

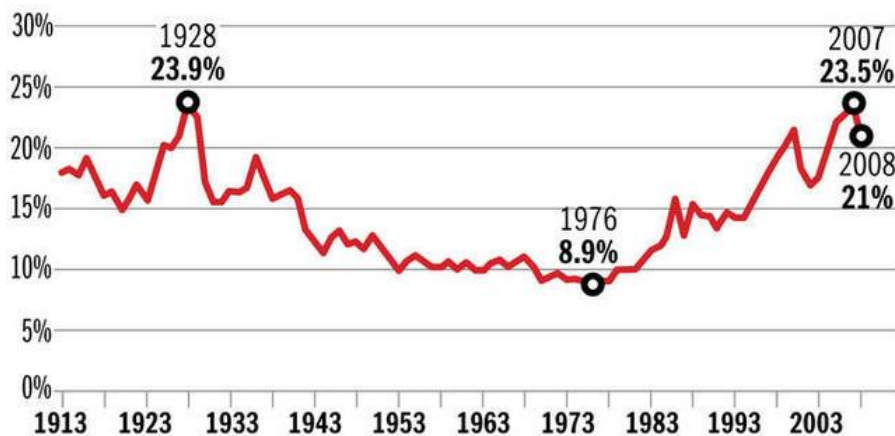
Deseret News

Growth, mobility, inequality: Three policy experts write their own State of the Union

By [Eric Schulzke](#)

U.S. Inequality: ebbs and flows of the 1%

TOP 1% SHARE OF TOTAL-TAX INCOME, 1913-2008



SOURCE: Thomas Piketty and Emmanuel Saez, "Income Inequality in the United States, 1913-1998," *Quarterly Journal of Economics*, 118(1), 2003. Updated to 2008 at <http://emlab.berkeley.edu/users/saez>, Via inequality.org.

DESERET NEWS GRAPHIC

When President Barack Obama takes the podium tonight for his annual State of the Union address, many expect him to center on income inequality, an angle already signaled a week ago with his radio address, as well as in speeches last month.

Wages have stagnated since the Great Recession officially ended, and the majority of new jobs created since then have been at the low end of the pay scale. Labor Department data last summer showed that inflation and seasonally adjusted non-government hourly wages had actually declined since June 2009, from \$8.85 to \$8.77, even as a booming stock market has boosted wealth among the investor class.

Most analysts agree on the basic picture, which is sure to be a strong focus in the president's address. But there is wide disagreement on what to do about it.

“I would start with the minimum wage,” said Ben Olinsky, senior fellow for economic policy at the left-leaning Center for American Progress, when asked how he would write the speech.

“When you give a few more dollars to low-wage workers, they spend it almost immediately in their communities, strengthening local businesses and creating a cycle of prosperity.”

Jim Kessler, senior vice president for policy at Third Way, a centrist Democratic policy group, agrees that the minimum wage must be raised, but he argues that is not a long-term solution. “The problem now is that middle class jobs do not provide a middle class life,” Kessler said.

“Raising the minimum wage is more than a Band-Aid and less than a strategy,” said Isabell Sawhill, co-director of the Center on Children and Families at the Brookings Institution, who like Kessler favors the wage hike but doesn’t think it’s an economic game changer for those who are struggling.

The three policy analysts, all Democrats, reflect the range of perspectives likely vying for attention within the Oval Office. All three view the minimum wage as a necessary beginning, but all agree that it is only the first move in addressing inequality, opportunity and stagnating middle class confidence.

Dissenting voices

There are voices of dissent on the minimum wage. One of these is Dan Mitchell, a senior fellow at the libertarian Cato Institute, who argues that minimum wage hikes would work well for those who keep their jobs, but many will not.

If the minimum wage is forced up, some lower-skilled workers will end up unemployed, Mitchell said, “and their income is going to be zero.”

Veronique de Rugy, senior research fellow at the Mercatus Institute, a libertarian think tank, agrees with Mitchell that raising the minimum wage could adversely affect the least skilled workers. “The only dispute is how large the effect will be, and whether it is worth the tradeoff.”

Apprenticeships

Olinsky has a raft of policy suggestions he would insert in the president's speech. Some, like apprenticeships, have the virtue of broad bipartisan appeal. The wage advantage of going to college has gone up, Olinsky said, but college is still out of reach for many. In December, Olinsky [coauthored a report](#) calling for a new generation of apprenticeship training following models in Australia and Europe that put young people in the workforce immediately after college, learning and earning at the same time.

Cato's Mitchell agrees that innovations such as apprenticeships seem appealing, but hopes it wouldn't be implemented as a top down, one-size-fits all program run by the federal government.

“The challenge for apprenticeships is that most people don’t think of these things as a modern system of training,” says Ben Olinsky at the Center for American Progress. He said that in Germany and the U.K., apprenticeships are becoming common — combining some postsecondary skills training with on-the-job career paths that offer income from day one. South Carolina has seen success with a far-reaching program called Apprentice Carolina, offering guidance and tax credits to employers. Iowa’s governor just included a related proposal [in his State of the State address](#).

“It’s one way to combat inequality and build a stronger middle class,” Olinsky said. He has a list of other proposals he would push into the speech, all calculated to narrow inequality. They include universal pre-kindergarten education, an insurance program for paid family and medical sick leave, allowing low-income people to refinance student debt, and efforts to strengthen retirement security.

Economic growth

What can you do for those on the weak end of the recovery? “The answer is strong economic growth,” said Mitchell, which would lead to a tight labor market and higher wages. “Those on the left are so focused on how the pie is being sliced they overlook importance of growing the pie. If the pie is fixed or shrinking, you have a no-win situation. You just end up with rent seeking and influence peddling.”

Without stronger economic growth, there won’t be much to save or redistribute, said Third Way’s Kessler. But he remains bullish on America. The wounds of the Great Recession haven’t healed, but the bleeding has stopped, he argued.

“We had a very good second half of last year. Right now, I’d rather be us than Europe or Japan,” Kessler said. “Businesses are making money and have cash on hand. We have an immigrant population that will bring new life to the economy. America still has a lot of its traditional strengths.”

But the deep structural challenges must be addressed, Kessler said. “In the past 13 years, we’ve only had two years with growth greater than 2 percent,” he said, “where in the previous 13 years we had nine, and in the 13 before that we had nine. We’ve had slow growth environment for two entire presidencies.”

Is Kessler right that the U.S. economy has been hollowed out and middle-class jobs no longer provide middle-class income? This is partially true, concedes Mitchell, adding that in a globalized economy “unskilled labor is less rewarded, and declining transportation and communication costs make it cheaper to find labor abroad.”

The real solution, Mitchell says, is not to artificially raise wages but rather to tighten the labor market, making unskilled labor more valuable. This has implications for immigration policy, Mitchell says.

Kessler's growth agenda includes immigration reform, trade agreements with Asia and entitlement reform of Social Security and Medicare to free up more money for other social needs.

The key is mobility

Both inequality and economic growth are critical, agreed Brookings's Sawhill, but she prefers to emphasize economic opportunity and intergenerational mobility.

People think of the U.S. as the land of opportunity, she said, but the chances of climbing the ladder from one generation to the next today are not as high here as people like to think, and not as high as other advanced countries. "We may not be the land of opportunity anymore," said Sawhill, a veteran of the Clinton administration whom Time called a "militant moderate."

Veronique de Rugy at Mercatus disputes the notion that mobility has declined in the U.S., arguing that income mobility today is no different than it was 20 years ago. "We can say it is not what we want, but that's different than saying that it has fallen in recent years or that it is not there at all."

Three-legged stool

Sawhill's agenda reaches well beyond monetary inequality, however. She views the problem more broadly to include gaps in education, family structure and parenting styles. A few years back, she coauthored a book titled "Creating the Opportunity Society," in which she and Ron Haskins argued that if you do just three things, you will almost certainly not slip into poverty: "finish high school, work full-time, and don't have kids until after you are married."

The biggest impact of the three, she says, comes from working full-time, but all three are important. "You can't imagine how many people in bottom third of income are not working at all or only part of the year or part time," she said. "Many are not working because jobs are not available.

"Single-parent families are a huge part of the reason we have more inequality and low mobility," she said, adding that she does not see much government can do in this space.

Here Mitchell emphatically agrees. "The poverty rate for those who do those three things is infinitesimally low, almost trivial."

Sawhill is currently writing a book on poverty and mobility, to be published by Brookings in the fall. "Marriage is on the wane," she said. "Single parenting is here to stay and is a major cause of poverty and inequality. It's hard to put the marriage genie back in the bottle, but civic and religious organizations should try to get the message out."

When it comes to education, the third leg of the stool, Sawhill argues that it's easy to put the blame on schools, but parents and students are equally critical. The education element thus, to some degree, folds back into family structure.

“To get through school with the skills you need, you need to do your homework and you need to have parents who expect you to achieve in school,” she said. “There is an assumption in the U.S. that you don’t have to work hard. Just get that diploma and you can plod along. We are no longer in that world. We are in a world where the kids in other countries are doing much better.”

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