government as an agent of change. Accordingly, the political feasibility of such measures is quite doubtful in the current circumstances. Therefore, the educational efforts are the most important policy measures in the coming years, but not necessarily by their greater impact but by virtue of political feasibility.
CHAPTER 2

GLOBALIZATION – SOME OBSERVATIONS OF ITS IMPACT ON NATION STATES, NATIONAL ECONOMIES, CITIES AND COMMUNITIES

This Chapter seeks to review observations by scholars on the impact of globalization on the structures and functions of nation states, and economies, cities and communities. At a conceptual level, globalization is compression of time and space as noted by David Harvey when discussing postmodernism.¹ Some of the effects of this compression are fundamental, and while literature seems to agree on several effects, some remain controversial. Globalization, however, does not necessarily mean uniformity and disappearance of national states and their borders and of social and political differences between countries.

Societal and political changes

Several philosophers have looked at the effects of technological change and globalization on society.² Walter Newell has argued that globalization and technology is eroding the foundation of the Western political community and disintegrating the notions of civic virtue and obligation. According to him, this phenomenon is due to the intensification of the old dichotomy between individual freedoms and the individual’s collective obligations and can pose fatal threat to the western civilization. Increasingly individualistic, Western society is transformed from being a place of stability and boredom to a world of instability, instantaneousness, and impatience, with segregated and narrow "communities" without a sense of civic duties beyond one’s chosen community.³

³ Ibid.
Globalization does not only mean the emergence of new political and economic regimes - with the disintegration of the nation-state⁴ - but also a new “potentially illiberal conception of human being.”⁵ Newell believes, however, that the human beings are capable of rising from their selfishness and base impulses and they can embrace the virtues of justice, obligation and citizenship. It is, however, a task for politics to encourage people to value these virtues: “Human beings cannot be purged of their passions and prejudices, but those energies can be directed away from vice and toward virtue.”⁶ In particular, education is the medium with which society can ensure the maintenance of Western virtues.⁷

Darin Barney highlights the creation of new virtual communities through technology which at the same time serves the human need for individual autonomy and the need for association with others. For him, these communities are not real, however, since almost all of them lack the basic tenet of Western political theory: moral obligation, or the obligation of mutual regard.⁸ The positive consequences of the Internet, overcoming the divisions of geography and social standing, also allow for an easy, anonymous entrance and exit from the community. Self-interest, rather than sense of obligation holds the communities together,⁹ thereby contributing to the fragmentation of civic virtues as mentioned by Newell. Barney considers that virtual communities are suitable for market-like situations where

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⁴ Ibid.
⁵ Tabachnick and Koivukoski, Globalization, 2.
⁷ Ibid.
⁹ Ibid., 27.
people are “shopping around for support” and “community is reduced to a store from which one can ‘obtain a variety of resources’ and membership to the practice of ‘maintain[ing] differentiated portfolios of ties.’”\textsuperscript{10} This fragmentation and explosion of choices and channels of information/misinformation will not necessarily lead to more rationality but to more irrationality; faced with complex issue it is easier to resort to emotional reasoning than cold and confusing facts. Susan Jacoby also refers to a general trend towards ignorance, anti-rationalism and anti-intellectualism which makes fact-based decision-making more difficult.\textsuperscript{11}

A communication tool, the Internet has earned a prominent place in the global society, and recent political movements have greatly benefited from the new technologies; concrete action, however, requires more than on-line communication. Finally, Tom Darby’s message is that technology and globalization bring one major threat to the Western sense of justice, ignoring traditional ethics: the only standard of technology and globalization is “the standard of efficiency.” Moreover, Darby considers that globalization driven by technology is relatively autonomous and increasingly sovereign: “[U]nlke the little man behind the curtain in the Wizard of Oz movie, there is no wizard and there is no curtain: yet Oz is real.”\textsuperscript{12}

\textsuperscript{10} Ibid., 37.


Globalization without universal effects

As a modifier to the effects of globalization Brook Thomas refers to work by Samuel Huntington\(^\text{13}\) and Bauman\(^\text{14}\). He concludes that the global economy does not create a uniform world but new “economic and political systems manifest themselves differently in groups with different cultural histories.”\(^\text{15}\) While multiculturalism, boosted by increasing immigration, normally creates a challenge to the traditional nation-state, the nation-state is not superseded by sub-national units, such as global cities. Nation-states still matter and one should not confuse the pairing of global/local with the pairing of universal/particular. There may be global perspectives on the economy and the physical environment, but there are no global perspectives in social or political matters as little as there is a universal perspective on values.\(^\text{16}\) Sassen seems to follow the same line, noting that “[t]he global city represents a strategic space where global processes materialize in national territories and global dynamics run through national institutional arrangements.”\(^\text{17}\) Nation-states also differ from each other,\(^\text{18}\) sometimes fundamentally. The recent financial crisis have also shown that nation-states are indispensable in dealing with effects arising from global markets, contrary to Sassen’s claim of minimal involvement of states in financial markets in the 1990s.\(^\text{19}\)


\(^\text{15}\) Brook Thomas, "(The) Nation-State Matters: Comparing Multiculturalism(s) in an Age of Globalization," in *Globalization and the Humanities*, ed. David Lewei Li (Hong Kong: Hong Kong University Press, 2010), 137.

\(^\text{16}\) Ibid., 138.


\(^\text{18}\) Thomas, "The Nation-State," 140.

\(^\text{19}\) Sassen, *The Global City*, 195.
hindsight, that minimal involvement may have led to the financial crisis albeit there is no broad political agreement on its root causes.

**OECD on globalization - international companies as key players**

International trade and investment are still the key factors for international economic integration and globalization.\(^{20}\) Technology has been a powerful expedient that has made flow of goods, communication, transport and travel across the world easier. This has significantly changed the outlook of the global economy.

In economic theory, globalization is generally considered to allow for a more efficient allocation of resources, to create significant welfare effects, including higher efficiency and productivity, higher average incomes, increased competition, lower prices and better product variety and quality.\(^{21}\) At the same time, globalization may have been one factor amplifying the recent economic crisis; while making the economies of the world more interconnected, globalization may also render it more vulnerable.\(^{22}\) The OECD believes that global value chains are a particularly important player in the crisis. The location of different production stages in different markets has created this interdependence, and such outsourcing, or off-shoring, continues to rise both for manufacturing and services; during economic shocks these global value chains contribute to a domino effect but they are not solely accountable for the economic downturn.\(^{23}\)

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\(^{21}\) Ibid., 7.

\(^{22}\) Ibid., 8.

\(^{23}\) Ibid.
An increasing number of companies and countries take part in that economy and they are becoming increasingly interconnected. The OECD considers multinational enterprises as the most important driver of globalization, due to their global reach and involvement in transfer of capital, human resources and technology. An increasing part of the cross-border transactions take place within a multinational enterprise, between its different units. Globalization is also contributing to an increasing transfer of economic activity, including research and development and other innovation activities, to emerging markets such as China and India.\textsuperscript{24} Multinational enterprises play an important role in this process; they develop and transfer proprietary knowledge, fund research and development projects abroad. According to the OECD, the eight largest multinational companies spent in 2008 more on research and development than all individual countries together, with the exception of the United States and Japan.\textsuperscript{25} Firm- and sector-specific knowledge that forms the core strength and rationale for multinational companies gives them an edge over nationally-controlled companies. Foreign-owned affiliates tend to be significantly larger and pay higher wages - than national firms and therefore account for a large share of employment, turnover and added value in the production chain in the host country, especially in manufacturing for high-technology industries. However, the benefits do not only fall on the host countries but revert increasingly to the home countries. This is not only because of the return on outward direct investment but also on the ability to tap into foreign technology.\textsuperscript{26} In other words, multinational companies are increasingly important and powerful in the globalization process, but they are not attached to one single country and

\textsuperscript{24} Ibid., 9.
\textsuperscript{25} Ibid., 10.
\textsuperscript{26} Ibid., 10, 177.
their interests are not necessarily consonant with those of their home country - its objective is to find the best operating conditions and optimal allocation of activities on a global scale.

The OECD points out that the emergence of spreading value chains (“vertical trade”) and the role of the multinational companies may call for a change of traditional government policies. While the traditional policies try to increase competitiveness, employment and added value in specific industrial sectors, the fragmentation of the production process requires more attention to specific activities than industrial sectors per se; for instance how to make a country more attractive to industry and innovation. The OECD notes that the location of the headquarter activities (“hubs and decision centers”) are particularly important since they have a say on investment and technology transfers within a company network. Another challenge for governments in developed economies is the role of emerging economies and how countries like the U.S. can maintain their research and development activities while tapping to global research centers and networks. The old policies may need to be overhauled since multinational companies are often capable of limiting and reducing the effectiveness of public policies if they are not in their interest.27

Even though globalization is sometimes described as free market driven, the last few years show that sovereign players continue to wield significant power, especially during times of market disruptions. The importance of state capitalism and the role of government in the global economy are also likely to increase due to the increasing role of emerging economies such as China, Russia and Brazil where government guidance and state-owned enterprises are an important part of their economic structures.28

27 Ibid., 10.

The U.S. in the global economy

The U.S. is still the biggest economy in the world. The size of its economy, its military might, and the role of the U.S. dollar as the dominant reserve currency give the U.S. a special role in the world economy; no major decision can be taken without its consent. However, the emerging economies are slowly changing that situation, and China is expected to pass the United States as the biggest economy by 2032. In the long-term the U.S. role is therefore bound to diminish and its effectiveness to shape global policy will depend more on its ability to cooperate and compromise than its sheer size. The increasing global interdependency also has an effect on U.S. employment structure. In addition to offshoring manufacturing, which will be discussed below, it is increasingly easy to outsource services which do not require physical presence or face-to-face contact, including jobs that require highly-educated work force. According to Alan Blinder and Alan Krueger, about 25 per cent of U.S. jobs could be offshored.

Role of global cities

Sassen has looked at how globalization and spreading of value chains is changing the structures of the world economy. First, geographical dispersal of manufacturing with declining old industrial centers has led to a demand for expanded central management and planning and the associated specialized services, primarily in so-called global cities.

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31 Sassen, "The Global City," 12.
Second, the growth of the financial industry, and especially of key sectors of that industry, benefited from policies and conditions often harmful to other industrial sectors, notably manufacturing. This has led to the growth of specialized services located in major cities and diminished the role of non-global cities.\(^{32}\) In the U.S. the growth and concentration of the financial industry has been especially strong in its traditional center, New York City.\(^{33}\) Finally, Sassen claims that there is an increasing disconnect between global cities and national economies: Before, there was correlation between growth sectors and national growth. Now, it would seem that there is more asymmetry.\(^{34}\) Globalization and concentration of economic power has given global cities a key role in managing the new economic order.\(^{35}\) It is to be noted that Sassen does not mean by global cities geographical entities but specific sectors in a city that are highly specialized for catering to a specific set of international markets and global firms.\(^{36}\) These sectors and networks can vary from case to case.

According to Sassen, these economic developments create a new labor market demand and a new income structure in the global cities, which in the U.S. include cities such as New York City, Chicago, and Los Angeles.\(^{37}\) The fast-growing service industries in global cities have stronger concentrations of low- and high-paid jobs: new opportunities are created either at the top of the income ladder in particular in the financial sector or at the

\(^{32}\) Ibid., 13.

\(^{33}\) Ibid., 195.

\(^{34}\) Ibid., 13.

\(^{35}\) Ibid., 330.

\(^{36}\) Ibid., 348.

bottom, in particular for unskilled support services. Middle-income jobs have either been
down-graded to mechanical routine jobs - if they have not been totally eliminated - or their
tasks have been compressed and included in jobs at a higher level. In addition, full time
employment has decreased and part-time jobs are proliferating in the growing services
sectors. In the 1990s, 40 per cent of sales jobs, 30 per cent of service jobs and 17 per cent of
financial and corporate services jobs were part-time jobs.\textsuperscript{38} When looking at the income data
on New York City, Sassen detects strong disparities between manufacturing and non-
manufacturing jobs and between corporate and other services industries. In general, jobs in
the financial sector pay better. The personal services sector pays significantly lower wages
than any other industry group.\textsuperscript{39} Nonetheless, Sassen also notes that the economic dynamics
in a global city can have a spill over effect and may create more opportunities for low-
income earners as well while further enriching the top levels of income distribution.\textsuperscript{40}

As regards the role of corporations in the new economic order, Sassen also notes the
increasing importance of big multinational companies,\textsuperscript{41} but there are also an increasing
number of small specialized firms wielding significant economic power, providing
specialized services. Moreover, small companies are also proliferating in the gray area of
economy, namely in the form of manufacturing and services companies that are largely
dependent on immigration both for supply of labor and market demand.\textsuperscript{42} This new
economy is much more flexible and informal than the industries of the 20th century. While

\textsuperscript{38} Ibid., 226, 227, 228
\textsuperscript{39} Ibid., 234.
\textsuperscript{40} Ibid., 250.
\textsuperscript{41} Ibid., 254.
\textsuperscript{42} Ibid., 342.
providing work opportunities, jobs in this system are more likely to be part-time, and workers are more vulnerable to dismissal at all income levels.\textsuperscript{43} In this context it should be noted that immigration is an important element of a global city for several reasons: first, for providing cheap labor for manufacturing and personal services industries; second, providing more supply of highly-skilled workers for finance and specialized services; third, creating new markets in global cities; and finally for facilitating and increasing economic, political, social and cultural cross-border transactions between communities of same origin.\textsuperscript{44}

In short, the data and subsequent studies on income in global cities indicate that with an eroding manufacturing sector and with a shift to a service economy society the U.S. economy is moving not only toward further income disparities but also toward new forms of social stratification - or polarization - where high-skilled top earners in the corporate sector are valued at the cost of other sectors and lower levels of skill.\textsuperscript{45} This polarization makes it even more challenging to address income and equality. In addition, immigration is an important part of that discussion that needs to be taken into account. However, as noted above on the local effects of globalization, the global cities are not likely to create any formal superstructures. The nation-states still matter albeit with increasing influence from multinational corporations.

\textit{Outsourcing of manufacturing and its impact on competitiveness}

Globalization has also meant outsourcing of manufacturing from the U.S. to third countries such as Mexico, Taiwan (especially in the 1980s), and increasingly to China. Outsourcing to low-wage countries has brought hefty profits to outsourcing companies and

\textsuperscript{43} Ibid., 289, 293.

\textsuperscript{44} Ibid., 353.

\textsuperscript{45} Ibid., 362.
the lower manufacturing costs may have contributed to a lower inflation in the U.S., but it also led to an eroding manufacturing base, even for high-technology products that traditionally have been a strong suit for the U.S. In the course of time outsourcing has come to mean not only outsourcing manufacturing but also development and other engineering capabilities that are necessary for new innovation. Key knowledge and skills have been transferred abroad. As products for which the U.S. has lost the know-how have been mentioned advanced displays for e-readers, hybrid car batteries, computers and hand-held devices. The transfer of know-how is not only eroding the manufacturing base but also the U.S. software industry, and many new high-tech products such as notebook computers and cell phones are now designed in Asia. It has been claimed that outsourcing can always be reversed if necessary but it is doubtful if it is realistic given the number of players involved, including suppliers and support services. Research institutes and universities are also part of these networks. Once a cluster of knowledge disappears, it is difficult to resuscitate it and it is very difficult to start new knowledge clusters from scratch. Most clusters have long and complex genesis based on geography and history, such as high tech in Silicon Valley, automotive industry in Germany or design centers in Italy. The German automotive industry for instance is closely linked to its older machine tool industry. Geographical proximity remains a competitive advantage - even crucial - since it is easier to generate cross-fertilization for innovation and it is easier to have access to specialized support services, training, and skilled work force from other companies.\(^{46}\)

A solidly established industry can create continued sustained growth and attract new companies if all the necessary support services and suppliers are present. Outsourcing, on

the other hand, can erode these clusters and can even lead to the loss of the “critical mass,” especially if the recipient of the outsourced production is actively pursuing other parts of the production process, starting from product assembly to management of supply chain and design of the product.\textsuperscript{47} In other words, an industry cluster is constantly facing the choices of either a virtuous circle of growth or a vicious circle of retrenchment and possible extinction.

Therefore, geography still matters. Innovation is often based on the infrastructure of an existing mature industry as is the case of hybrid cars based on the strong battery industries in South Korea and Japan. Globalization, however, means that countries are increasingly competing against each other in order to maintain or create these clusters or centers of excellence; Asia and the Middle East in particular have been very active. For example, China has been aggressive in creating centers of excellence for green technologies and it has been able to attract production and development from the U.S. thanks to existing support services, suppliers of components and generous tax and other incentives.\textsuperscript{48} This competition is not about enticing a single company but about creating tectonic changes in the global economic structure, where the incentives are not only financial and economic but are social and cultural as well, as pointed out by Florida. The development of these clusters, or creative cities in Richard Florida’s terminology, is similar to Sassen’s idea of global cities and can be subject to polarization within the cluster or in relation to other areas, including political polarization.\textsuperscript{49} Finally, as regards manufacturing and jobs it should, however, be noted that manufacturing is increasingly capital intensive and the number of jobs in

\textsuperscript{47} Ibid.

\textsuperscript{48} Ibid.

\textsuperscript{49} Richard Florida, \textit{Cities and the Creative Class} (New York: Routledge 2005), 172.
manufacturing is likely to fall, even if manufacturing is outsourced. Therefore, manufacturing is not likely to directly contribute to new well-paid jobs but it is an important element of clusters that create new employment in related activities. The Department of Labor has made projections on the employment structure of the U.S. economy in 2018 and it expects it be broadly similar to that of 2008. However, the manufacturing sectors will lose from 14.2 per cent to 12.9 per cent of the total U.S. employment; within that figure increase in construction is offsetting some of the manufacturing losses. As noted by Sassen, services sectors are likely to grow considerably.\textsuperscript{50}

\textit{Growth of financial services in the U.S.}

Recent data from “State of American Worker 2010” confirms the trends noticed by several authors (King, Pisani, Sassen) on the structural change in the U.S. labor market, namely the increase of the financial sector, and the demise of manufacturing: The finance sector’s share of the overall economy has quickly risen in the last 30 years, while manufacturing has been declining; the decline in manufacturing has even been accelerating in the same period. According to the data on 2009, the financial sector’s share of the U.S. GDP (8.4 per cent) was approaching that of the manufacturing sector (11 per cent).\textsuperscript{51} This is remarkable given the financial crisis of 2008-2009. It, however, remains to be seen what the long term effects of the crisis will be on employment, including the mortgage and insurance industries. The U.S. financial sector may also need to catch up with the rest of the developed world in the use technology to replace man power, for instance by increasingly moving


away from checks and cash to electronic transfers, and to simplify the process for real estate transactions.

**Conclusion of Chapter 2**

In summary, this Chapter has attempted to discuss such considerations which arise from globalization but which have a role in defining the economic and political landscape where the discussion on education and possible remedies to increasing income disparities will have to take place. At the conceptual level, it seems that globalization does not entail homogenization or universality of effects; geography and local conditions are still very relevant. While new economic links are created across the globe between non-sovereign actors, nation-states will continue to play an important role. Virtual communities, while useful as communication tools, will not replace the existing political structures, but their proliferation may signal an even more fragmented political landscape where the political electorate is less and less interested in cross-cutting national interests, role of the nation and national cohesion. In the economic sphere, globalization has reinforced the position of international companies as important decision-makers. On the other hand, globalization has brought the emerging nations to the international trade scene a strong emphasis on state interests as opposed to private corporate interests. The emergence of new economic power blocks also means a decreasing importance of the U.S. in the world economy. At the national level globalization is changing national economic and social structures: differences between different parts of the country will be increasing, manufacturing is decreasing while the services sector is increasing, in particular the financial sector.
CHAPTER 3
INCREASING INCOME DISPARITIES

How income inequality is measured in the United States

Since 1947, the U.S. Census Bureau has used the Gini coefficient to gauge the inequality of income distribution in the American economy: this index measures income inequality on a scale of 0 to 1 with 0 expressing complete equality and 1 expressing maximum inequality where one household receives all the income in the economy.¹ The Census Bureau looks at household incomes before income taxes, social security, Medicare deductions and other money transfers after payment of wages. In other words, the Census Bureau does not take into account non cash benefits, such as food stamps, health benefits and subsidized housing. The household income data is based on surveys and the Census Bureau notes that the information is not 100 per cent accurate. For instance, there seems to be a tendency in household surveys for respondents to underreport their income. However, the Census Bureau has determined that income earned from wages or salaries is much better reported than other sources of income.² Another method the Census Bureau uses for measuring income inequality is the shares approach, the calculation of the shares of aggregate income received by households ranked from the lowest to highest on the basis of income and then divided into groupings, typically quintiles. The aggregate income of each group is then divided by the overall aggregate income to derive shares.³


Additional methods for looking at income distribution are for instance IRS tax return information\textsuperscript{4} and the Congressional Budget Office (CBO) data by income class which give a more detailed picture of the income distribution within the quintiles, in particular at the top of the income ladder.\textsuperscript{5}

\textit{Income disparity in the U.S. and other developed countries}

According to Jay Mandle, income inequality has increased throughout the developed world since 1980.\textsuperscript{6} In particular, inequality growth has been faster in the U.S. than in any other developed country with the exception of the United Kingdom.\textsuperscript{7} In 2007 the Gini coefficient for the U.S. reached its all time high, 0.470 and it remained practically at the same level in 2009 with the figure of 0.468.\textsuperscript{8} The average Gini coefficient for OECD countries in the mid-2000s was 0.31, figures ranging from 0.23 for Denmark to 0.47 for Mexico, the U.S. finding itself at the higher end (0.38) with Mexico, Turkey (0.43) and Portugal (0.38).\textsuperscript{9}

The CBO data on the household income, including the value of capital gains, shows according to Bernstein that the real income of the bottom 20 per cent grew only six per cent between 1979 to 2000, while the top 20 per cent saw an increase of 70 per cent in the same

\textsuperscript{4} Goldin and Katz, \textit{The Race}, 47.


\textsuperscript{7} Mandle, \textit{Democracy}, 7.


period. The top 1 per cent households’ earnings increased by 184 per cent.\textsuperscript{10} According to Lawrence Mishel, Jared Bernstein and Heidi Shierholz, when looking at tax records, the income concentration has reached the pre Great Depression levels, with the top 1 per cent of earners now accounting for 23 per cent of the total income.\textsuperscript{11} The IRS data show the same strong increase at the very top of the income earners.\textsuperscript{12} Moreover recovery after the economic slowdown in the early 2000s was much slower among the low-income earners than at the top, despite the overall expanding economy and improving labor productivity.\textsuperscript{13}

\textit{Reasons for increasing income disparities}

There are numerous possible reasons for increasing inequality. The U.S. Census Bureau assesses the factors of income inequalities as follows:

Researchers believe that changes in the labor market and, to a certain extent, household composition affected the long-run increase in income inequality. The wage distribution has become considerably more unequal with workers at the top experiencing real wage gains and those at the bottom real wage losses. These changes reflect relative shifts in demand for labor differentiated on the basis of education and skill. At the same time, long-run changes in society's living arrangements have taken place also tending to exacerbate household income differences. For example, divorces, marital separations, births out of wedlock, and the increasing age at first marriage have led to a shift away from married-couple households to single-parent families and nonfamily households. Since nonmarried-couple households tend to have lower income and income that are less equally distributed than other types of households (partly because of the likelihood of fewer earners in them), changes in household composition have been associated with growing income inequality.\textsuperscript{14}

\textsuperscript{10} Bernstein, "Economic Mobility." 23.


\textsuperscript{12} Goldin and Katz, \textit{The Race}, 47.

\textsuperscript{13} Mishel, Bernstein and Shierholz, \textit{Working America 2008}, 10.

\textsuperscript{14} U.S. Census Bureau, "Income, Narrative (Middle Class)".
In addition to political and economic factors, Mandle also mentions, along the lines of the Census Bureau, (i) demographics and the age structure of society, (ii) whether a household is single-parent or not, (iii) to what degree women participate in the market place, and the level of executive pay as factors influencing income disparities. This paper divides these potential factors into economic - including technological change, social and demographics, and political categories.

Social factors and demographics

Social factors, as mentioned in the Census Bureau description above - such as single-parent families, later marriages and “non-married couple” households - are important factors and merit a couple of remarks. First, these phenomena are not limited to the US but are universal in the developed countries and do not necessarily explain why the income disparities have been increasing faster in the U.S. than elsewhere. Second, these factors are quite relevant when incomes are compared on the basis of households, but somewhat less so when the comparisons are made on the basis of individuals. It could be argued that couples are more stable and therefore likely to be able to earn better wages than non-couples and it has been noted that if a family has only one parent it is the strongest indicator that the family will also have a low income and likely other problems.

The same source also notes that marriages tend to amplify the income differences as people more likely will marry with someone of comparable economic status, combining, on the one hand, two top earners into one household, and at the other end, those earning

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15 Mandle, Democracy, 13.

minimum wages forming low-income households. Another factor that may be contributing to income disparities between nonfamily households and other households is that people are more likely to be in one-adult household early on in their adult lives and at the end of their lives, when their earning capabilities are lowest. With the ongoing universal demographic change of an increasing percentage of population in the over-65 segment, the aging population is bound to add to the number of low-earning households as non-active households increase in relation to households that have wage-earners.

In comparison to other developed nations, the United States has high fertility and relatively low life expectancy. A high U.S. fertility can add to inequality of income in the U.S., especially when high fertility is more prevalent among the low earners. At the other end, the relatively low life expectancy in the U.S. may both be a factor attributing to lower statistical inequality while it could be considered a sign of inequality with low income levels among the elderly and sign of limited income support such as absence of health care which is not taken into account in the income surveys. At any rate, Mishel, Bernstein and Shierholz confirm that while the average life expectancy has grown, much of the gain is due to longer life spans at the top while there have been minimal gains at the bottom.

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17 Ibid.


Religious and morals beliefs may also play a role. In rural communities, another factor for the acceptance of increasing income inequality may arise from religious beliefs and different world-views. In some communities, the shrinking local economy and the absence of upward mobility force people increasingly to live at the subsistence level; success is no longer measured by economic considerations. These communities are left behind while the rest of the country makes progress in economic and technological terms.\(^{20}\) These concerns are closely related to political and cultural beliefs, such as the so-called American exceptionalism (see below). All in all, social and demographic factors seem to contribute significantly to increasing income disparities; these factors are not easy to change. Nonetheless, they are not fully untreatable either, as will be discussed further on Chapter 7.

**Economic factors**

Looking at economic factors, Mandle notes that one key factor for the determination of income distribution in a country is the functioning of its labor and financial markets. At the conceptual level the markets do not pay the same for all jobs, but the allocation of resources follows the general law of supply and demand: different jobs require different skills, and not all skills are in equal demand, those in more demand are likely to be better paid, in particular is those skills are not supplied enough to satisfy the demand.\(^{21}\) Goldin and Katz add that the increasing income disparities are due to changes in the labor market and wage earnings since labor income is the dominant part of the national income, and most of


Americans work for their living. On the other hand, Robert Gordon and Ian Dew-Becker conclude that changes in labor’s share of income, as opposed to business and capital income, had limited role in rising inequality of labor income; they even claim that in some respects the labor income share had hardly changed over decades and income mobility across the quintiles has been stable or even may have decreased. Gordon's and Dew-Becker's main point, however, is that incomes at the very top have increased much more in the U.S. than in other OECD countries. This is claimed to be due on the one hand to market demand for very specific earners such as sports and entertainment stars and on the other hand to market-driven pay increases to professionals such as lawyers, financial managers and management professionals. This increase of their demand would seem to reflect the change in demand for specific skills and supply of such skills.

Technological change

The change in labor demand brings in the factor that is often mentioned as key for increasing income disparities: technological change, or skill-based technological change (SBTC). Technology is claimed to influence income distribution in two ways. First, new technologies are skill-based and skills are in limited supply. In addition, education cannot be planned to supply instantaneously skills for new technologies that cannot be foreseen with certainty and whose importance cannot be judged in advance. Technological development and globalization have helped spread new technologies to poor countries and competition

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24 Ibid.

about jobs has become more arduous. On these points, Mandle notes, however, that lack of sufficient supply of new skills could result from limited supply of education, and he refers to countries where more appropriate education was available and where income disparity increase was more reduced. However, the principal point of the randomness of technical development will always create a lag between the demand from the market and the supply from the educational sector. Mandle’s point also acknowledges that in all referred cases income disparities increased, albeit at different pace. Mandle also acknowledges that while the neo-classical economic theory dictates a reallocation of resources when new technologies emerge, that reallocation is never without economic losses since new companies do not emerge immediately, laid-off workers’ skills are not appropriate for the new tasks at hand and they cannot be quickly re-trained for the new tasks.

Technology and globalization

Technology and globalization have been discussed in Chapter 2 for their general effects on society. With regard to income disparities, some researchers suggest that technology does not necessarily create increasing disparities, even when it is linked with globalization. In fact, globalization and technological advance has decreased income disparities at the macro level between countries such as the United States, China and India. At the same time, the income gap between the least developed countries and the emerging economies, which are embracing international trade, is likely to increase. It should also be

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26 Ibid., 15.
27 Ibid., 20.
noted that new technologies do not necessarily create only well-paid jobs requiring high level skills, but they also can create menial jobs for low-skilled jobs in data processing and data feeding as well, as noted in Chapter 2. According to this view, technological change in fact increases wage disparities by polarizing the work force into high and low earning extremes and emptying the work force in the middle. Nonetheless, Mishel, Bernstein and Shierholz claim that the increasing globalization - immigration, international trade and capital mobility - is an important factor of increasing wage inequalities, together with the shift to lower-paying service industries away from manufacturing. On the other hand, Gordon and Dew-Becker claim that the effects of immigration on incomes are negligible, and they also argue that whatever the impact of international trade has been on income disparities, the impact has declined over time. 

Goldin and Katz also conclude that while there have been significant advances in recent decades and a commensurate increase in the demand for skill, technology has not always increased demand for specific high tech skills, and technological changes have not on their own been accountable to increasing income inequality. Accordingly, the inequality is not only driven by demand side but also by the supply side, as suggested by Mandle above: technology is not the culprit. What exacerbates wage disparities is the way a country reacts to technological change. The wage levels at the top could be moderated by increasing the supply of highly-skilled work force, for instance. This proposition will be discussed in 

31 Mishel, Bernstein and Shierholz, Working America 2008, 7. 
33 Goldin and Katz, The Race, 125. 
34 Mandle, Democracy, 17.
more detail below in Chapter 4. Nonetheless, according to Mandle technological
development and globalization have been important sources for increasing income
inequalities by increasing demand for highly level workers with special skills, by making
obsolete many mid-level skills and by increasing competition from emerging developing
countries.35

Macroeconomic factors

Mishel Bernstein and Shierholz also mention the macroeconomic factor of high
unemployment that has increased the wage inequality.36 Currently some researchers are also
looking at financial crises and their possible role in increasing income disparities.37 In this
case, Mandle also mentions financial assets and real property income as a factor
increasing income disparities: only a narrow segment of society, at the top of the income
pyramid normally own financial assets and real property and receive in income in the form
of rent, dividends and interest.38 It has been claimed that the top of this segment has
generally been better protected by the government against property depletion during the
latest downturn than other segments of the population.39 This of course should be attributed
to political rather than economic factors even though the financial crisis has triggered the
reaction.

36 Mishel, Bernstein and Shierholz, Working America 2008, 7.
37 Louise Story, "Income Inequality and Financial Crisis," New York Times, August 21, 2010,
www.nytimes.com/2010/08/22/weekinreview/22story.html?_r=1&pagewanted=print (accessed February 20,
2011).
38 Mandle, Democracy, 8.
http://www.washingtonpost.com/wp-dyn/content/article/2011/02/02/AR2011020205040.html (accessed
February 20, 2011).
**Political factors**

The main political factors that influence income levels are taxation and social programs. Progressive taxation and social programs are normally designed to decrease income inequality.\(^{40}\) These are discussed later in the context of active policy decisions to address income inequality. Other factors contributing to income redistribution might include changes in labor market institutions, such as degree of unionization and the use of minimum wage regulations and the development of their real value.\(^{41}\) Trade unions have become less and less popular - unionization eroded from 43.1 per cent in 1978 to 19.2 per cent in 2000 - and minimum wages have dropped in the U.S.\(^{42}\) The effect of the erosion of real minimum wage on increasing income disparities has also been contested.\(^{43}\)

A factor between the political and social spheres, "American exceptionalism" has been suggested as the main factor for the differences between the U.S. and other OECD countries. Mishel, Bernstein and Allegretto are referring to the distinctive American political creed and cultural values that allows the market economy free reign, thereby giving rise to income inequality, high poverty rates, an expensive market-based health care system which is considered a privilege and not a right, long working hours and few vacation days.\(^{44}\) Therefore culture and social norms influence income inequality. It has been argued that this exceptionalism misses the differences between other OECD countries, pitting against

\(^{40}\) Mandle, *Democracy*, 8.


\(^{42}\) Mishel, Bernstein and Shierholz, *Working America 2008*, 2, 8.

\(^{43}\) Gordon and Dew-Becker, "Controversies,” 16.

moderate and cohesive societies such as the Netherlands and Sweden against the U.K.\textsuperscript{45} As far as the U.K. is concerned, one could possibly argue that its social policies have been influenced by American trends, especially during Conservative governments.

Other writers such as Alberto Chong and Mark Gradsten have indicated that there is also a correlation between income inequality and the quality of public institutions, as reflected by indexes of civil and political rights, government stability, corruption and rule of law. Inequality can influence institutions and institutions can affect inequality.\textsuperscript{46} It seems doubtful, however, the high income equality in the United States necessarily means that U.S. public institutions, civil liberties, rule of law are weak. According to this analysis, the strength of U.S. public institutions, such as protection of civil liberties, rule of law and low corruption would have a positive effect on decreasing income inequalities. On the other hand, one could argue that absent the strong public institutions, income inequalities would be even more marked.

\textit{Proactive policy decisions}

All developed nations have introduced policy measures such as progressive taxation, transfers and social policies that are designed to even out income disparities and transfer wealth from the wealthy to the poor. The U.S. has a relatively similar progressive tax system to most of the OECD countries. However, a major difference between it and other developed countries is the much more lower level of social expenditures, in other words direct support to lower income brackets: “unlike most of these nations, the United States provides no early retirement support, ranks at the bottom in providing funds for subsidized

\textsuperscript{45} Gordon and Dew-Becker, "Controversies," 40.

\textsuperscript{46} Ibid.
employment, and is next to the bottom in making funds available for retraining." It is to be noted that the U.S. has programs such as Trade Adjustment Assistance (TAA) in place for workers displaced by international trade but its impact has been limited so far, and it risks being even less significant in the face of increasing demand for federal budget cuts.

These adjustment programs serve also an important policy role as a response to inequalities created by technology and globalization. As noted above in the discussion on technology, the skill requirements of new technologies cannot be anticipated in advance and there will always be a gap between industry demand and education supply. Mandle postulates that the government must address the increasing income disparities by providing income support for displaced workers and by helping transfer displaced workers to new jobs. This is, however, a question of political choice and the U.S. has traditionally been reluctant to deal with these issues at the government level and has preferred to leave it to the private sector to deal with. This is of course also related to the broader ideological and political views prevailing in the U.S., including the "American exceptionalism." In general, there is no broad agreement on the effects of proactive policy decisions on income disparity;


48 Ibid., 36.

49 Ibid., 27.

50 Ibid, 28.

51 Ibid, 33.
there is some evidence that taxation has less effect on income inequalities than direct transfers. As these policies are tools to address income inequalities, they will be discussed in more detail in Chapter 7.
CHAPTER 4

EDUCATION AND ITS EFFECT ON INCOME

The U.S. experienced unprecedented economic prosperity in the 20th century, a period popularly referred to as “the American Century.” According to a writer in 1901 the Americans’ recipe for success was “their better education” and “brains, enterprise and energy... their longer working hours, their willingness to receive new ideas, their better plant, and perhaps most of all... their freedom from hampering traditions.”¹ In particular the American educational system, which provided practically all Americans access to secondary education, was one of the key factors for this prosperity.² The underlying conditions for this prosperity were nonetheless the transformation of the U.S. from an agrarian economy to an industrial one with new technologies and mass production of consumer goods which in turn resulted in fast increase of productivity and creation of a consumer economy with a rising standard of living. This prosperity made it possible for Americans to pay for a good educational system.

Secondary education

The U.S. educational system was originally built on a few key principles that contributed to its success in the 20th century. The schools were open to all - with the exception of African-Americans, publicly funded, forgiving, gender neutral, secular, and provided by competing local school districts.³ The U.S. system invested in general such a schooling which could be considered more costly and less focused than traditional apprenticeships or professional training. Nonetheless, such a general education is more

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³ Ibid., 5.
likely to produce flexibility and transferability of skills that were essential for a society experiencing geographic mobility of labor and facing rapid technological change. Hence general schooling was not necessarily wasteful for America’s particular circumstances, even though some considered it so in relation to traditional European school systems. One key reason seems to have been the quickly developing economy that could pay for a broad based general schooling open for all, as mentioned above. Currently the ability of the economy to support the system is, however, coming under strain: spending per student has almost tripled in the last forty years. At the individual level, the cost of education is obviously less of a concern when school is publicly funded.

Post secondary education

The tertiary educational system in the U.S. has developed into one of the largest and most diverse systems in the world. In 2008, there were more than 19 million students enrolled in 4,300 U.S. colleges and universities.

The tertiary system consists of four broad categories: private not-for-profit four-year schools (36 per cent of institutions); public two-year schools, such as community colleges (24 per cent); private for-profit institutions (23 per cent); and public four-year schools (15 per cent). Based on number of students, public four-year schools cover 39 per cent of all college students. In 2008, the majority of undergraduates were white (63 per cent);

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4 Ibid., 30.


minorities made up 33 per cent and foreign students represented only 3.5 per cent of the enrollment.\textsuperscript{8}

\textit{Expansion of post secondary education}

In the last thirty years, the enrollment in post high school education has experienced massive growth even though the high school graduation rates stagnated and the size of the college-age population was slightly declining. Enrollments increased by 51 per cent from 12 million in 1980 to 19 million in 2008. While in 1980 only less than a third of high school graduates went to college, in 2006 this share went up to 45 per cent.\textsuperscript{9} According to Eugene Anderson and Bryan Cook the expansion of the post-secondary education derives from different factors, but the most important reasons are economic changes and student financial aid.\textsuperscript{10} Among the economic factors, the increasing economic returns to a college education are the most important. While unemployment increased in such fields as manufacturing, agriculture and transport that did not require formal post secondary education, occupational fields that required college education experience strong increase in labor market demand. It is to be noted, that as explained in Chapter 2, several low paying administrative support and service occupations which do not require college education also saw significant growth in labor market demand. The polarization of the labor market and increasing private economic returns on college education attracted more and more Americans to pursue post secondary education. In parallel, efforts to increase minority access to higher education in the last few decades, including affirmative action, were successful in increasing the share of the minority enrollment. Since the late 1990s jurisprudence has somewhat limited the scope of

\textsuperscript{8} National Center for Education Statistics, Table 226.

\textsuperscript{9} Anderson and Cook, "Access," 176.

\textsuperscript{10} Ibid., 180.
affirmative action, and locally minority enrolments may even have decreased, but at the national level minority enrolments have continued to increase in relative terms, including the African-American enrolment.11

Education and income disparities - historical review

During the first 80 years of the 20th century the extensive U.S. high school system, exceptional in its inclusiveness and 12-year curriculum, was capable of satisfying the demand for moderately skilled work force needed by the industry as well as for increasing supply of students for post high school education. The American Century, or at least the first three quarters of it were a time of economic growth and decreasing income inequality. It is noted, however, that while the economic growth was rather continuous, the decrease of income inequality was very discontinuous. First, inequality declined from the beginning of the century to the mid-twenties. After that inequality started to rise and since the end of the 1970s, a sudden and significant increase in economic inequality followed. In parallel, the rate of increases in educational attainment slowed significantly for young adults in the 1970s and for the labor force in general since the beginning of the 1980s. Until then, succeeding generations had higher educational attainment than preceding generations. In the 1980s, however, the educational advance stagnated; new generations would no more be better off than their parents. In the last few decades, the U.S. has also lost in competition with other nations; Asian and some European nations are exceeding the traditionally high U.S. high school and college graduation rates, and the U.S. has been faring poorly in international tests measuring students’ skills in reading, mathematics and science. Nonetheless, American colleges and universities are still the best in the world.12

11 Ibid., 181-183; National Center for Education Statistics, Table 226.

Goldin and Katz make the case that educational stagnation had a role in the stagnating economy and increasing income inequalities. While the U.S. school system was able to provide an increasing supply of educated work force able to deal with new technologies, the supply of skilled work force was unable to keep pace with advancing technologies in the 1980s due to the inability of the U.S. school system to keep up. During the first 80 years the increasing supply helped reduce income inequalities which after 1980 started to increase rapidly. Goldin and Katz conclude from their historical research that the U.S. has not reached the ceiling and it can still increase the supply of educated work force. The U.S. is no more the world leader in high school and college graduation rates and it lags in quality as well. At the personal level, even if the relative advantage of college education is diminishing when more and more students go to college and graduate, education still remains a good investment.

_Effect of education on income – background matters_

While post secondary education has expanded, its patterns vary significantly between different income groups. In addition to a rapid population growth the enrollment figures were bolstered by increasing number of older Americans attending college. In 2008 31 per cent of undergraduates were aged 25 or older. As regards different ethnic groups, while the majority of all college students attend four-year colleges, the majority of Hispanic students attend public two-year colleges. Hispanic and African-American students are also almost 50 per cent less likely to attend doctoral programs or research institutions than white students.

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13 Ibid., 7; Mandle, _Democracy_, 7.


The student’s family’s economic background matters as well as her or his ethnic origin. Jacobson and Mokher have looked at the effects of education and earnings of all students in the state of Florida who were in the 9th grade in 1996. A key finding of their study confirms the importance of the family background in determining the final educational level of a student and his or her income level. Students from low-income families are underrepresented at all levels, from high school graduation to postgraduate degrees. The underrepresentation increases as one goes up the educational ladder. According to the study, after six years from high school graduation, students with low-income background earn approximately 10 per cent less than their peers. The authors estimate that one-third of the income difference is attributable to educational attainment (high school graduation, college graduation, choice of field of study). Considering the significant income disparities in the U.S. at the present time (see Chapter 3), these figures do not sound very significant. It should be pointed out, however, that those who graduate from college are only about to start their careers and their incomes in the next ten years are likely to increase substantially more than those of their non-college peers.

Jacobson and Mokher also conclude that graduate and doctoral degrees (“higher level of postsecondary degrees”) are more likely to lead to higher earnings. They also note that certificates from two-year colleges also will lead to better-paid careers, in particular among low-performing students. As regards specific fields of study, professional fields and fields related to health are likely to yield higher incomes if all degrees are considered.

Among graduates from four-year colleges, science, technology, engineering and mathematics seem to be the most profitable fields of study.\(^{17}\)

Not surprisingly, Jacobson and Mokher also confirm that those who have been high performers in high school are more likely to choose the above mentioned study fields with higher income potential whereas low performers are unlikely to even finish their degrees. Nonetheless, among those low performing students who persist, those who have chosen professional or health related subjects are more likely to finish their degree or attain another credential.\(^{18}\) In conclusion, education has a strong impact on income but it would also seem to strengthen the existing cleavages between students from low-income and high-income families; those who are better off from the outset are going to do better in the future as well.

**Limitations to education’s reach in income disparities**

Goldin and Katz admit that education is not a simple recipe for economic growth and decreasing income disparities; important preconditions must be in place, such as right kind of government, the security of property rights and technological development.\(^{19}\) Furthermore, higher educational attainment does not automatically reduce income disparities. It is conceivable that if the share of college educated work force increases and if incomes rise by virtue of better education or right skills, this will unavoidably lead to increasing income inequality between the college educated and non-college educated work force. This result is largely independent of any effects from globalization.\(^{20}\) Goldin and Katz also note that if educational groups are fixed in relative proportions, rapid technological

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\(^{17}\) Ibid.

\(^{18}\) Ibid.


change would raise the demand for the more educated and the income gap would increase between the more and less educated workers. However, according to Goldin and Katz, “if in addition to technological progress, the quantity and possibly the quality of education increases, then inequality could decrease.” This conclusion is carefully formulated, taking into account the importance of the quality of education, which can be difficult to define and measure. On the other hand, Goldin and Katz also underline the fact mentioned in Chapter 2, namely the unpredictability of technological change: Technology does not necessarily mean higher relative demand for education and skilled workers. Technological development in the 19th century likely did not increase the relative demand whereas the 20th century technology did. As indicated in Chapter 2, in the last twenty years labor demand has been shifting towards low- and high-wage workers and it has decreased in the middle. According to David Autor, Lawrence Katz and Melissa Kearney, technological change, in particular computerization, is raising wages on the top, lowering wages or even depleting jobs in the middle, and either decreasing wages or having no effect at the bottom. Some low-earning jobs fall in categories that are difficult to replace by technology (such as truck drivers, receptionists or flight attendants). Others are easily replaceable (such as cashiers or bank tellers). In this case educational measures will not decrease income disparities as was the case until 1980. Another caveat arises from international comparisons. For example, high rates of population finishing secondary school do not necessarily seem to correlate to smaller income inequalities. According to the data provided by Goldin and Katz, countries


22 Ibid., 6.

with low Gini coefficients, such as Germany, Denmark and the Netherlands have lower rates of students finishing high school than the U.S.\textsuperscript{24} 

Finally it should be noted that all authors do not necessarily agree on the effect of education to reduce inequality. Richard Arum and Josipa Roksa refer to the other school of thought according to which education reproduces social (and economic) inequality by "proportioning academic success to the amount of cultural capital bequeathed by the family." Schools expect – but do not teach - cultural competencies that are biased towards upper- and middle-class family culture, and "children from less advantaged families are left to fend for themselves, and in the process they typically reproduce their class location."\textsuperscript{25} The conclusions by Jacobson and Mokher, mentioned above, would also seem to support this view. However, Arum and Roksa consider that the real picture is not completely bleak and that students from less advantaged families can do well but they need more appropriate support ("better academic experiences") from high school and college than is currently the case.\textsuperscript{26}

\textit{Is there a risk of overeducation?}

Educational attainment has obviously a natural limit. According to Goldin and Katz the U.S. has not reached that limit yet, based on comparisons with other developed nations. They also postulate that the continuing good returns to education show that the limit has not been reached yet; in particular for tertiary education. Graduating from college instead of only having a high school diploma makes a lot of economic sense. Increased educational

\textsuperscript{24} Goldin and Katz, \textit{The Race}, 326.


\textsuperscript{26} Ibid., 50.
levels also have social benefits: more educated are more likely to be healthy, less likely to be involved in criminal behavior, and more likely to be politically active. Increasing educational attainment may, however, lead to overeducation where workers have higher skill sets than necessary, in principle leading to waste of resources.

European sources on overeducation quote an early study on overeducation by Henry Tsang and Simon Levin (1985) that states that “workers with more education than their jobs require often exhibit counterproductive behavior in the work place.” Moreover, Pedro Carneiro and James Heckman (2003) point out the important fact that labor market not only values cognitive skills gained through education but also non-cognitive skills such as motivation, persistence, reliability and self-discipline. Education can contribute to these non-cognitive skills as well, but they are not in themselves determined by the level of education. A third important element to productivity and performance is attitude to work. Peter Sloane states that “education is but one form of human capital and there are many possibilities of substitution of one type of human capital by another.” In addition, he concludes that the human capital theory, according to which the rate of return to education is not dependent on how and where the skills are used in the labor market must be qualified in the sense that it does matter where a worker is employed, both in terms of income and job satisfaction.

29 Ibid.
30 Ibid., 31.
31 Ibid., 11, 31.
Empirical studies on overeducation have been inconsistent; some conclude that internal mobility would not significantly help overeducated workforce, whereas others noted that overeducated would be more likely be promoted within the same firm. Felix Buechel concludes that the effects of overeducation may vary from country to country and maybe dependent on “strongly different institutional labor market settings.”32 Another conclusion on European studies is that the consequences of overeducation for the individual worker are less serious that often suggested since for many it is simply a temporary situation at the beginning of their careers. However, minority employees are more likely to be overeducated, possibly due to discriminatory hiring policies. On the positive side, a high level of education may also compensate for a lack of experience, but the studies on this point are conflicting. Moreover, at the macro level overeducation serves as an important tool for labor market readjustments in the case of an excess supply of high-skilled workers.33 At this level, overeducation would seem to be a temporary phenomenon since the excess supply of labor would disappear in an economic boom and a larger supply of high-skilled workers increases the demand for these workers because it speeds up the development of skill-biased technologies.34 For policy purposes this conclusion is important since it would imply that an overeducated workforce is not a reason to restrict access to higher education.35

32 Ibid., 5, 6.
33 Ibid., 8, 32, 29, 9.
35 Buechel, de Grip and Mertens, Overeducation, 9.
This conclusion is of course dependent on the validity of Acemoglu’s findings in the new polarized society and on the role of technology in creating demand for highly skilled workers. Nonetheless, following the recession of 2008, there is some evidence that returns to education are diminishing in case of diplomas from less respected institutions, especially from for profit colleges and lower-tier law schools; only those with high grade point averages graduating from the top law schools can expect to find well-paid legal work, while others will have to do with odd jobs. Moreover, as noted above on the research by Jacobson and Mokher education is not a sufficient condition to guarantee better income, but it is a necessary condition; moreover, the choice of the field and institution becomes more crucial.

Paul Krugman also makes a similar remark: "It's no longer true that having a college degree guarantees that you'll get a good job, and it's becoming less true with each passing decade." However, he does not dispute the fact that education remains a necessary, if not sufficient, condition for better jobs. Richard Vedder also thinks that the U.S. is overinvesting in the tertiary education and only the top colleges and universities can guarantee a well-paid job. According to him, the phenomenon is evidenced by the steady increase of applications to highly regarded colleges. The next few years will show whether investment in lower-tier law schools turns out to be a way for well-paid jobs or whether it is waste of resources. It should also be noted that the Department of Labor has


concluded in its employment outlook previsions that between 2008 and 2018 the most important source of education for two-thirds of the 30 occupations with the largest expected increases in employment are short- medium-, or long-term on-the-job training (emphasis added). 39

Current state of education - challenges for the U.S.

The global economy needs increasingly specialized professionals. This means that instead of the old general university system, the tendency is for universities to specialize in engineering, medicine, agriculture, management, law, and other professional fields. 40 However, society will likely continue to need increasing numbers of broader thinking individuals that are creative and can easily adapt to new circumstances. For these needs the old-fashioned universal liberal education still needs to exist as well.

The quality of the college education must be high, however; Arum and Roksa found in their recent study a serious lack of academic rigor in the current college education. Almost 50 per cent of the sample of 2,300 undergraduate students had practically made no gains during their freshman and sophomore years in critical thinking, complex reasoning or writing skills - all skills that are necessary for innovation and creative thinking. In addition to lack of academic rigor, the educational system seems to suffer from a general perception that college education is considered an assumed right without a clear sense of purpose, and that success and preparation in high school is not relevant to success in college. 41.


41 Arum and Roksa, Academically Adrift, 36, 34.
Babcock on the other hand argues that the students who wish to attend a top-tier college are well prepared and work hard to get into good schools, but they consider the acceptance process as the main hurdle in their education; once they are in, they can relax.\(^\text{42}\)

The tradition of general post secondary education is also facing pressures from the increasing commercialization of education which is more attuned to service well-defined professional fields. This adjustment is obviously due to the demand of the labor market and the reputation of professional education as a conduit to well-paid jobs. The increasing commercialization can also lead to a situation where education is solely considered a tool for obtaining economic benefit; scholarship is not considered a virtue in its own right even though many achievements of Western society have been based on research and scholarship that was not based on its immediate commercial interest. Research agenda is increasingly favoring issues that potentially have economic value in the form of intellectual property rights or that can otherwise be easily commercialized. Moreover, research is becoming more secretive and non transparent because of the confidentiality constraints imposed by the private partners. Of course, these constraints are understandable from the vantage point of the private investor. On the other hand, the private sector can provide helpful inspiration on how to innovate and develop new ideas, how to be more cost conscious, and how to improve the quality and performance of scientific research. Like the whole society, the education system not only has to churn out professionals in traditional fields but it also needs to adapt to the globalization and address innovative change.\(^\text{43}\)

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\(^\text{43}\) Menon, \textit{Globalization and Education}, 33, 34.
According to Goldin and Katz, the virtues that ensured the success of the U.S. secondary school system in the 20th century as mentioned above are now contributing to the stagnation of the American school system. In the course of the 20th century the U.S. school system has become more unequal and is delivering mediocre quality. Goldin and Katz single out two factors that seem to hold back the American educational attainment: lack of college preparedness among high school graduates (also noted by Jacobson and Mokher) and lack of means for those who are college-ready to pursue post secondary education. The U.S. college system continues to be the finest in the world. On a positive note population growth will likely expand the number of college students, and continued financial assistance and opening up of elite institutions to all segments of the population will improve the access from minorities and low-income families. However, since the population growth will mostly come from low-income families, increasing financial support will be crucial. If government support to low-income students does not increase, their access will decrease significantly. This decrease will be even more ominous for the U.S. educational system considering that the population growth will mainly take place in the lower income segments. At the same time, college tuition and fees continue to rise. The increasing costs will obviously further limit the currently limited role of education in contributing to upward mobility.

On concrete numbers, the U.S. Chamber of Commerce notes that 90 per cent of the fastest-growing jobs in the U.S. will require at least two years of college education. In the next few years, there will be approximately four million new job openings in health care, education, and computer sciences alone while nearly 78 million Americans will retire.


Conclusion of Chapter 4

A strong educational system is an indispensable part of a modern developed economy, such as the U.S., for supplying flexible and adequately skilled workforce in an increasingly demanding labor markets. Ensuring a supply that can meet an economy’s demand comes with a cost, and the cost of the American education is significant and it is increasingly borne by the student. At the individual level, education still clearly pays off, professional education seemingly more than most others. It is not clear, however, that education will automatically decrease income disparities. Increasing returns on certain fields of education are likely to increase income disparities among the educated workforce and the inequality between college educated workers and others, either with a high school diploma or without, is quickly increasing. Educational attainment and income also remain strongly dependent on a student’s ethnic and economic background, in particular when public funding for education is decreasing.

Moreover, several authors cited above indicate that the polarization of the labor market is creating a new dynamic for the labor demand, to which the educational system must adapt. Therefore, addressing increasing disparities is not simply a question of increasing the supply of education. Nonetheless, it can serve as a tool to reduce income inequalities or at least it can slow down the increasing inequality. Finally, a strong
educational system is necessary in any society that tries to keep up with technological change and encourage upward mobility.
CHAPTER 5

POLICY RECOMMENDATIONS IN THE FIELD OF EDUCATION

Several authors, interest groups and think tanks have made suggestions in the last few years about how to improve the educational system by making it more efficient, open, and affordable. These suggestions basically can address increasing income disparities based on the premise that increasing the supply side would have a beneficial effect on income distribution; facilitating the access to education for disadvantaged groups would have the same effect as well. In the American context, measures in the field of education are politically more palatable since they can more easily be considered as consonant with the American traditional ethos of free enterprise, opportunity to all, and free agency. More active involvement by government – typical in many other developed countries - such as financial transfers and progressive taxation are widely considered unpopular in the current political landscape.

This Chapter starts with the suggestions made by Goldin and Katz, whose historical studies have been introduced earlier, followed by other suggestions made by different authors and interest groups. In general the needs of the U.S. educational system can be grouped into quality of education, financing, and open access. While many recommendations are shared by various authors - such as more efficient use of limited resources - the more conservative observers are rather for more autonomy and less intrusion from the federal government and the progressive sources call for more federal involvement, thus reflecting the traditional fault lines in American politics.

Suggestions by Goldin and Katz

The two main recommendations of Goldin and Katz are that the U.S. has to improve the quality of education and the high school graduation rates must be improved. As noted
earlier (Chapter 4), the U.S. school system has scored poorly in international comparisons and the high school graduation rate has been stagnating. Obviously there will be a natural limit to the graduation rate but the U.S. is no more at the top of the world as regards the graduation rates; other developed countries have caught up. College enrollment rates have increased substantially but the college completion rates have stagnated.\footnote{Goldin and Katz, \textit{The Race}, 328, 332, 327, 326.}

On the structural side, the U.S. education system is traditionally decentralized. While decentralization was beneficial in the previous centuries to expand opportunity across the country, decentralization also means increasing inequalities between states and between school districts. The competition between districts may work for Americans who can relocate to the best school districts but for many poor, inner-city residents relocation is not an option. These inequalities could only be addressed by increased centralization and directing more attention to the troubled districts. Goldin and Katz suggest expanded schooling options, such as public school choice, charter schools, and vouchers, even though there is no full proof of their efficiency. In this respect they also consider that the separation of state and church should be not be strictly respected if this means that religious schools are prevented from providing adequate schooling in underprivileged school districts.\footnote{Ibid., 340, 348, 343.} This on the other hand raises a fundamental question: Is the use of private - or charter - schools beneficial? Could charter schools undermine the public school system in the long run by draining money and the best students from the troubled public schools?

Goldin and Katz also make some important points on pre-school policies. Policies targeting school-age children may come too late for children from low-income families. The authors make the link between slow growth of educational attainment and the increase of

\[\text{Equation} \]

\[\text{Equation} \]
American children living in low-income families and single-parent households. Policies addressing parenting and childhood education, such as Head Start, need to complement education policies and programs at primary, middle, and high school stages.\(^3\)

In improving the quality of education, high schools should do a better job of preparing students for college. Not only should the quality improve, but the U.S. school system should become less forgiving of poorly performing students. Goldin and Katz suggest that second-chance systems (such as GED, General Education Development Equivalency Degree) may lead to delay in completing secondary education and lower completion rates in conventional high schools.\(^4\)

Finally, college tuition has increased more rapidly than average family income, and this has a significantly adverse impact on the college attendance and completion rates for students from low-income families. According to Goldin and Katz, the current financial aid regimes are also complex and lack transparency. High college costs force poorer students to work while studying which reduces time for studying.\(^5\) However, it could be argued that parallel work experience - if it does not disrupt studies - can be conducive to better educational results, in particular for strengthening the non-cognitive skills required for work life.

Goldin and Katz conclude that three main sets of policies are needed to increase educational attainment in the U.S.: the first is to improve access to quality pre-school education for children from low-income families; the second is to improve the quality of high school education and ensure that graduation rates rise; and the third point is to make

\(^3\) Ibid., 348, 349.

\(^4\) Ibid., 345.

\(^5\) Ibid., 350.
financial aid for college generous and transparent both in four-year colleges and community colleges for those who are college ready. Goldin and Katz note that investments in education can take a long time to show effects. Therefore they should be accompanied by other measures that are not directly linked to education but have a more immediate effect on inequality, such as progressive taxation, greater health care access, and strengthening of labor market institutions.⁶

Center for American Progress

The Center for American Progress (CAP), an influential, progressive think-tank "dedicated to a society that ensures opportunity for all" that believes that “Americans are bound together by a common commitment to provide that opportunity." It is close to the current Administration and has made education one of its main focus areas and commissioned several recent studies in the area. Based on research conducted by Ulrich Boser, the CAP has concluded that the U.S. school system is to a large extent inefficient and the low productivity is costing the nation up to $175 billion a year. Efficiency varies significantly not only between states but within states. More than one million students are enrolled in very inefficient districts, and these inefficient districts normally spend more per student than the average districts.⁷ Moreover, the least productive districts spend more on administration than the productive ones. This does not, however, necessarily mean that high administration costs mean low efficiency; administration may not be optimally geared toward raising student achievement, or low efficiency may lead to increases in administrative costs. The research also notes that students from low-income families are more likely to be enrolled in inefficient districts. As regards geographical differences, the

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⁶ Ibid., 349, 350, 352.

⁷ Boser, Return, 28.
performance by urban school systems can be highly variable;\(^8\) geography does therefore not have to play a role in educational attainment. Based on the above findings, the CAP concludes that the inefficient school system actually represents a significant opportunity for reform. The first hurdle that the reform efforts have to tackle are the poor quality of data on educational attainment, lack of proper controls on spending, and the failure of many states to evaluate the productivity of school districts. Based on these findings, the CAP makes several proposals to improve the productivity of the school system. The objective of these proposals is not only to deliver maximum results but also to increase public trust in education and ensure that a public school system is still seen as a useful investment.\(^9\)

The first general recommendation of the CAP is to promote educational efficiency on the part of policymakers, and this includes four different sub-sets. According to the first sub-set, policymakers should have a better grasp of how well school districts are investing public funds. In particular, policymakers should initiate a broader dialogue with state and federal governments on how education systems could achieve more with fewer resources. Second, the public sector should initiate academic studies on alternative measures at the state and local level to increase efficiency. Third, the CAP recommends the establishment of a national advisory panel to advise how sub-federal governments can better support local efficiency efforts.\(^10\)

The second sub-set of recommendations concerns the reform of school management systems and how to reward success and encourage innovation. First, policymakers should create performance-based management systems that are “flexible on inputs and strict on

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\(^8\) Ibid., 31, 29.

\(^9\) Ibid., 30, 27, 2.

\(^10\) Ibid., 40.
outcomes.” Second, state and local authorities should hold principals accountable for the productivity of their schools by way of public reporting. Third, these principals should be given more authority over budgets, human resources and operational decisions. For instance, mandatory salary schedules should be eliminated. Finally, policymakers should give educators tools, technology and training that they need in order to succeed. Boser mentions as an example development of strategies on “how to thoughtfully stretch their school dollar.” These resources would therefore not be resources for actual teaching but resource designed to streamline and reform management structures.

As the third sub-set of recommendations the CAP lists the encouragement of smarter and fairer school funding, including student-based funding policies. According to this idea, policymakers should set up funding systems that divide funding among students based on their needs, equalizing the opportunities between different school systems. In particular, funding increases should be linked to improved student achievement. Moreover, states and school districts should reduce unnecessary regulations such as categorical state-wide programs that come “with unnecessary strings and red tape.” Policymakers should also improve fiscal equity across states and school districts in order to ensure that any student in any district has an opportunity to achieve high standards. Finally, policymakers should “support competitive funding programs that create opportunities for reform and innovation.” In general the suggestions in this set are about “sharing the wealth” and intruding on the autonomy of school districts and their funding. These are sensitive issues for a large swath of the U.S. electorate. Basing the funding on student performance also

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11 Ibid., 40, 41.

12 Ibid., 41.
raises the need for reliable data and performance reporting, which is the subject of the fourth sub-set of the CAP’s recommendations.

The fourth sub-set of CAP suggestions start by noting that states and school districts should develop information systems that deliver reliable, high-quality data on school finance, operations and inputs. In particular, the spending data should be more transparent. At the federal level, the reporting requirement of school-level expenditure, introduced as a one-off measure under the 2009 American Recovery and Reinvestment Act (ARRA), should be made permanent. Data systems should be established at the state level as well, offering accurate collection and analysis to track student achievement and other facets of school performance. Finally, the federal government should annually publish data including school-level achievement and accountability, and the data collection, processing and reporting should be carried out in a more timely manner. Currently expenditure data at the federal level, for instance, is published more than a year after the school year has ended.13

The CAP has also looked at the constraints created by the state borders dividing economic regions. In the U.S. post secondary education system the primary responsibility resides with the states. Historically the federal government has limited role in post secondary education governance, funding and policy making; there is no federal ministry for higher education.14 The state-based system creates a challenge to the forty-something multi-state metropolitan regions. The regions constitute integrated regional economies where the tertiary education system is not aligned with the economy, overall educational needs and residential patterns and the labor market needs cannot be addressed in a comprehensive

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13 Ibid.

14 Brian A. Sponsler, Gregory S. Kienzl and Alexis J. Wesaw, Easy Come, EZ-GO, A Federal Role in Removing Jurisdictional Impediments to College Education (Washington: Center for American Progress, 2010), 19.
manner. Moreover students face a complicated education market and may face difficulty in accessing adequate and sensible degree programs. The gap of college-degree attainment in the U.S. multi-state regions adds up s currently to 11.3 million students, if the standard is that 60 per cent of the population should hold a college or university degree. The CAP considers that current state-based system is ill-suited for students in multistate metropolitan areas as regards state-based financial aid, resident-based tuition policy, and credit transfers.\(^{15}\) In other areas such as transportation, natural resource development and utilities management local and state authorities cooperate; the same kind of cooperation is necessary in matters related to the post secondary education as well.\(^{16}\) The CAP solution is to create a Congressional Educational Zone Governance Organizations (EZ-GO) for multi state metropolitan areas to incentivize and coordinate educational policy making. At the federal level, Congress should also establish an Education Zone Governance Organization Commission within the Department of Education to advise the relevant congressional committees and the Department in matters relating to increasing college-degree attainment in multi state metropolitan areas. Its main tasks would be to ratify boundaries of multi state educational areas (EZ-GO), to advise Congress on incentives to local actors, and to redesign existing federal policies. In particular the Commission would identify and develop policy solutions to jurisdictional barriers that restrict student mobility.\(^{17}\)

In general, the recommendations from the Center for American Progress are in line with the general tenets of Goldin and Katz, but they focus more on the need for reliable data and multi-state metropolitan areas with rapid population growth. The CAP is also one of the

\(^{15}\) Ibid., 20.

\(^{16}\) Ibid., 23.

\(^{17}\) Ibid., 36, 35.
few voices to support the predominant role of public schools. The recommendations raise, however, the issue of how to measure reliably school performance at the national level and how much the American people is prepared to share the cost of good education, reduce rights of states, and give up the independence of their school districts.

*American Enterprise Institute and Heritage Foundation*

The conservative side of U.S. interest groups can be represented by the American Enterprise Institute (AEI) and the Heritage Foundation which also have called for an overhaul of the U.S. school system. In particular, they reject the notion of nation-wide uniformity and promote greater choice in schooling options in order to better meet student needs and the increasingly varied labor market skill requirements. The AEI is also aggressively pursuing cost cutting in the school systems: first, administrative operations in school districts must be rationalized to cut waste and inefficiency, all costs at the per-unit level must be analyzed and the central office structures of school districts must be simplified and modernized. However, closing school buildings, lowering food services and raising class sizes are not enough; with school district budgets diminishing, the AEI suggests that in order to achieve long-term financial sustainability schools must use more technology to improve cost efficiency and adjust the roles and compensation of teachers and staff to maximize the outputs in schooling. As examples Frederick Hess mentions the Performance Measurement and Benchmarking Project launched by the Council of Great City Schools that allows its members to compare their financial and operational efficiency.

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with the other members. In order to boost productivity Hess calls for bigger class sizes and for increased use of online instruction: one hour per day at the elementary level, two hours in middle school and three hours in high schools.²⁰ Hess also supports limiting fringe benefits and negotiating more restrictive collective bargaining agreements. Similarly to the CAP, Hess advocates more autonomy to school districts to decide on their budgets and how their schools operate.²¹ In general, the authors cited by AEI call for a fundamental restructuring that makes the school systems more amenable to reform in the future. The current reform should not simply replicate what is thought to be the definitive answer, but it should remain open to new and changing ideas: "there are no permanent solutions in schooling."²²

At the post secondary level, the AEI is focussing on increased accountability of educational institutions. Accountability requires data on performance. Colleges should provide information on how much they add value in the process, and states should have databases for “student unit records” covering their enrollment behavior. States can then reward institutions that are better in moving students through intermediate outcomes that will help them graduate with a degree or certificate. In addition to measuring student performance, the educational system must also measure professorial productivity, which may be more difficult to gauge given the different functions of professors, teaching and research. Once the data is established, accountability can be pursued through different channels. First, public funds should be tied to improving productivity and student outcomes.


²¹ Ibid., 5.

Second, accountability would also be improved by more rigorous accreditation; the AEI proposes the establishment of a single regulatory body that would enforce uniform standards on accreditation in order to have control over colleges’ financial viability. The accreditors would also serve as a clearinghouse for course credit transfers. Third, governance and active trustees can bring more accountability to the educational system, provided the trustees are properly trained and up to the task. Finally, rankings, such as the one by Shanghai Jiao Tong University’s Institute of Higher Education, are an important incentive to improve performance. According to the AEI, U.S. colleges should also join the OECD ranking system, the Assessment of Higher Education Learning Outcomes (AHELO) to increase pressure for change. For implementing accountability, colleges should also give up tenure, a fundamental element of the traditional academic community, and expose professors to productivity requirements.23

The Heritage Foundation’s education policy is much more succinct. Their first reform suggestion is to increase online learning to lower educational costs by providing study materials, classes, and tutorials online.24 The Heritage Foundation also promotes, as the AEI does, giving more power to families to choose the school for their children. According to the Heritage Foundation this would only be fair given the cost of schooling. Moreover, free choice would increase competition and encourage innovation.25 In all, both

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the AEI and the Heritage Foundation call for more accountability, more choice and flexibility; the educational system should not be fit into a strait-jacket imposed from above.

_U.S. Chamber of Commerce_

The Chamber of Commerce, the most powerful business lobby in the U.S., is also an active participant in the policy debate on education, and it has a comprehensive and detailed education agenda from kindergarten to post secondary institutions. Its objective is all-encompassing and not specifically related to increasing income disparities though the reference to middle class could be construed to address the polarization of the U.S. economy: “Unless America makes dramatic improvements in education and workforce training, it will pay a terrible price, risking its place as an economic superpower and its identity as a striving, middle-class democracy.”

According to the Chamber, the current education system is not able to provide quality workforce to replace the aging workers and fill the new positions. According to a recent study commissioned by the Chamber, most employers are facing a major challenge recruiting employees with the skills, training and education their companies require. Moreover, given the quick changes in technology, nobody can afford to rely on existing skills; businesses not only have to invest in recruitment of new talent but also in developing the workers’ skills throughout their careers. In order to keep the U.S. competitive, the business community must be engaged in the educational system and should address the biggest challenges that face the U.S. education system, namely the lack of preparation.

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include the lack of preparation of children who enter school for the first time, the significant education gaps among students and the high drop-out rates and low preparedness for college.\textsuperscript{28}

\textit{Chamber on pre-school and K-12}

The Chamber notes that the developmental skills, such as communication, teamwork and problem solving, start to develop in the first five years of life. Therefore there is a need for children to enter kindergarten prepared to learn, which currently is not the case. The Chamber considers that in order to address this issue there should be much more coordination among the existing federal, state, local, and private early childhood programs. All actors should provide access to high quality programs for all children. These programs should have a family engagement component to facilitate literary development; they should focus on academic preparation; and they should be accountable for performance. Focus should also be on the teachers; research indicates that lasting benefits of pre-school programs require a professionally prepared staff that maintain high quality standards.\textsuperscript{29}

In order to ensure that every child receives a quality education, the Chamber believes there needs to be specific attention to human talent, effective systems, innovation, and measurement. As regards human talent, states and districts should ensure that teachers are effective because the teacher quality has the greatest impact on student achievement. The focus on teachers is heightened by the fact that 40 per cent of teachers are approaching retirement age. The improved productivity will require better teacher preparation programs, professional development opportunities, good working conditions, and creation of "non-

\textsuperscript{28} U.S. Chamber of Commerce, "Education & Workforce Training Issues."

traditional teaching paths." Pay increases should not be automatic but based on performance. Starting salaries should be improved. States and school districts should align their recruitment and professional development policies with the knowledge and skills that are needed to improve student performance; alignment should also take into account college requirements and demands from the workplace. On accountability, education officials should be held accountable for their spending and academic outcomes. On the other hand, they should be given more authority over budgets and decisions on human resources. States and school districts should also implement better transparency on spending, staffing and student achievement.30

As regards effective systems, the Chamber considers that the existing accountability framework developed under the Elementary and Secondary Education Act must be strengthened by requiring that “the States must have standards and assessments in place to measure student achievement in core academic subjects for all students, and sanctions and rewards for schools based upon their performance towards moving all students toward proficiency.” Moreover, state standards should be rigorous enough to ensure that students meeting the standards will have the skills necessary to succeed in college or the workplace. The states should also have clear and measurable standards for core academic subjects. These standards should be set by the state, the business community and institutions of higher education should provide inputs, and they should be benchmarked to the best available standards in the world.31

The Chamber has views on the curriculum as well: it should be effective and academically demanding, and it should include the following: expanded learning time;

30 Ibid.
31 Ibid.
expanded Advanced Placement and International Baccalaureate programs; focus on science and math education; cooperation with the business community; encouragement of problem-based learning opportunities; focus on literacy across the curriculum and provision of differentiated instruction for struggling older readers; use of distance education in remote areas; and use of highly qualified teachers for “virtual” teaching.32

In addition to having rigorous standards, states must also accurately measure student achievement via annual assessments. In order to ensure consistency, states should produce annual benchmark reports that compare state standards to national standards, such as the National Assessment of Educational Progress (NAEP). The results of these assessments should then be used to identify both successful and failing schools. The latter should create and enforce plans on how they will improve academic achievement. In the absence of school improvement, these schools should be subject to corrective action.33

In order to foster innovation, the Chamber advises policymakers to embrace options that would provide more flexibility to parents and that would encourage schools to be more responsive to community needs. Schools should also be encouraged to expand learning time in the form of tutoring and after-school programs. Innovative education models could also include contacts with independent organizations to operate schools, early enrollment in college-level courses, youth apprenticeships, charter schools, and online learning. Research and development of programs addressing the high drop out rates should also be encouraged. Finally, state and local policymakers should improve data collection and quality. That data is needed to make better educational decisions. The data is also important for parents and

32 Ibid.
33 Ibid.
businesses. The U.S. should have state wide data systems that offer timely and accurate data to track student achievement and teacher effectiveness.34

Chamber on post secondary education

The Chamber claims that there are two major issues in post secondary education that have not received enough attention. First, there is the need to fully appreciate the value of short-term degrees and credentials, and second, the national focus must be broadened from college access to college completion.35 As the starting point for concrete measures, the Chamber calls for ensuring that the high school system adequately prepares students for different post high school studies, such as industry recognized certifications, apprenticeship programs, different college degrees and professional studies. For instance, currently 40 per cent of college students need to take remedial courses. This handicap can be addressed by a better alignment between high school standards and college requirement as mentioned in the previous section. Postsecondary education must also be aligned with employer expectations. College readiness can also be improved by support services such as college counseling and mentoring, especially for first-generation students. The federal support for student aid (grants, student loans and tax benefits) should also be reformed: for instance Pell grants should also include “year-round” grants to take into account non-traditional ways to college completion. As university-sponsored jobs provide student aid, cooperative education programs (work and study) also could provide a source of funding for students. All employers - business, industry, government, and educational institutions - should be encouraged to participate more extensively in these programs. With regard to student loans,

34 Ibid.

the Chamber recognizes the importance of federally subsidized loans and the loan amounts must keep up with rising college costs. Loans should be provided both by the government and private sources to maintain competition. Federal tax policy should also be used to make college more affordable and current provisions on deductibility, state-sponsored savings plans and tax free employer education reimbursements should be maintained in order to ensure access for students from lower and middle income families.36

As in the secondary education, post secondary institutions must be held accountable for their performance and they should provide sufficient transparency so as to allow students to make well-informed choices. In post secondary education, transparency is important in particular with regards to costs and post college careers. The rising costs have hindered many students from being able to pursue their education or, at a minimum, gravely limit their choice in selecting an institution or program. Therefore, institutions should provide more transparency regarding the true costs of attending individual institutions in order to ensure more informed competition and choice. The public should also have better access on effectiveness in student learning, transfer of credit policies, completion rates, and accreditation reviews. The Chamber also calls for more support for non-traditional sectors of higher education, among which the Chamber considers “Institutions Serving Historically Under-represented Groups,” such as historically and predominantly African-American colleges and universities, community colleges and for-profit schools. In particular, “[f]ederal policies should support community colleges and the students who attend these institutions as well as encourage policies to maximize the ability of students enrolled in two-year programs to transfer their credits to four-year programs.” Federal policies should also

support the growth of for-profit schools and not treat them and their students differently from other institutions and students.37

With regard to innovation, the Chamber encourages post secondary institutions to develop a “culture of continuous innovation and quality improvement.” They should expand their reach to students of different backgrounds by using more strategic options such as distance learning, workplace learning, and alternative scheduling programs. Institutions should also continue to accommodate non-traditional students, such as military veterans, working adults, older adults, and adults attending part-time, without adding costs or new facilities. Moreover, institutions should be given significantly more flexibility to offer certificate and degree-granting programs through expanded distance education programs to meet demands for incumbent worker training and skills upgrading. This flexibility should allow for degrees based on credit hours from multiple institutions. Innovation would also require increased funding for basic research, in particular in the physical sciences and engineering. The federal authorities should also increase its focus on innovation and improve its financial aid programs: federal aid forms should be simplified; burdensome rules and regulations reduced and removed; and emphasis should be placed on quality. Finally, private sector solutions should always be considered.38

In short, the Chamber, as other interest groups, is strongly in favor of more transparency and accountability across the different levels of American education. The Chamber’s suggestions are based on the independence of state and school districts. The involvement of the federal government would be reduced, with the exception of funding for post secondary education. The Chamber naturally supports more private sector and business

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37 Ibid.
38 Ibid.
involvement both in the secondary and post secondary education in order to ensure that education is more receptive to the changing needs of the labor market.

*Trade unions (AFL-CIO, AFT) on education*

On the other side of the labor market trade unions have been somewhat less active in making suggestions on how to improve the American educational system. The American Federation of Teachers (AFT) has been more defensive and has concentrated on a limited number of issues, which is logical given their central role and vested interests in the educational system. The unions' main concerns are the need for sufficient funds to maintain the public school system and to ensure a broad access to postsecondary education by supporting public institutions and increasing financial student aid. At the core of their preoccupations seem to be the role of the unions, evaluation methods of teachers, and the dismissal of underperforming teachers. The AFT feels threatened by privatization of schools and they oppose charter schools, noting that they routinely trail behind public schools in academic achievement, as well as school vouchers since they would reduce the funding for public schools, “leaving behind millions of students.” Moreover, “[m]any voucher proponents are the same right-wing politicians and special interest groups attempting to privatize Social Security and deny workers a say in the political process with paycheck deception schemes.”

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The AFT supports the principles underlying the No Child Left Behind Act and the Elementary and Secondary Education Act, namely high standards for all children, appropriate test to measure achievement, disaggregation of student achievement data, highly qualified teachers in every classroom, and extra support for students and schools below proficient levels. The AFT, however, considers that the school systems do not dispose sufficient funds to implement the provisions of the law, and the law requires some changes are regards evaluating teachers' and students' performance: for instance, the so-called adequate yearly progress (AYP) formula is an inaccurate yardstick for measuring progress. The law sets predetermined benchmarks for students' proficiency without taking into account schools' starting points. Its testing of students with disabilities and English language learners is neither valid nor reliable. According to the AFT, the highly qualified teacher requirements are also unworkable for some teachers and do not apply to all individuals, such as supplemental service providers and charter school teachers, who teach public school students.\(^\text{42}\) Contrary to the views of some conservative interest groups (see above), the AFT maintains that the reduction of class size has a positive effect on student achievement, and it is advocating a reduction of class size in particularly in high-poverty, at-risk schools. It also notes that 44 states have adopted some form of class reduction to improve student achievement.\(^\text{43}\) The AFL-CIO also raises the issue of good quality child care as an important factor of pre-school education. When fewer parents can afford to stay home from work, the lack of affordable, quality child care becomes a serious problem. Families face high costs for even the most basic child care services. At the same time, child care workers struggle with low wages. According to the AFL-CIO, median child care worker wages in the United


States are $7.90 an hour, compared with the U.S. all-occupation median wage of $13.53 per hour. Quality child care requires more than good teachers, good programs and committed parents. Quality child care depends upon an investment of additional financial resources.44

Information technologies

In addition to the above interest groups, several other sources single out the need to better use information technology in education. In general, IT can alleviate the challenges of large numbers of students, equal access and the cost of education. While it can at first incur significant costs, information technology can enable better access in rural areas to higher education with virtual classes and universities. High-level teaching materials and courses can also be more easily disseminated with the help of IT. At the individual level IT is an effective medium for self-learning processes, while at the macro level is significantly facilitates the contacts and flow of knowledge between educational institutions and communities.45 It is doubtful, however, that technology can fully replace face-to-face education. One needs to wonder at what level the use of online courses, instead of supporting, start undermining the interpersonal relationship in the learning process. As mentioned above, some support the use of online courses up to 50 per cent of effective study time. As in most other suggestions regarding education, their real effectiveness of course depends on how these measures are implemented and controlled in practice.

Other suggestions

When looking at international suggestions on education in general, some authors underline the need of the education to focus on essentials: the main outcomes of secondary education are high level of literacy, numeracy and social skills that enable students to enter


45 Menon, Globalization and Education, 34.
the labor market as proficient workers and function as productive members of society.\textsuperscript{46}

This is at the same time in line with the general objectives of the U.S. educational reformers but do not necessarily meet the requirements for college readiness. From the discussion on academic standards and overeducation (Chapter 4), it would seem important to look closer at how education can support and strengthen the non-cognitive skills, such as motivation, persistence, reliability, and self-discipline, which all are useful skills in any field of life and can make a major difference in productivity and job satisfaction.

\textit{Conclusion of Chapter 5}

The different proposals made on the American educational policy as a tool for reducing income disparities center on four clusters of ideas: improving the quality of education; making the educational system more cost effective, productive and flexible with regard to different current needs and possible future needs; increasing educational attainment; and facilitating access to higher education, in particular by making it more affordable. There seems to be broad agreement on objectives whereas the means to achieve the objectives vary. Information technologies can play a useful role in improving the quality of and access to education. While there is broad agreement on the importance of the educational system as a crucial part of the American society and economy and its need to become more efficient, there is some disagreement as to whether the reforms should be top-down or whether states and school districts should have more freedom in determining their policies.

Nonetheless, in the latter case the need for accountability and measuring productivity also will require nation-wide measures, especially in areas where federal funding is involved. Fundamentally, the debate boils down to the ideological choice between an individualistic world view where "every man forges his own destiny" and a more collective approach where society and government should “lift all the boats.” It would seem that the latter approach is more likely to address increasing income disparities, but politically it seems a less likely option.

Privatization of education does not necessarily mean restricted access to education as long as the public sector participates in funding and has a certain control of standards and performance. Specific measures to support increasing post secondary enrollment by minority and disadvantaged group are obviously more likely to have a positive effect on income distribution. Based on the theory of increased supply of skill set as a mitigating factor for increasing income disparities, increasing access to education would be the most effective element in addressing income inequality. At any rate, as noted by Goldin and Katz, investments in education will take a long time to bring results and these investments need to be accompanied by other measures such as taxation and broader access to health care. These measures are of course an anathema for the more individualistic camp. These and other non-educational policy measures will be discussed in more detail in Chapter 7.
CHAPTER 6

OBAMA ADMINISTRATION AND EDUCATION

The current U.S Administration has chosen education as one of its priority area, making the link between education and rapid and sustained economic growth. The Administration has concluded that education is the way to create and promote high-income jobs and high added industries. Its objective is to ensure that the U.S. educational system is internationally competitive, comprehensive and innovative in order to address the challenges of today’s knowledge-intensive economy. Education is not only important for overall economic growth but it is also the best medium for individuals to share in the gains from growth.1 The Administration refers to the studies made by Goldin and Katz and the findings that technological change in the 20th century increased demand for skilled workers and the Administration notes that according to recent statistics the demand for skilled workers continues to grow. At the same time, the American educational attainment has not kept pace. Moreover, the Administration also points to the high returns to education and the falling earnings for high school dropouts.2 The federal educational policy is based on the hypothesis that the causes of rising income inequality in the last few decades are due to the simultaneous technological advances and the shortage of high-skilled workers. In other words, labor supply influences the income distribution. In addition, the Administration also recognizes the potential role of declining unionization and real wages as culprits for increasing income differences. Moreover, the President’s Economic Report raises the issue of educational and income disparities between different ethnic groups. The last point of

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2 Ibid., 70.
concern for the Administration is the lagging educational achievement in fields such as science, technology and engineering which are crucial for technological change and innovation.³

The President’s Economic Report sees as the main challenges the raising of educational attainment and improving the quality of education. The President has declared that the U.S. should regain the world leadership in college degree attainment by 2020. In order to reach that goal, the U.S. must raise its college completion rate from 40 per cent to 60 per cent, or eight million additional students need to graduate from U.S. colleges and universities in the next ten years. To this end, the Administration has created a two-pronged strategy which seeks first to ensure that post secondary education is accessible and affordable to all potential students, and second to promote “innovative reform to ensure educational quality.”⁴

Pre-K-12 education

The President’s Report underlines the importance of the first years before kindergarten as crucial in shaping a child’s capacity for learning and later success in school. High-quality early learning programs help to reduce achievement gaps that appear at early ages; these programs are especially important for disadvantaged students. In the longer run, early learning programs can improve later academic attainment, reduce the need for special education, and increase graduation rates. Moreover, these programs have been shown to have a positive impact on crime rates and teenage pregnancies for disadvantaged children. Finally, early learning programs have been shown to be very cost effective, with returns as high as 17 per cent. Based on these findings, the Administration is proposing to establish in

³ Ibid, 71, 72.

⁴ Ibid., 72.
2012 a new, Early Learning Challenge Fund (ELCF). The Fund would make available grant aid to states on a competitive basis for early learning programs that set high standards and contribute to children gaining the necessary skills for entering kindergarten. The Fund would also “promote evidence-based evaluation of programs, strategies for families and parents to assess the quality of early learning programs, and the creation of age-appropriate curricula and assessment systems.”

*Elementary and secondary education*

Within elementary and secondary education, the Administration’s main concern is the poor preparedness of high school graduates for college studies. The Report quotes statistics which indicate that 20 per cent of first-year college students need remedial courses. Moreover, the need for remedial courses is often a sign that the student won’t be able to complete college. To improve college preparedness the American Recovery and Reinvestment Act (ARRA) introduced Race to the Top, which is designed to incentivize state and local school reforms by allowing states to innovate and formulate new ideas and solutions. The states can compete for grants that encourage and reward states that have taken measures to improve teacher quality, introduced college- and career-ready standards, included better data into decision making, and finally improved student achievement in low-performing schools. Prompted by the Race to the Top, 48 states have worked together and established voluntary college- and career-ready standards for languages and mathematics. By end-2010, 40 states and the District of Colombia had adopted these new standards. Several states have also made commitments to adopt different innovative measures, including the use of charter schools and the use of better student achievement data in teacher

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5 Ibid., 72, 73.

6 The Chamber puts this figure at 40 per cent; see Chapter 5.
evaluations. The program has so far awarded grants to 11 states and the District of Columbia but according to the Administration the program will benefit students in all states by providing incentives to institute reforms across the Nation: thirty-four states have amended state education laws or policies to make them more effective in enabling high-quality education and improving the access to high-quality instruction in low-performing schools.\(^7\)

A second priority for the Administration is focused at the above mentioned improvement of low-performing schools. The ARRA includes School Improvement Grants in the amount of $3.5 billion to improve the performance of the lowest-performing schools. By February 2011, more than 700 high schools were participating in this program. The current policy of the Administration is included in the Blueprint for Reform in K-12 of March 2010 which builds on the results of Race to the Top and embraces its elements of state action on reforms, nation-wide standards on achievement and focus on lowest-performing schools. The Blueprint is intended to amend the accountability provisions of the No Child Left Behind Act. The Blueprint is built around five priorities: implementation of college- and career-ready standards, placement of effective teachers in every school, equity and opportunity for all students, rewards to states and districts that excel, and finally promotion of innovation and continuous improvement. The Blueprint acknowledges the importance of local solutions and proposes federal funding both to states and direct to school districts. In particular, for low-performing schools and districts the Administration has significantly increased the “Teacher Incentive Fund,” which supports development of performance-based teacher and principal compensation systems. The first grants were

awarded in late 2010 to school districts and states that had developed “rigorous, transparent, and fair” evaluation systems.\(^8\)

In addition to cross-cutting reforms, the Administration is focusing in the improvement of training in science, technology, engineering, and mathematics (STEM). President Obama has set a goal of educating an additional 100,000 effective STEM teachers in the next ten years; the 2012 budget includes $100 million for this task. Another initiative for science education is the Educate to Innovate campaign that specifically concentrates on improving children’s knowledge in STEM fundamentals. Main elements of the campaign are public-private partnerships that support science and math teachers, encouraging children to discover and innovate, and profile-raising events such as the White House Science Fair. Another event, launched in September 2010 is Change the Equation, a nonprofit organization formed by the business community, with 100 CEOs and $5 million in funding, which will work with member companies across the country to spread effective STEM education programs. The organization will also create a scorecard to assess STEM education in all 50 states with a baseline from which progress can be measured, and it will identify and share principles for effective business involvement in STEM education. The short-term goal of Change the Equation is to replicate within one year successful privately financed programs in 100 low-performing schools. These programs include robotics competitions and enhanced professional development for math and science teachers.\(^9\)

Finally, the Administration is also supporting the use of technology in education. Among others, it has created an Advanced Research Agency for Education that will promote and

\(^{8}\) Ibid., 74.  
\(^{9}\) Ibid., 75.
spread innovative education technology with the help of broadband, cloud computing, digital devices, and software.\textsuperscript{10}

\textit{Postsecondary education}

The Economic Report notes the high reputation of the American tertiary education and the diversity of graduate programs that increase innovation and research productivity. Given the dual role of universities and colleges as training skilled workers and creating new ideas, the educational efforts need to address both roles. As indicated above, President Obama has pledged to raise the college completion rates to 60 per cent by 2020. In order to reach this goal, the U.S. college and university system must be accessible and affordable to all. To this end, the Health Care and Education Reconciliation Act (HCERA) of March 2010, helps build a more robust and effective financial aid system by making all federal loans available directly to students, and terminates subsidies to financial institutions that administered the loans. The reform will save $68 billion in subsidies in the next 11 years. To increase the affordability of college to low-income students the federal government has expanded the Pell Grant program by increasing the absolute funding and by raising the maximum size of the individual Pell grant. According to the Administration, the reforms have already had a clear impact, with an increase of 26 per cent of the number of recipients in one year, totaling almost 8 million students, and with an increase of 25 per cent of the average award. In addition to Pell Grants, the American Opportunity Tax Credit (AOTC) provides up to $2,500 tax credit for college tuition. Since the AOTC is refundable, it can also reach low-income families. More than 8 million students benefited from the increased tax credit in 2009. The Administration has plans to make the tax credit permanent. The

\textsuperscript{10} Ibid., 76.
President’s Report claims that the federal efforts to increase financial aid have lowered net tuition for all types of colleges and universities in the last five years, even though the nominal tuition has increased significantly. In the years to come, the HCERA will provide $2.6 billion to strengthen minority serving institutions, such as Historically Black Colleges and Universities, which play a key role in educating students from low- and middle-income families, educating almost 60 per cent of the 4.7 million minority undergraduate students in the U.S.\textsuperscript{11}

\textit{Job training}

The federal government has also looked at job training programs as a medium for the work force to gain new skills for the new economy, especially in the case of displaced workers. The Administration launched the Skills for America’s Future (SAF) in October 2010 to encourage cooperation between the business community, community colleges, labor unions and other institutions to build nationwide network to maximize workforce development strategies, job training programs, and job placement. The SAF is tasked to identify characteristics of successful training programs that can be replicated and multiplied to reach more workers. The Administration also created the Skills for America’s Future Task Force to coordinate federal efforts to ensure good cooperation with the private sector. (Economic Report, 79) Job training is provided by for-profit schools, four-year colleges, community-based organizations, labor unions, and public vocational and technical schools. HCERA provides $2 billion for job training for displaced workers under the Trade Adjustment Assistance Community College and Career Training Grant Program. The program will make funds available to community colleges on a competitive basis over the

\textsuperscript{11} Ibid., 76, 77.
next four years to increase completion of degrees and other credentials. In addition, the Affordable Health Care Act of 2010 funds training of additional health care professionals. Finally, the Administration has asked Congress to reauthorize the Workforce Investment Act (WIA) which would support the development and replication of effective practices in job training, adult education, and vocational rehabilitation. The ARRA contributed $4 billion to WIA programs of which $750 million went to competitive grants for worker training and placement in the health care and clean energy sectors.\textsuperscript{12}

Reactions

The Obama education policy has not faced any strong opposition presumably because they include many ideas presented from both the left and the right (see Chapter 5). The measures strike a fine balance between private sector inputs and government involvement, and the division of labor between the local, state and federal levels. The task of elaborating a comprehensive policy has been facilitated by the fact that education is widely considered a top priority by all political parties – education is one of the few areas where the federal budget is increasing in 2012 despite a strong political pressure to cut public expenditure.

\textsuperscript{12} Ibid., 78.
For instance, both the Chamber and the AFT have supported the increase of the federal budget for education. In addition, ideological differences are less marked in education than in other policy areas that will be discussed in next Chapter.

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CHAPTER 7

POLICY OPTIONS TO ACCOMPANY EDUCATION

There is broad agreement that educational efforts are not enough to improve the position of low-income earners, at least in the short term, as noted by Goldin and Katz (s. Chapter 4). Progressive writers have promoted income distributive programs such as higher minimum wages, expanded collective bargaining rights, and public support for working families through expanded subsidies for purposes such as parental leave and savings accounts. Mandle notes that during periods of fast technological change, education cannot prevent increasing income inequality and society must provide two elements to counteract the increasing disparities, namely income support for displaced workers and special measures to facilitate the transfer of displaced workers to new (well-paid) jobs. Thomas Hungerford lists three types of government policy that have an effect on income distribution, namely regulation, the tax system and government transfers. Regulation can influence income by imposing minimum wage limits or curbing excessive executive pay and antidiscrimination laws can help safeguard the aged, women, and minorities. There is wide disagreement on the effectiveness of these different measures. For instance Assar Lindbeck concludes that lower taxation of single parent households, increases in Earned Income Tax Credit and higher minimum wages have been more efficient than training programs. Nonetheless he agrees that the current focus on education is correct: well-being

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2 Mandle, Democracy, 28.

of low-income persons is most likely best increased by improving the quality of primary education and access to college education.\textsuperscript{4}

\textit{Poverty reduction and income distribution}

As mentioned in Chapter 3, the U.S. has one of the highest Gini coefficients in the developed world. Moreover, about 14.3 per cent of its population lived under the poverty level in 2009, and the trend was tending to an increasing number of people living in poverty.\textsuperscript{5} Strictly speaking income differences and poverty are two different matters since inequality per se should not make any difference whether it is caused by rich getting richer or by poor getting poorer. In practice, however, poverty reduction has an important role in decreasing income disparities, especially given the overwhelmingly large number of people found at the bottom of the income ladder as compared to the number of top earners that have experienced the fastest income growth over the past couple of decades. With regard to the special characteristics of American poverty, it is often due to low earnings of low-productivity workers. For instance in Europe poverty is connected to unemployment.\textsuperscript{6} Of course, the U.S. poverty is exacerbated by the current unemployment rates hovering around 9 percent and the decreasing unemployment benefits. If U.S. unemployment figures return to their traditional levels of 5 to 6 percent the poverty reduction is mainly concerned with increasing the low income levels; if the unemployment levels remain high, the panoply of measures would need to be expanded.


\textsuperscript{6} Weiner and Monto, Income Inequality, xxviii.
The Center for American Progress (CAP) has produced a program on how to address increasing poverty and its recommendations are relevant for reducing income disparities as well. The CAP lists issues such as decently paid jobs, access to good education, social security and unemployment benefits, and opportunities to increase one's own personal wealth. These proposals will be dealt with below.

Redistributive measures – disagreement on effects

The most common redistributive measures are taxes and transfers. Their effects are widely debated since they can have unintended effects on people’s behaviour, in particular as regards their propensity to save and work. Hungerford and Alan Reynolds warn about a “moral hazard.” For instance extended unemployment benefits are claimed to have increased the duration of unemployment and the unemployment rate, and financial aid programs for poorer families discourage savings plans for college. Lindbeck also warns against too far-reaching redistributive policies because of their potential disincentive effects on individual behaviour. Personal attitudes change slowly and hence the cumulative effect of a policy may be larger than initially estimated. In addition, Hungerford refers to the so-called “leaky bucket” of Arthur Okun: the inefficiencies in the redistribution include different administrative costs and disincentives linked with taxes and transfers. Reynolds claims that government involvement in redistributing income through taxes and subsidies is

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8 Hungerford, 17; Alan Reynolds, Income and Wealth (Westport: Greenwood Press, 2006), 199.

9 Weiner and Monto, Income Inequality; xxviii.

10 Hungerford, "Income Inequality," 17.
likely to discourage economic activity for both the recipients of the benefits and for those who have to finance those benefits by paying higher taxes.\textsuperscript{11}

The disincentive effects of certain redistributive or social polices can be difficult to gauge, especially in case of social polices. For instance, the provision of health care is not likely to be a disincentive under the current circumstances because those who cannot afford can with difficulty reach a level of income that will allow them to subscribe to a comprehensive and high-quality health plan. The destitute poor, on the other hand will resort to emergency services which are free for them but costly to society.

By comparing Gini coefficients on pre-government measures (taxes and transfers and disposable income Mandle shows that for government involvement can be a powerful tool in reducing income disparities: for instance in Sweden taxation and retribution programs reduced income disparities by more than 50 per cent while the reduction in the U.S. was only 23 per cent.\textsuperscript{12} David Weisbach and Cass Sunstein also think that distributive measures are necessary (see below). Here again there seem to exist a fundamental divide between conservative and progressive camps, and it seems that decisions on social services and other redistributive measures are taken rather on the basis of ideology than on the basis of the overall economic costs.

\textit{Current distributive measures}

The U.S. has currently several federal programs that are targeted at poverty, such as Temporary Assistance to Needy Families (TANF) for single parents, Supplemental Security Income (SSI) for elderly who do not qualify for Social Security, and the Earned Income Tax Credit (EITC) which is refundable and targets working low-income people. In addition,\textsuperscript{11} Reynolds, \textit{Income and Wealth}, 201.

\textsuperscript{12} Mandle, \textit{Democracy}, 30; figures from the 1990s.
Medicaid can be considered to target low-income earners. With the exception of Medicaid, the federal programs have been relatively small. In 2004 the total amounts for TANF was $18 billion, SSI $30 billion, and EITC $33 billion. Medicaid amounted to $114 billion. In addition federal and state governments provide support to housing and school lunches. In total, the redistributive programs amount to about 10 per cent of the federal spending.\(^{13}\)

**Social services (health care, child care, elderly, disabled)**

Mandle considers that taxation does not play a significant role in the U.S. income inequality because its progressivity is not much below the average of the OECD countries. A much more important factor is the limited role of the government in providing social services to promote equality. This according to Mandle is due to the propensity of the policymakers to rely on private markets and public institutions for economic decision making. The government is perceived as corrupt and the politics are influenced more by those quarters who do not see increasing income inequality as a problem.\(^{14}\)

Some authors see social services as a part of a wider class of redistributive measures, namely political allocation of goods according to which a larger fraction of the economy’s goods in a broader sense - such as food, housing, health care, and transport - should be distributed by government and democratically elected officials would decide on the criteria of distribution. According to Reynolds such a system would not be fairer than private markets since it would benefit those with more political clout and it would be more inefficient than a market economy.\(^{15}\) While some western societies have introduced such “political allocation”, at least partially, for health care, housing and its fairness and

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\(^{14}\) Mandle, *Democracy*, 32, 60.

efficiency with regard to the current American system can be debated, it is clear that expanding the role of government in the U.S. is unrealistic given the traditional and currently increasing animosity against big government. In defense of social services, it should be noted that social services are one of the few policies that can directly address inequality issues related to social factors that were discussed in Chapter 3.

In its program to reduce poverty, the CAP calls for guaranteed child care support to low-income families and early education for all. The government, federal and state, should guarantee child care to families with incomes below about $40,000 a year, and provide expanded tax credits to higher-income families. As part of the child support program, states should be prompted to improve the quality of pre-school education and broaden access to it. According to the CAP, this measure would take almost 3 million adults and children from poverty.16

Government should also help disadvantaged and disconnected youth to remain in school and at work. According to the CAP, approximately 1.7 million poor youth ages 16 to 24 were out of school or unemployed in 2005. Therefore, the federal government should restore Youth Opportunity Grants to help the most disadvantaged communities and increase funding for effective and successful youth programs with the objective of helping 600,000 poor disadvantaged and disconnected youngsters. The CAP also suggests a new “Upward Pathway program” for poor youth to participate in training in high demand fields and in service tasks provide useful public services.17

The CAP also draws attention to the significant prison population in America - with the highest incarceration rate in the world. Government should help former prisoners find

16 Center for American Progress, "From Poverty to Prosperity."

17 Ibid.
employment and reintegrate into society. As regards unemployment insurance, government should ensure equity for low-wage workers in the unemployment insurance system. According to the CAP, only 35 per cent of the unemployed receive unemployment insurance benefits; for low-wage workers the share is even smaller. The CAP suggests that unemployment eligibility be reformed so as “to screen out low-wage workers, broaden eligibility for part-time workers and workers who have lost employment as a result of compelling family circumstances, and allow unemployed workers to use periods of unemployment as a time to upgrade their skills and qualifications.”  

According to the CAP, the U.S. should also improve the social safety next. This would include the modernization means-tested benefits programs into a coherent and coordinated system. The safety net should enable people to return more easily to work and to maintain a decent level of living between jobs. The systems should be simplified and expanded to provide access to both working families and people with disabilities. Moreover, the benefits, eligibility and access to the Food Stamp Program should be strengthened, and the Temporary Assistance for Needy Families Program should shift its focus “from cutting caseloads to helping needy families find sustainable employment.”

According to the CAP, transfer programs should also include housing for the poor. Government should create 2 million new housing vouchers in the next 10 years, and promote equitable development in metropolitan areas. According to the CAP, almost 8 million Americans live in poor neighborhoods in which at least 40 per cent of residents live below the poverty level. All new affordable housing should be in gentrifying neighborhoods or otherwise “opportunity rich” communities with job openings, high-quality public services

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18 Ibid.

19 Ibid.
and physical security. Moreover, the U.S. should address the fact that the poor often pay more for consumer products and financial services than middle or high-income families. Therefore government should for instance expand mortgage assistance programs and curb unethical practices. In addition, the federal government should establish a “$50 million Financial Fairness Innovation Fund” to encourage state efforts to increase access to goods and financial services in low-income communities. Finally, Government should also encourage saving for homeownership, college and retirement. To this end, it should expand and simplify the federal “Saver’s Credit” and make it fully refundable. Furthermore, the program should be expanded to apply to individual development accounts, children’s savings accounts and college saving plans. to encourage saving for education, homeownership, and retirement.20

Is taxation effective in reducing income disparities?

According to Mandle, the U.S. has a relatively progressive tax system; it is actually mid-league among developed nations.21 At the conceptual level, changes in taxation cause changes in inequality; according to Joel Slemrod and Jon Bakija, standard models on taxation suggest that to reduce income inequalities tax and transfer systems should increase progressivity.22

Public choice models, however, may counteract progressivity; such models postulate that progressive redistribution is increased by greater proximity between the poor and the middle class while greater proximity between the middle class and the top income levels

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20 Ibid.

21 Mandle, Democracy, 32.

reduces progressivity since increasing distance between the middle class and the poor weakens the inclination of the middle-class to redistribute towards the lower income earners. Slemrod and Bakija conclude that it is very unlikely that the tax cuts in the eighties were mainly responsible for the increased income inequality while they may have had some effect.23

Joseph Stiglitz has been arguing that taxing the wealthy would not be effective given their ability to pass on the extra costs and to transfer funds abroad.24 It would seem that taxing wealth practically requires extensive international cooperation given the high mobility of wealth in comparison to labor, but a global tax regime for income or capital gains is not likely. On the other side, the U.S. has introduced tax cuts for high income earners and these cuts have sometimes been justified by their putative beneficial effects for the whole economy and the rest of the population. Slemrod and Bakija note that the logic of these claims is sound but the decisive question is how big the effect would be; according to Slemrod and Bakija the evidence is so far not very promising.25

Lynn A. Karoly’s research has indicated that the tax system is not effective in addressing pre-tax income inequality: “Although changes in the degree of progressivity of the tax system may be justified on other grounds, it is not clear that they can be used to significantly counteract other factors - such as family composition changes and the changing wage structure.”26 David M. Cutler has, however, criticized Karoly’s conclusion by noting

23 Slemrod and Bakija, "Growing Inequality," 11, 19.

24 Reynolds, Income and Wealth, 199.


that her research focused on the taxation of the middle class and the wealthy and in those groups the taxes needed to reduce inequalities would be far too large to undertake. However, for the very poor tax policy can have an effect since the statutory effect of earnings is 100 per cent: each earned dollar reduces the benefits by one dollar. According to Cutler, the true tax rate would be even higher, “since working individuals may lose their benefits for food stamps, housing assistance, or Medicaid.” Cutler calls for earned income tax credits that subsidize rather than tax work. He also refers to “neighborhood or peer group effects” according to which people are influenced by the actions by their peers: policies encouraging work could encourage also those who do not receive benefits.27

Minimum wage rules

Progressives such as the labor unions and the CAP are strong proponents of minimum wage regimes. According to Lindbeck minimum wages can, for instance, be accompanied by reductions in payroll taxes in order to increase incomes for low-income earners.28 Reynolds, on the other hand, has a totally negative view on minimum wages. He states that the increasing income inequality in the early 1980s was not due to the failure to implement increasing minimum wages - the income disparities increased at the top, not at the bottom. According to Reynolds, minimum wages have a negative effect in practice because “higher minimum wage could put many of the lowest-wage workers out of work - or at least shove them into obscure subminimum wage jobs unlikely to be counted.” This would then actually diminish the inequality since low-pay work would disappear from the data. Reynolds also claims that an increased minimum wage would increase the percentage


28 Weiner and Monto, Income Inequality, xxviii.
of workers who earn less than the minimum wage because the minimum wages will price out workers from some jobs. Subminimum jobs are “too obscure to be counted in wage surveys, even if they are legal” – Reportedly, there continue to be around 1.6 million who earn less than the minimum wage: the federal minimum wage does not apply to small employers, small farms, and many menial jobs. According to the 2003 statistics, only 545,000 workers were paid the federal minimum wage. When the federal minimum wage was increased in 1996 and 1997, the percentage of workers earning less than the minimum wage increased from 2.5 to 4.2 per cent. According to Reynolds, the increased minimum wage was the only explanation since unemployment was low and decreasing in 1996-1997, and the pressure from laid off minimum wage workers increased competition for subminimum wage jobs and pushed the lowest wages even lower.\textsuperscript{29} To be fully convincing, these figures should, however, be supplemented by the figures on minimum wage earners and new entrants to the labor markets, namely people who did not work previously.

As mentioned above, the CAP on the other hand sees minimum wages as an effective way to reduce income disparities. It calls for increasing the minimum wage to 50 per cent of the average hourly wage - in 2008 the minimum wage was at 30 per cent of the average wage. According to the CAP this would help almost 5 million poor workers and almost 10 million low-income workers above the poverty line. The CAP also calls for the expansion of the EITC and Child Tax Credit since it raises incomes in low-income families and helps them save and invest. The CAP suggests that the EITC should be tripled for childless workers; at the same time the Child Tax Credit should be made available to all

\textsuperscript{29} Reynolds, Income and Wealth, 194-196.
low- and moderate-income families. These measures would according to CAP lift 5 million people out of poverty.\textsuperscript{30}

**Union membership**

As mentioned in Chapter 3, some authors have suggested that the diminishing unionization has contributed to the increased income disparities and therefore supporting and strengthening labor unions would have a salutary effect on income distribution. This claim seems to contested by those who see the unions rather as an impediment for economic growth. Reynolds for instance reasons that declining union membership would have had an effect on the wage growth if the labor’s share of national income would have declined, which is not the case. According to research quoted by Reynolds, the labor’s share has remained constant, at least between 1996 and 2005, hovering around 71 per cent.\textsuperscript{31} Here the key question is what exactly is included in the definition of labor income, whether it is all income earners, which includes the top quintiles as well, or traditional blue collar workers only. The union membership may have an effect at the blue collar level, while unionization has traditionally been nonexistent among the top earners.

The CAP states that unionization has a positive impact on incomes and therefore unionization should be encouraged by enacting the Employee Free Choice Act which would require an employer to recognize a union after a majority of workers agrees to a union representing them; the Act would also impose stiffer penalties in case employee rights are violated. The CAP does not estimate how many workers would escape poverty with this measure.\textsuperscript{32}

\textsuperscript{30} Center for American Progress, "From Poverty to Prosperity."


\textsuperscript{32} Center for American Progress, "From Poverty to Prosperity."
**Legislation, redistribution through private law**

Legislation, as understood to cover rules beyond taxation and transfers, can also have redistributive functions. For instance rules governing lease normally better protect the rights of the tenant than those of the landlord. Another example could be consumer protection rules. The ideological debate on such legislation focuses on whether legislation should be used for social justice or whether laws should be efficient and equal to all. A common claim against the use of laws for social justice is that increasing fairness diminishes effectivity and hence the amount of economic goods that could be redistributed.\(^{33}\) David Weisbach considers that legislation should not be used for income redistribution since taxation and government transfers are more effective, and legal rules should not favor the poor.\(^{34}\) Cass Sunstein agrees with Weisbach and makes a point on the disincentive effects of redistributive taxation and transfers: possible disincentives raise only an empirical challenge that can be addressed by an optimal design of the redistributive measures.\(^{35}\) Taxation cannot, however, be used in every situation and Sunstein also raises his favorite topic, behavioural economics, as a foundation for another approach to increase the wellbeing – and incomes – of the poor. Since many people are not able to take decisions that would be right for them or they take short-sighted decisions making them worse off, society should help them. While legislation cannot curb the free will, "libertarian

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paternalism" can inform people of the right choices, create default rules and orchestrate "debiasing strategies" that help people make the right choices.\textsuperscript{36}

Daphna Lewinsohn-Zamir counters the arguments against legal rules by saying that while redistributive tax rules and transfers have advantages, legal rules should complement them since they do not have the same negative connotation of charity and they instil a sense of entitlement: the benefits are not considered as hand-outs but as established rights conveying objective goods, not money. Moreover Lewinsohn-Zamir considers that such perception of benefits as rights diminishes the opposition of those whose welfare is reduced.\textsuperscript{37}

\textit{Monetary policy}

According to Christina and David Romer, expansionary monetary policy normally entails a decline in the poverty rate but the decline is reversed when the unemployment rate reaches its original level.\textsuperscript{38} "Monetary policy cannot permanently reduce poverty and inequality by creating booms or preventing recessions."\textsuperscript{39} Their tentative conclusion though was that "the typical package of reforms that brings about low inflation and macroeconomic stability will also generate improved conditions for the poor."\textsuperscript{40}

\textsuperscript{36} Sunstein, "Willingness to Pay," 329, 330.

\textsuperscript{37} Lewinsohn-Zamir, "In Defense," 397.

\textsuperscript{38} Weiner and Monto, \textit{Income and Inequality}, xxv.


\textsuperscript{40} Ibid., 199.
Curbing globalization

As noted in Chapter 3, several authors consider technological change and globalization as major “culprits” for increasing income disparities. Therefore it is conceivable that policymakers would address these two factors. There is, however, broad agreement that curbing technological change would not serve the U.S. interests in the long run - given the benefits technological change can bring to society and the concern for international competition. In addition, the U.S. has traditionally been keen to embrace new technologies. As regards globalization, the picture is somewhat more mixed. While no serious opinion maker is against globalization, labor unions have elements in their agenda that could be considered as measures to limit the effects of globalization. For instance, the AFL-CIO is actively working for repatriating U.S. investments from abroad and closing U.S. public procurement from goods produced outside of the U.S.41 While contrary to open trade policies, these measures might help the U.S. strengthen its manufacturing base that has declined in the past decades as discussed in Chapter 2.

Corporate policies

The CAP has pointed out that even private company policies can play an important role in increasing income of the low-wage workers. Richard Freeman, Joseph Blasi and Douglas Kruse have come up with the idea of increasing incentive compensation systems (bonuses) in companies in order to spread the economic gains beyond the top level of company executives, and rank-and-file employees would have access to the capital -related earnings generated by their companies.

The researchers mention successful companies such as Wegmans Food Markets, Inc., Cisco Systems Inc. and Google Inc., as good examples of companies that are practicing “an inclusive capitalism” which creates wealth for all employees. Based on the experience from these companies, such systems increase productivity and increase output. Freeman, Blasi and Kruse also claim that increasing evidence shows that incentive compensation plans restricted to the top management benefit neither the companies nor the economy in general.\(^{42}\)

It is to be noted that currently companies can deduct incentive compensation costs from their corporate taxes irrespective of the number of employees benefiting from their compensation systems and irrespective of the amounts involved. The reform would build on existing regulations on pensions and health care arrangements, which allow tax deductions for such compensation packages that cover most workers, and it would give favorable tax treatment to compensation systems only if full-time employees participated in them and if the amount spent on the top 5 per cent of employees was also spent on the bottom 80 per cent. In this way, the reform would ensure that everybody’s earnings would increase in the same pace as overall economic growth.\(^{43}\)

The proposal would require a change in tax policy. Under the current rules firms cannot deduct salaries exceeding $1 million, but they can deduct bonuses no matter how many people are covered by the plan. According to Freeman, Blasi and Kruse, data from the Internal Revenue Service show that options alone amounted to $86 billion from July 2007 to


\(^{43}\) Ibid.
June 2008. This tax deduction effectively subsidizes the incentive pay of the few at the top. According to the authors, the new system would not have much effect on the existing broad based incentive schemes, but companies with narrow incentive plans would either need to expand the reach of those plans or pay more taxes. The increasing productivity from broad bonus plans would hopefully encourage more companies to embrace “inclusive capitalism”. On the other side, the bonus system should not expose workers to undue risk, which has often been the case with 401k retirement plans. This risk could be mitigated by limiting the amount of company stock to 10 per cent in the 401k plans. The overall effect from the reform would not only be improved pay and increased productivity but also a restoration of the relation between employee income and economic growth. Moreover, “[s]uch inclusive capitalism would do wonders to restore faith in the American Dream.”

44 Ibid.

Private initiatives - charity

Charities can in principle be considered as agents for a more equal distribution of income. Private charities have a strong tradition in the U.S., and charity work is an integral part of American everyday life. It is furthermore encouraged by tax credits. It has been estimated that every year 85 million American households donate money to nonprofit organizations. Private charity is also politically tinted: private donors are more likely to be Republicans than Democrats.45 Transfers through charity can have significant effects at the micro level, but at the macro level private charities may lack a comprehensive strategy to address the most pressing issues; charities are finally directed towards to the interests of the donors and not according to the wider political or societal objectives, and this bias is even

amplified by the favorable tax treatment which in fact could be considered a subsidy from the public funds to the private interests.

_Taking no measures_

Feldstein considers that the rising income inequality is not a problem in need of a remedy. According to the Pareto principle, “if the material well-being of some individuals increases with no decrease in the material well-being of others, society is better off even if measured inequality has risen.” According to Feldstein, the increasing disparities have been due to increases in productivity, entrepreneurial successes, longer work week, and a lower cost of capital. The resulting increase in income disparities would therefore be irrelevant. He does, however, note that poverty is a problem, and should be addressed by better on-the-job-training, and a more competitive educational system. In practice this concern does not, however, seem to be fully coherent with his view on increasing income disparities and the Pareto principle. Paul Ryscavage, inspired by Feldstein’s logic and the Pareto principle, has also written that income inequality is good for society and efforts to increase equality run counter the basis ideological basis of the American economic system: there is no economic opportunity without economic risk, and there will be people who suffer but it is part of the system. In all, the system works well according to Ryscavage and he refers to himself and his fellow middle class citizens living in gated communities. While this debate is perhaps more about ideology than economics, it would seem odd to take the Pareto principle at its face value in a society where the goal posts are constantly moving and nobody is expected to remain at some fixed level of prosperity.

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46 Weiner and Monto, _Income Inequality_, xxvix.

Conclusion of Chapter 7

The U.S. has introduced numerous measures that attempt to address income inequalities and there are several new ideas that could be introduced. Unlike in the field of education, there is no wide political agreement on any single measure, be it on the effects of the measure or whether the measure should be prioritized. The preferences would seem to be based on ideological considerations and views on the role of government in general. At the one end of the spectrum, the preference would be not to introduce any measures; at the other end, government should take an active role in introducing new redistributive policies. In the long run it would seem to be difficult to maintain a coherent approach on these accompanying measures since with each change of the political majority, the overall view on redistributive policies can change almost 180 degrees.
CONCLUSION

In its current form the U.S. educational system does not necessarily provide the labor force that the U.S. economy needs, and it is expensive and inefficient. There is wide political consensus that the educational system must be improved. The quality of education must be raised, and high school completion rates should increase. Furthermore, society should ensure that all qualified students can have access to post secondary education with special attention being paid to college completion. An important part of this reform is to create reliable and comprehensive data and benchmark systems to assess the efficiency and productivity of the educational system.

The Obama Administration has accepted the view presented by several scholars that raising the supply of a highly skilled work force will have a beneficial effect on income distribution; therefore the education reform has become the main policy tool to address income inequality. Nonetheless, education may also have elements that strengthen existing income differences. Students from wealthy families are more likely to go to good colleges and end up in well-paid jobs. Students from low-income families are more likely to drop out or end up in lower tier colleges and get less well paid jobs. Moreover, the system might finally not provide the skills that are needed in the changing economy, thereby wasting scarce resources.

Despite these limitations, the education reform is currently the strongest policy field to address income disparities because it has broad political support; it also has beneficial effects on society and individuals' lives in general by creating a prime conduit for upward social mobility. The U.S. also has a strong interest in maintaining the high standard of post secondary education which is one of the most successful and attractive sectors of the U.S. economy, and may have a beneficial effect in attracting other sources of economic activity.
However, an education reform would not likely be sufficient by itself to counter the increasing income disparities, which are not only influenced by the distribution of labor earnings but also by increasing globalization, demographics, and social factors. These elements would require targeted measures that take into account fundamental changes in a polarized society. This would imply that if the U.S. wants to reduce income disparities, it would also need to take drastic measures on income transfers and social policies. Moreover it might also need to revamp the respective roles between states and the federal government in order to increase the efficiency of social policies and to reduce geographical disparities. However, factors such as demographics and social conventions are difficult to address by public policy measures. Income disparities are therefore likely to increase both in the U.S. and abroad; the real question therefore is whether these increases can be slowed down and whether and how the negative effects should be mitigated.

The wide political support for the need for educational reform may have its roots on the idea of education as the main means for upward social mobility, leaving it open to individuals’ choice to pursue or ignore it making it consonant with the traditional American ethos of free choice and opportunity for all. The current Administration has also nimbly combined public and private actors to work together and it has addressed the jurisdictional limits between federal, state, and local authorities by encouraging voluntary cooperation across the nation and thereby creating more uniformity to the system. The involvement of the private sector has also the benefit of engaging the emerging key players in the global economy; while their role can be subject to a political debate, they bring in useful expertise on the broader global considerations at stake.

With regards to the other policy measures that could possibly address income disparities and their negative effects, the interests and views of different interest groups and
observers are widely diverging, reflecting a traditional fault line of the American society; namely the role of the individual and the role of government as an agent of change. Accordingly, the political feasibility of such measures is quite doubtful in the political landscape of 2011. The increasing fragmentation of the American society, diminishing cohesion, and a decreasing number of common American values might make it even more difficult in the future to rally the nation to actively address the eroding incomes at the bottom of the income ladder and to reduce the polarization of society.

Therefore, the educational efforts are the most important policy measures in the coming years, but not necessarily by their greater impacts but by virtue of political feasibility. With regards to the fundamental issue of the acceptability of increasing income disparities, the next few years will show if they become an integral part of the American way of life or whether the disparities and polarization will seriously start impairing the functioning of U.S. society. It is conceivable that income disparities will not have a fundamental effect on U.S. politics even if they would entail economic disadvantages and polarization. Whatever the reality is, it seems that perceptions and feelings increasingly influence people's choices in the ever more complex society; and a free market economy with minimal government intervention is still considered by many as the most efficient formula for a thriving U.S. economy and individual well-being. Nonetheless, for increasing the general awareness of the consequences of political and economic choices the educational system can also play a role, as suggested by Sunstein. On the other hand external factors, such as the reduction of the relative U.S. power in the world, growing interdependency, and the increasing involvement of governments abroad to address economic issues may put the American exceptionalism to test. Also in this case the U.S. would need a strong and efficient educational system to help either defy or adjust to
international pressures. Therefore, irrespective of the importance of education in directly addressing income disparities, a robust and flexible educational system is a necessity for the U.S. society.


Holzer, Harry J. “Education and Training for Less Affluent Americans in the New Economy." In *Ending Poverty in America, How to Restore the American Dream,*


