So What Explains the Growing U.S. Income Inequality — Better Pay for Better-Educated Workers or Institutional Flaws? (Sections II-III)

Assigned Discussion Group Moderators:

Date of Discussion: Tuesday, September 30th, 2008, 11-12 (First Hour of Class)

Required and Recommended References:


PLEASE NOTE: All students should prepare to participate in this discussion by studying at least the required [**] reference materials and by considering possible answers to the discussion questions posed below.
Specific Responsibilities of Discussion Group Moderators:

The moderators should prepare a clear concise hand-out for distribution to the class on the discussion date September 30th. The hand-out should provide suggested answers to discussion questions 1 through 4 detailed below (to the extent that the moderators believe that definite answers can be provided) as well as pointing out any aspects of these questions that the moderators conclude are controversial, hence difficult to answer in a definite way. If possible, the hand-out should also be distributed in advance using the class email list macro502@iastate.edu at least one day prior to September 30th.

The moderators should come to class on September 30th prepared to lead a class discussion on their hand-out (hence on discussion questions 1 through 4 below). The moderators should encourage the participation of all students in the discussion by (if necessary) calling on students to express their ideas.

Some Suggestions: Rather than going over all of the moderators’ responses to all of the discussion questions all at once, prior to any class discussion, I recommend that the moderators instead take up each discussion question one by one. As each discussion question is considered, the class participants should be encouraged to comment on the moderators’ proposed answer as outlined in their handout. Preparation of a few transparencies/ppt slides could help to focus the discussion. The exact allocation of time to each discussion question is at the moderators discretion and will presumably depend on the degree to which active productive discussion ensues on the earlier discussion questions. However, moderators should ensure that at least some amount of time is devoted to each question, with an emphasis on the final “capstone” Discussion Question 4.

Evaluation of Discussion Group Moderators:

I will evaluate the performance of the moderators (as a group) on the basis of their hand-out and in-class discussion moderation. It is expected that each of the moderators will actively participate in both aspects. The judgements of all class participants will be taken into account in this evaluation through an anonymous ballot. The points earned by the moderators (up to a maximum of ten) will be included in the determination of each member’s overall course score.
BASIC ISSUE:

It is now widely agreed that income inequality in the United States is increasing. Some economists (e.g., Nobel Prize winner Gary Becker and Clark Prize winner Kevin Murphy [1]) attribute this growing inequality to skill-biased technical change. They argue that technology, augmented by globalisation and a trend towards free-market economies, heavily favours better-educated workers. Consequently, the correct response to growing income inequality in the U.S. and elsewhere is to create a more educated workforce to better compete in the global economy.

In contrast, MIT professors Frank Levy and Peter Temlin [2] argue instead that income inequality in the U.S. is increasing despite gains in labor productivity, an indication that more is at play here than simple differences in worker skill levels. In their view, the effects of skill-based technological change and globalization of markets have been amplified by a collapse of key institutions which began with a shift in the political environment during the 1970s and 1980s and which has changed the bargaining environment for workers. They summarize this by saying that the U.S. has shifted from the “Treaty of Detroit” to the “Washington Consensus.” They conclude that the only way to restore a more equitable income distribution in the U.S. is a change in the winner-take-all philosophy that now infuses government policy and institutions.

Discussion Question 1: What are the key types of policy recommendations that are now commonly referred to as the “Washington Consensus”? Which countries are generally considered to have implemented policies most closely aligned with this “Washington Consensus”?

Discussion Question 2: Provide a more careful outline of the arguments by Becker/Murphy [1] that the forces that are increasing income inequality in the U.S. are beneficial to the economy. Do Becker/Murphy [1] appear to be adherents of the “Washington Consensus” policy recommendations? What policy advice do Becker/Murphy [1] offer to policymakers? Explain carefully.

Discussion Question 3: Provide a more careful outline of the arguments by Levy/Temlin [2] that the forces that are increasing income inequality in the U.S. are not beneficial to the economy. What aspects of the “Washington Consensus” are highlighted by Levy/Temlin as causes of this increasing income inequality? What policy advice do Levy/Temlin offer to policymakers? Explain carefully.

Discussion Question 4: Which set of arguments do you find most compelling, those by Becker/Murphy [1] or those by Levy/Temlin [2]? Explain carefully.