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# **Economic Development and Talent: The Surprising Slowdown in the Growth of Educated U.S. Workers**

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Communities**”

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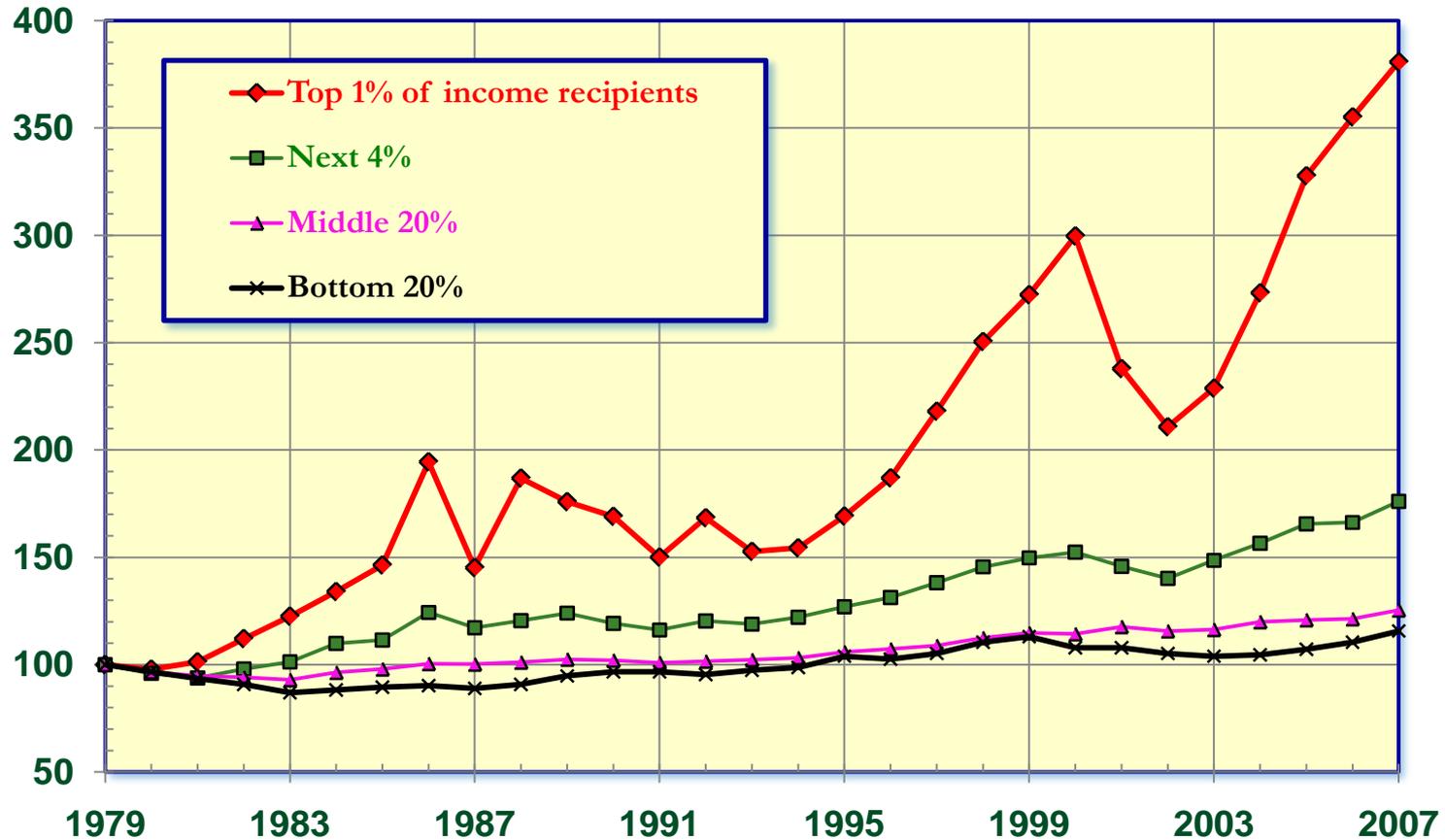
# Overview

- Earnings inequality is rising
  - Nature of increase has varied over time
    - **1979-1989: Inequality increased up and down the wage distribution**
    - **1989-present: Inequality leveled off / declined in the bottom 75%-85% of distribution**
    - **1989-present: Earnings at top continued to grow faster than in middle and bottom**
  - Plausible explanation : Demand-side shifts
  - Mystery: **Why was supply-side response so small ... especially among men?**
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# Trends in after-tax real personal income

1979-2007

1979 real income = 100



+281%

+76%

+25%

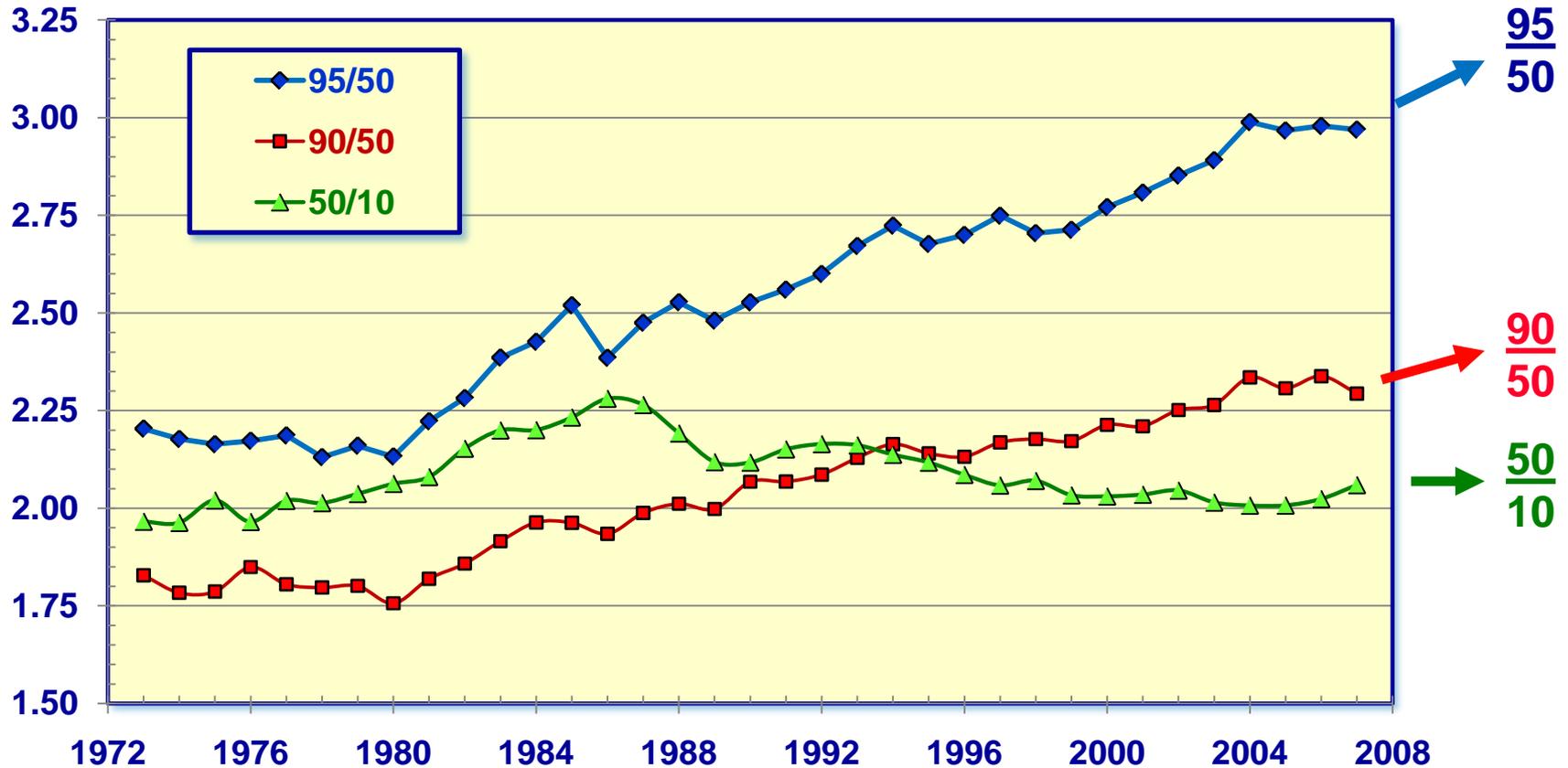
+16%

Source: U.S. Congressional Budget Office.

# Market income inequality is largely due to wider wage disparities

## Trends in U.S. hourly wage inequality, 1973 - 2007

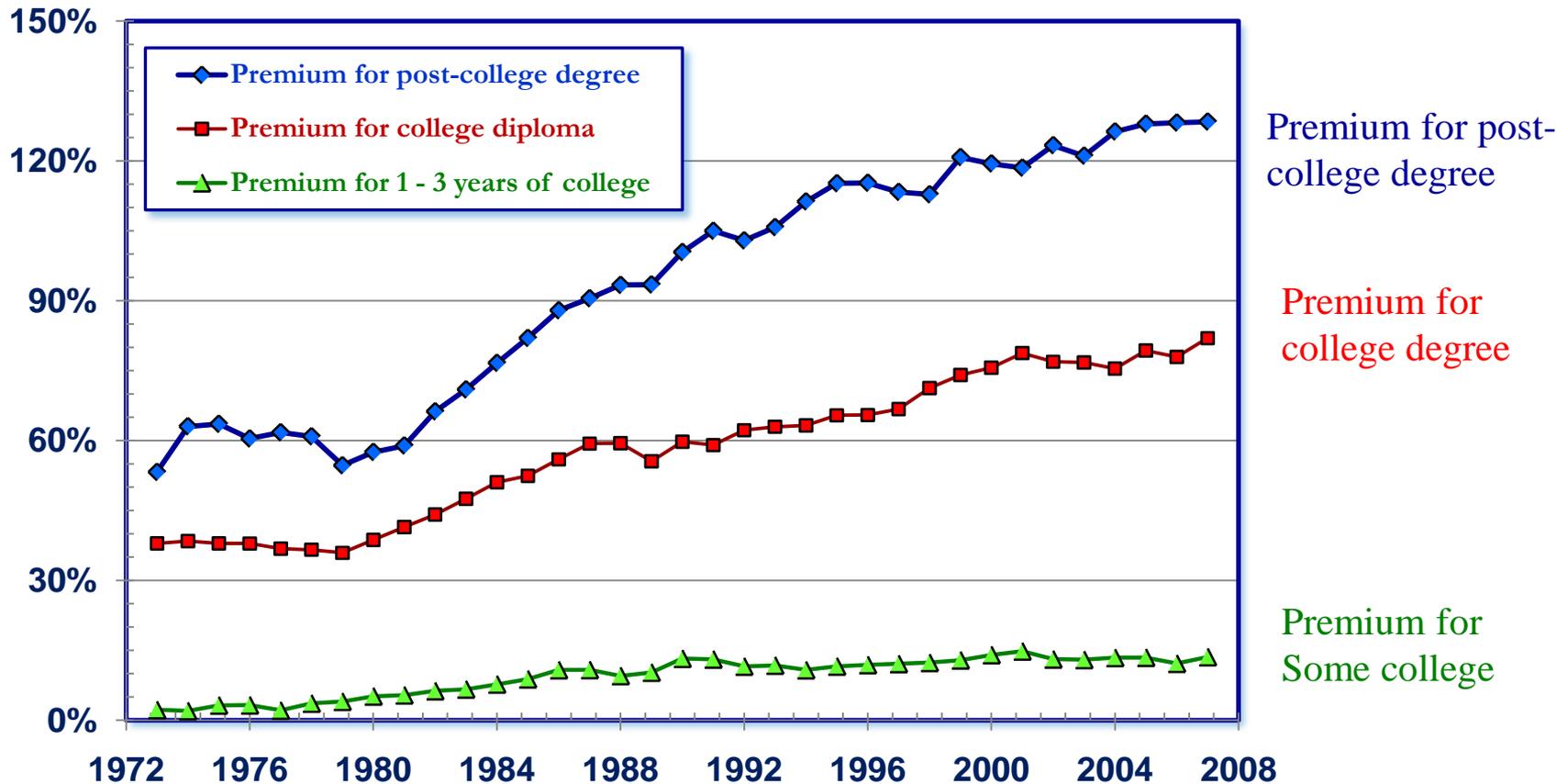
Ratio of earnings at selected points in wage distribution: Men



Source: Economic Policy Institute.

# Earnings premium for post-secondary schooling 1973-2007

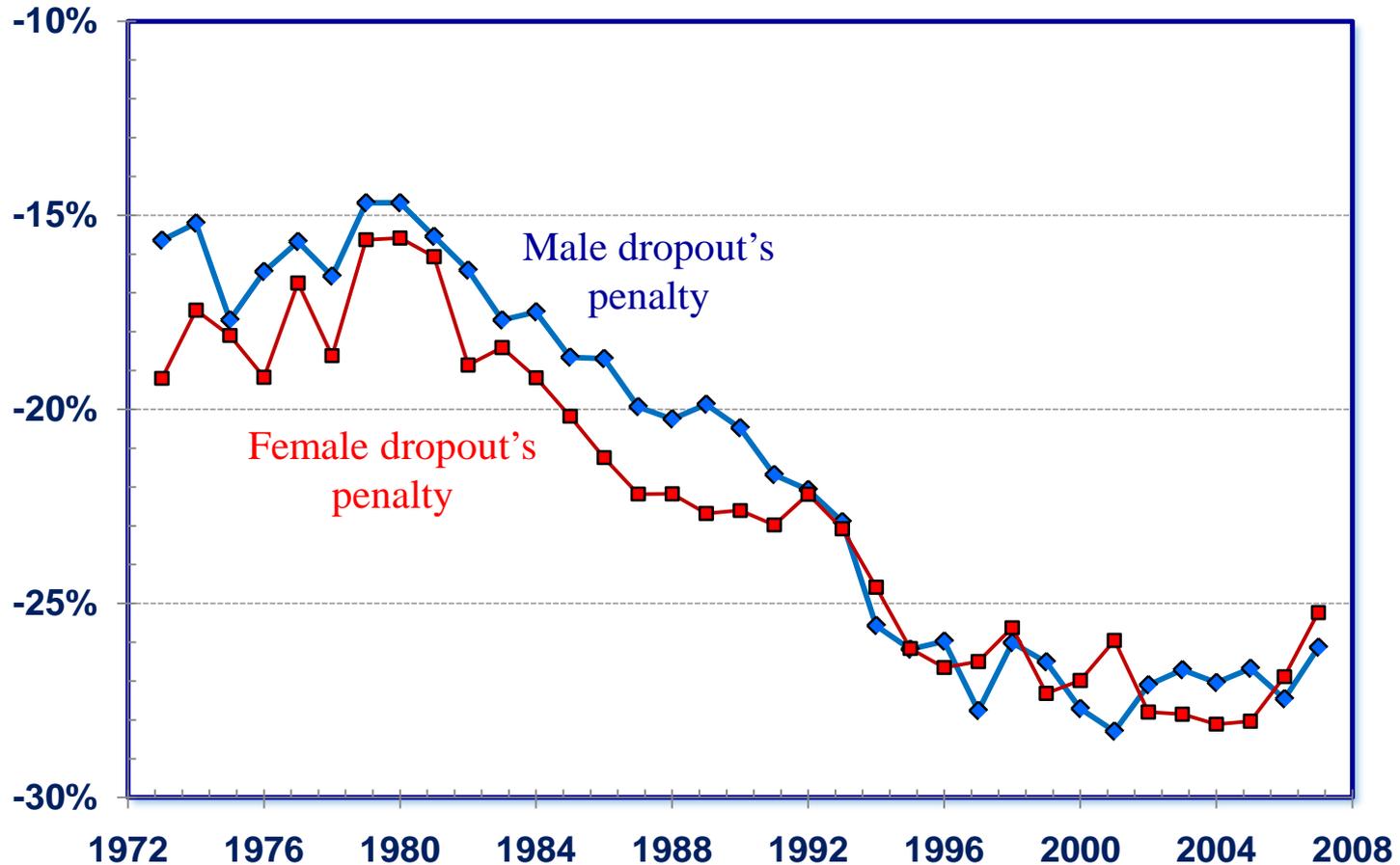
Earnings premium compared with high school graduates' wage: Men



Source: Economic Policy Institute.

# Earnings penalty for dropping out of high school 1973-2007

Earnings penalty compared with high school  
graduates' wage (percent of high school graduates' average wage)



Source: Economic Policy Institute.

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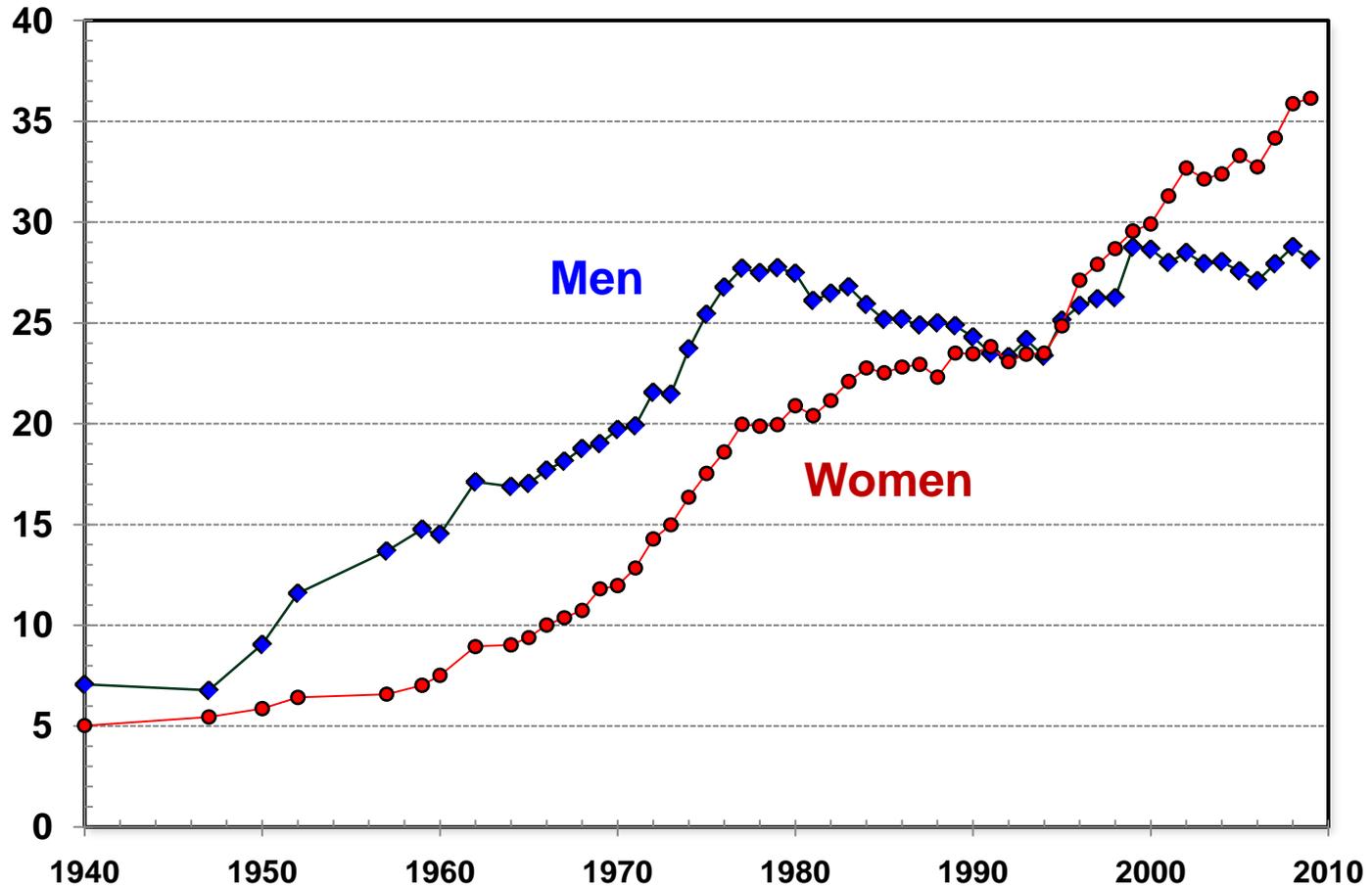
# Summary so far

- Income inequality is rising
    - **Since mid-1990s, widening income gap is mainly between top income recipients and everyone else**
  - Most of the rise in income inequality linked to wider gaps in **labor** income
  - Source of increased labor income inequality: Rising pay premiums for post-high-school education
  - Mystery: **Why was investment in post-secondary education so modest ... especially among men?**
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# College completion among 25-34 year-olds

1940-2009

Percent of population with a college degree

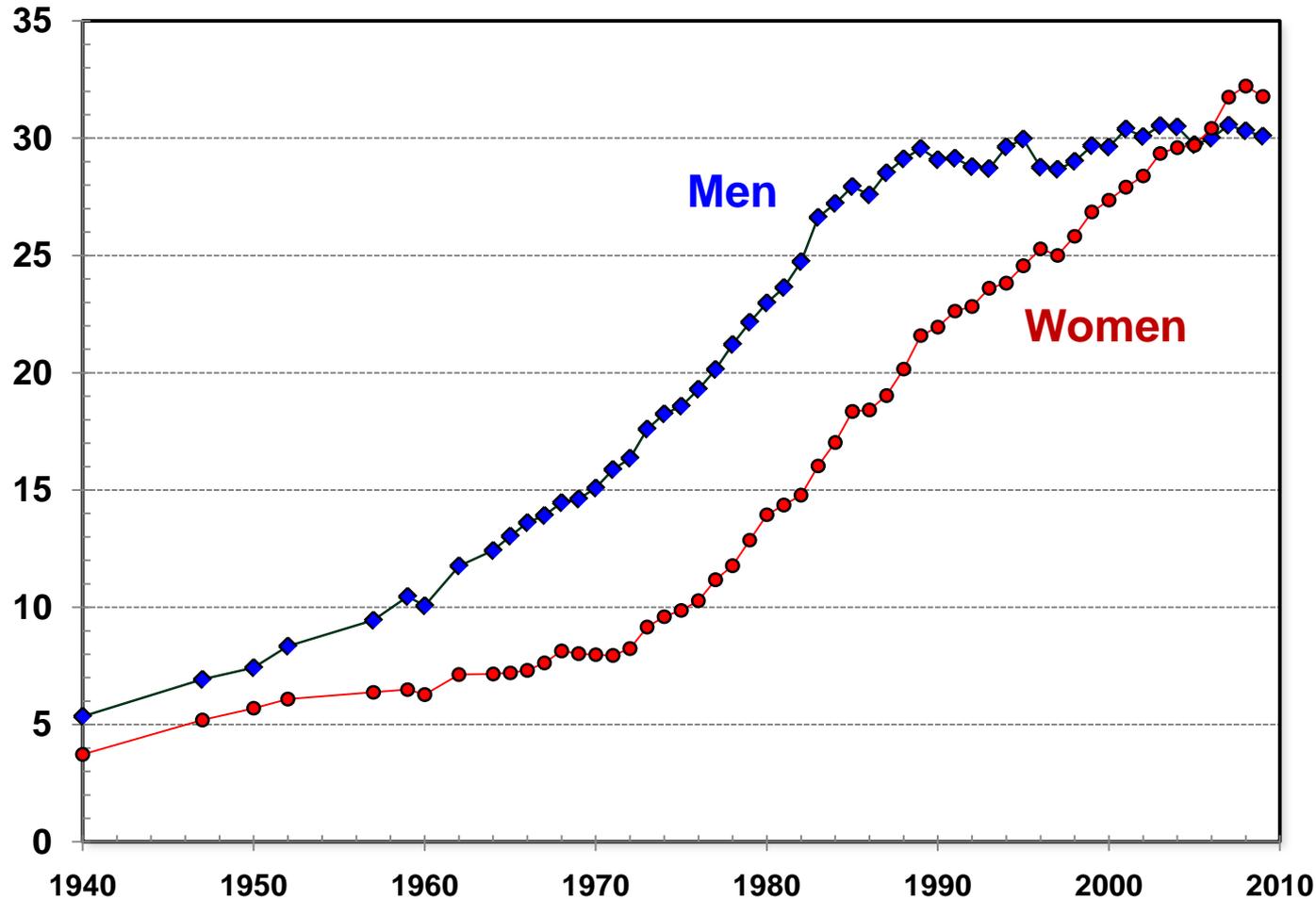


Source: U.S. Census Bureau.

# College completion among 35-54 year-olds

1940-2009

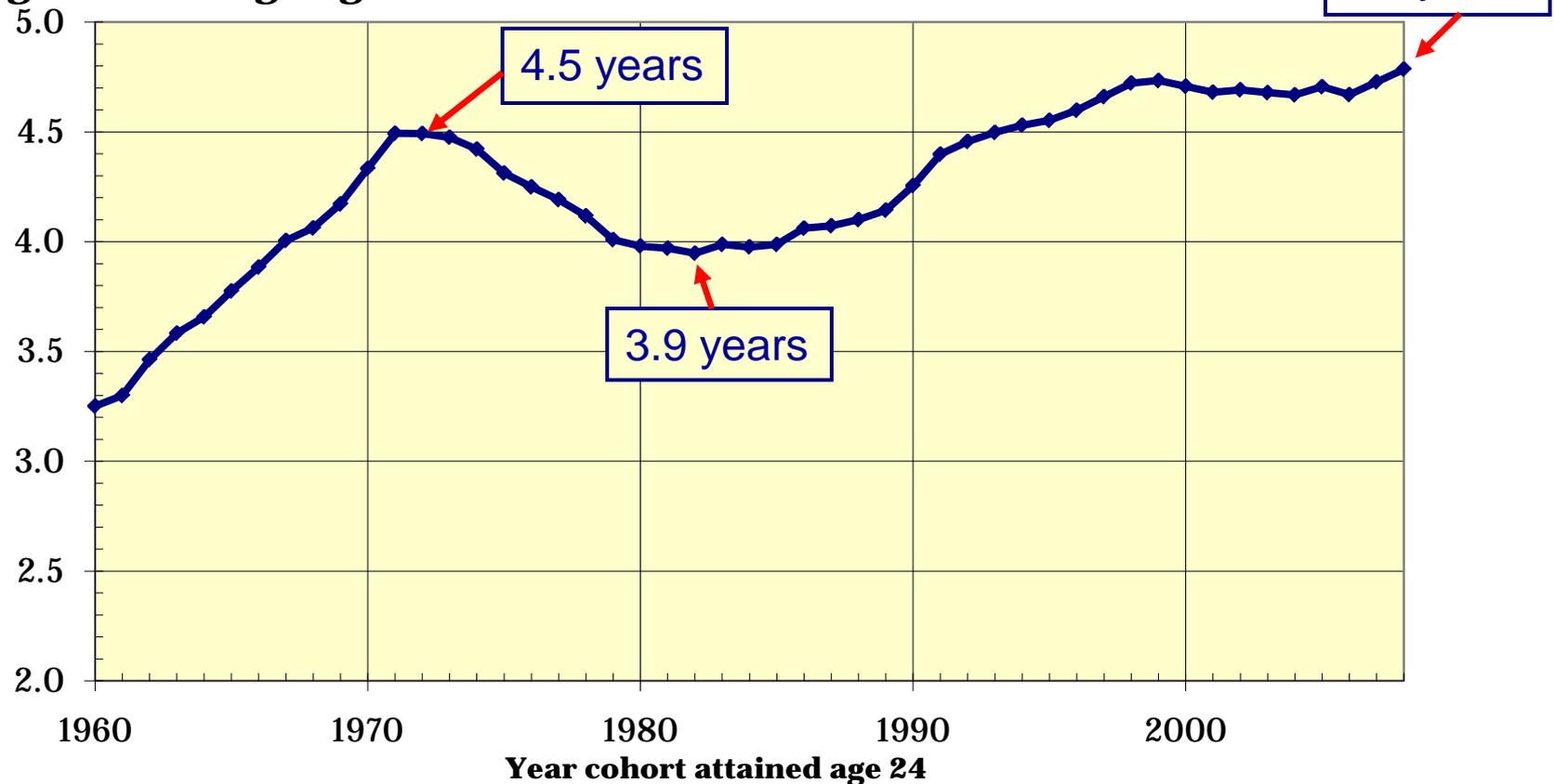
Percent of population with college degree



Source: U.S. Census Bureau.

# Years of school enrollment between ages 16-24 (Males)

**Average number of years enrolled in school,  
ages 16 through age 24\***



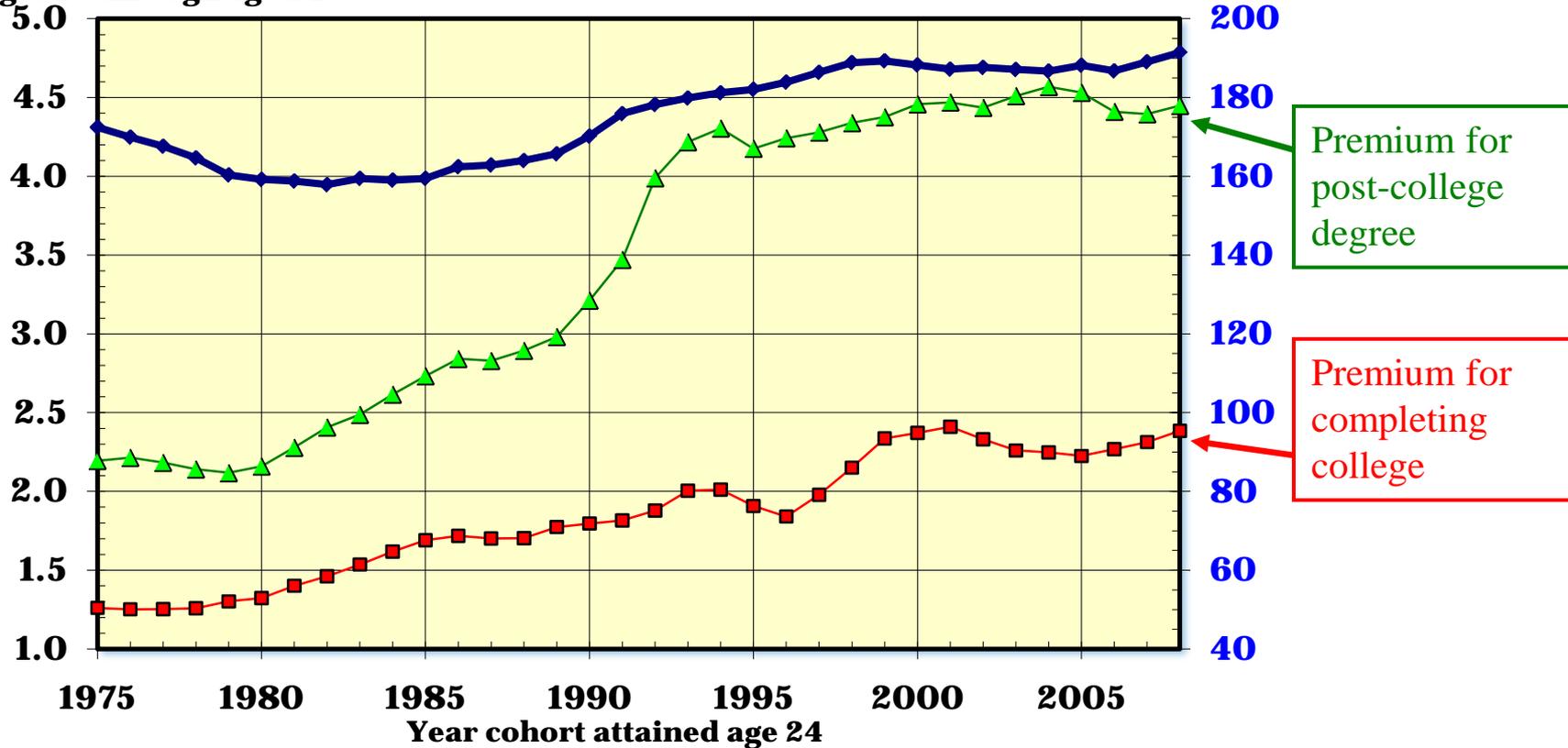
\* Consistent, cohort-based estimate of years of enrollment based on October CPS responses.

Source: U.S. Census Bureau.

# Male school enrollment / Educational pay premiums, 1975 - 2008

Average no. years enrolled in school, ages 16 through age 24\*

Educational earnings premium

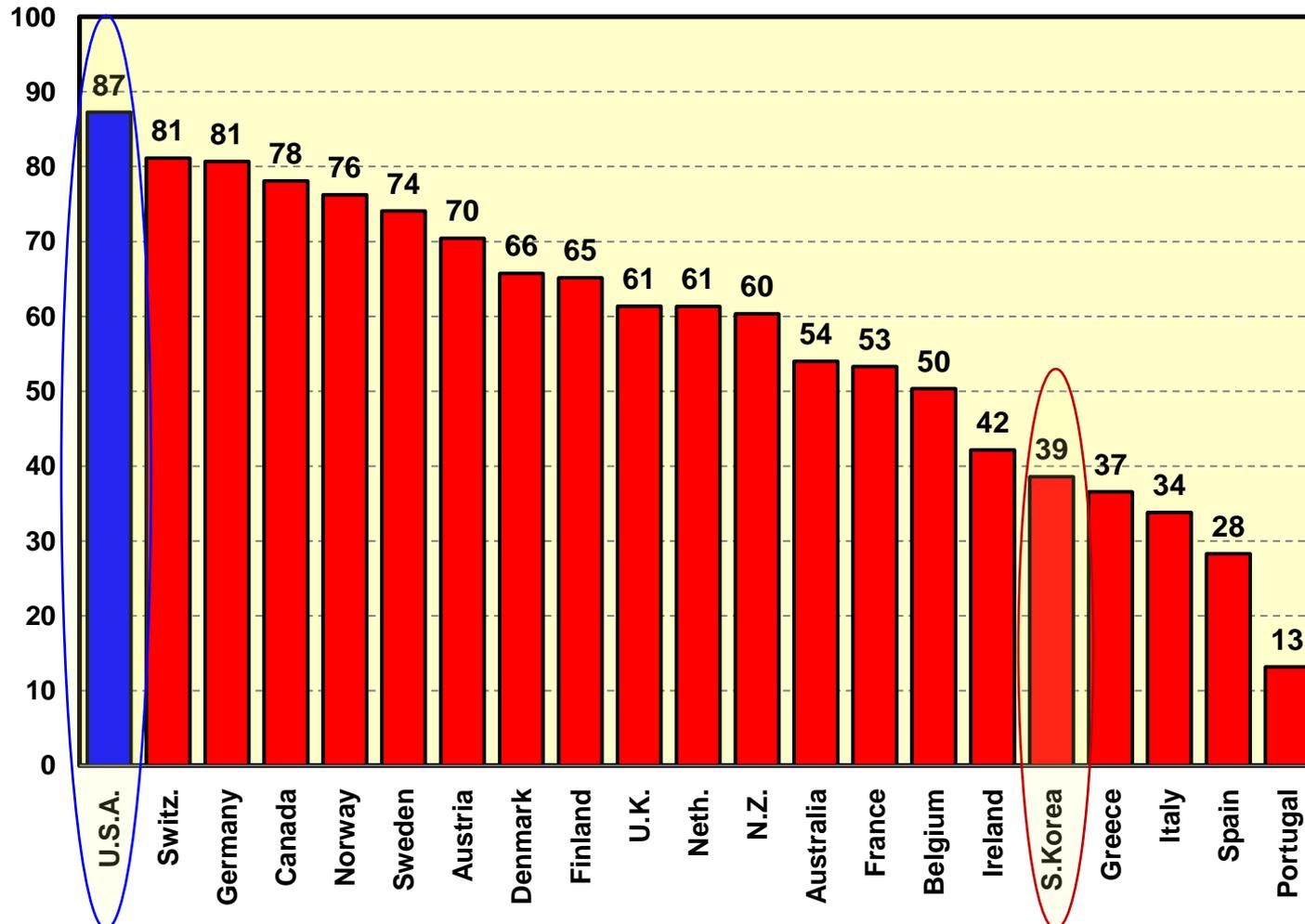


\* Consistent, cohort-based estimate of years of enrollment based on October CPS responses.

# Population completing high school (2007)

Percent of population that has completed secondary education

55-64 year-old population

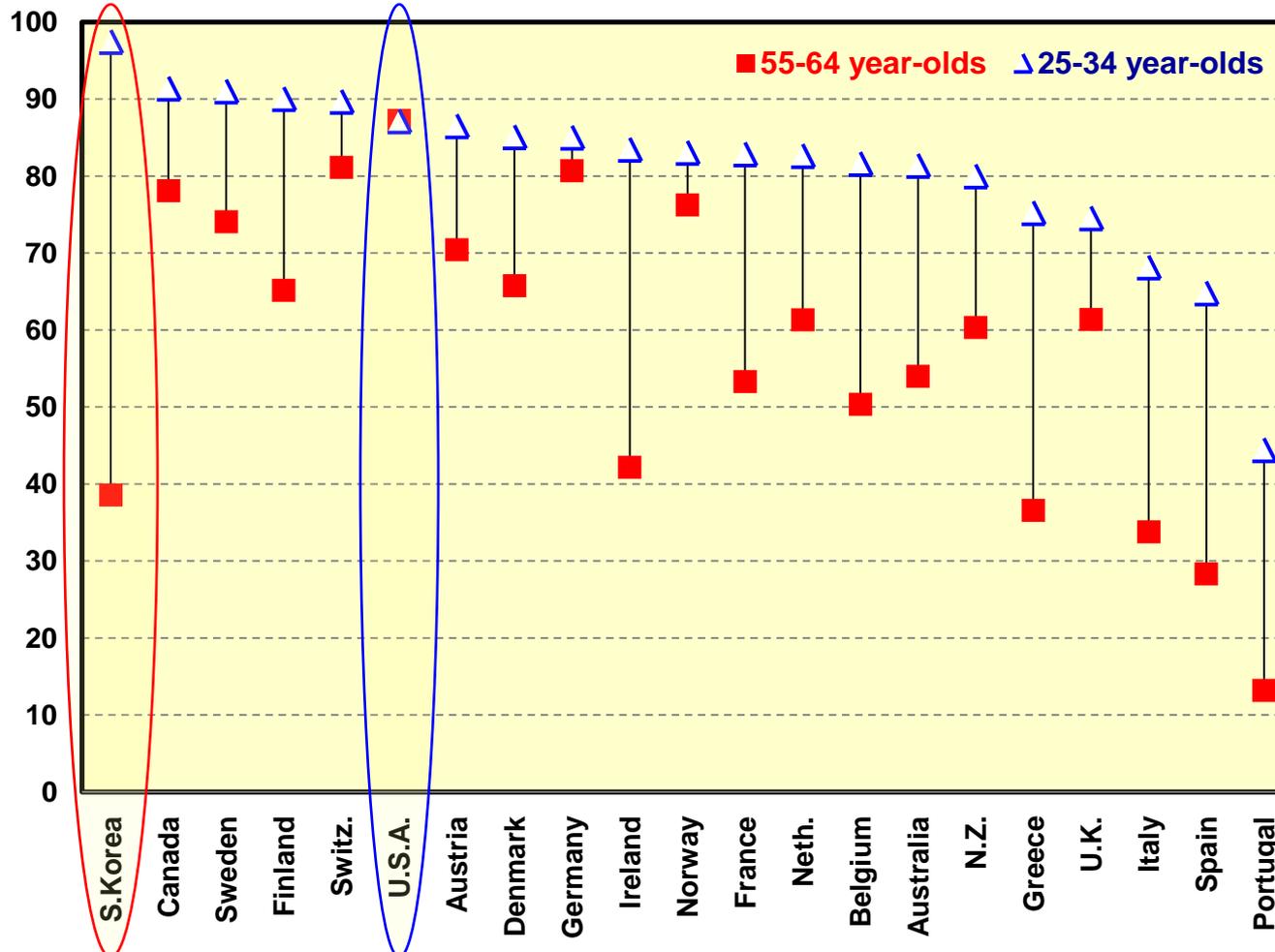


Source: OECD.

# Population completing high school (2007):

Percent of population that has completed secondary education

By age groups

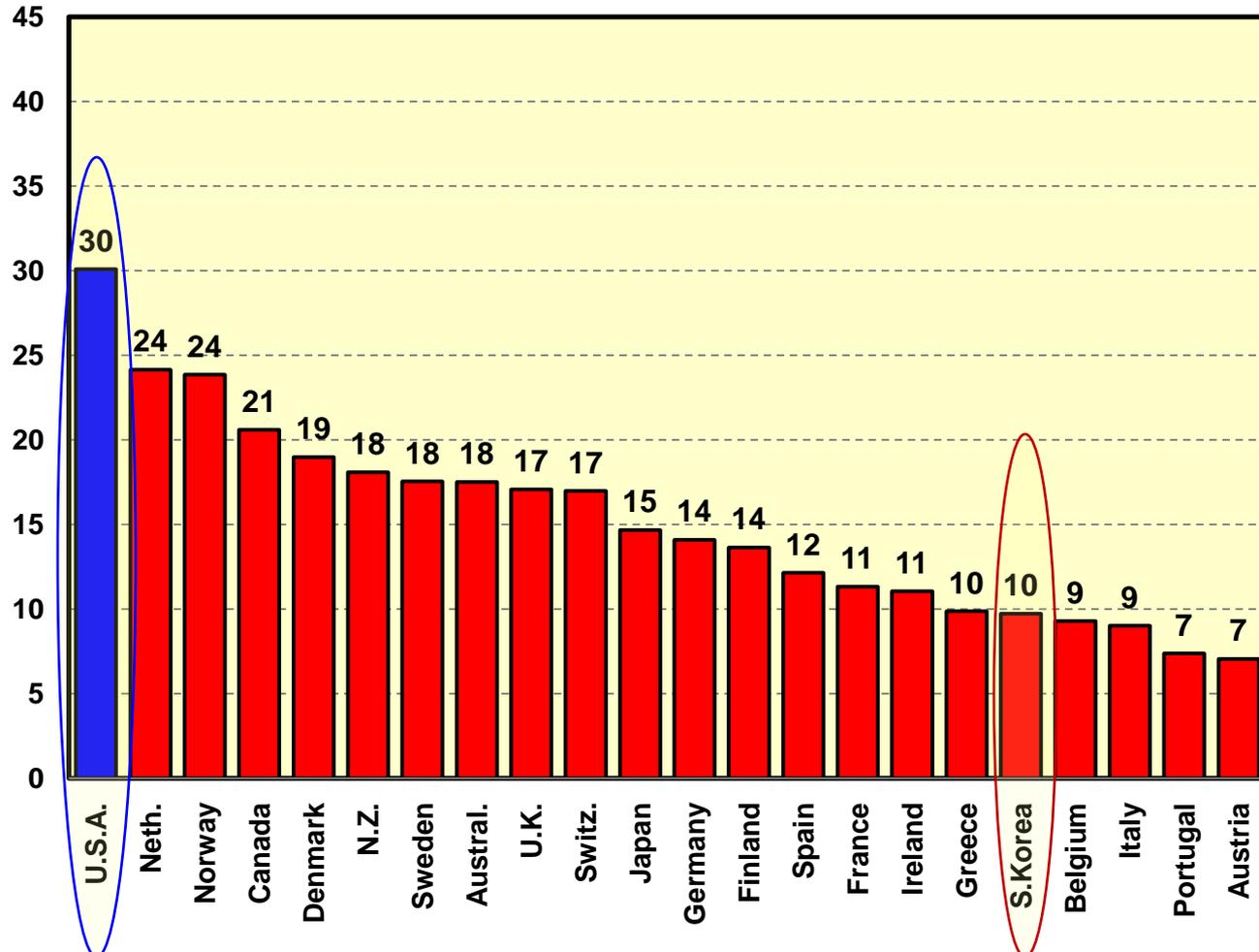


Source: OECD.

# Population that has completed college (2007)

Percent of population that has completed 4-year college or equivalent

55-64 year-old population

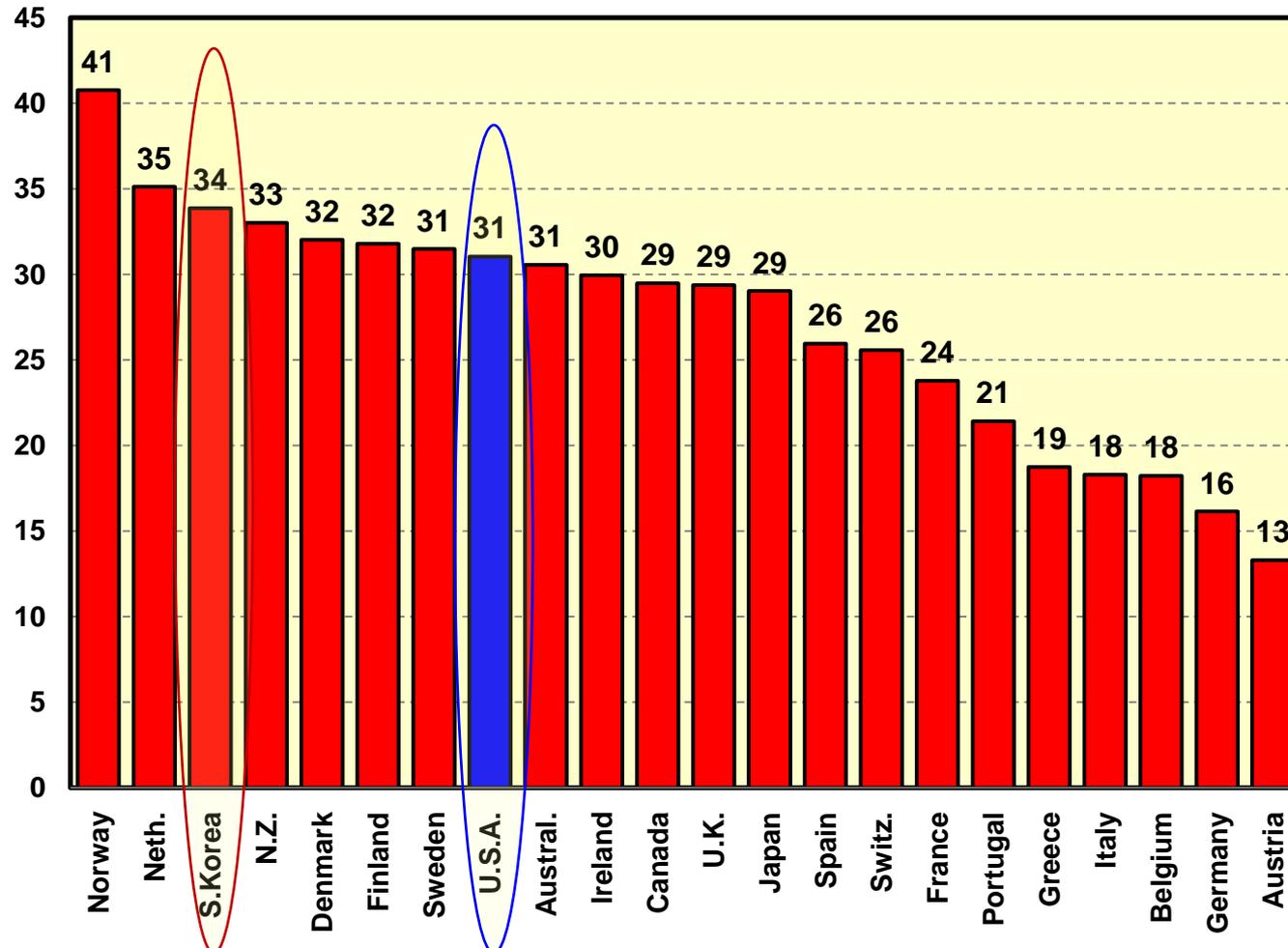


Source: OECD.

# Population that has completed college (2007)

Percent of population that has completed 4-year college or equivalent

25-34 year-old population

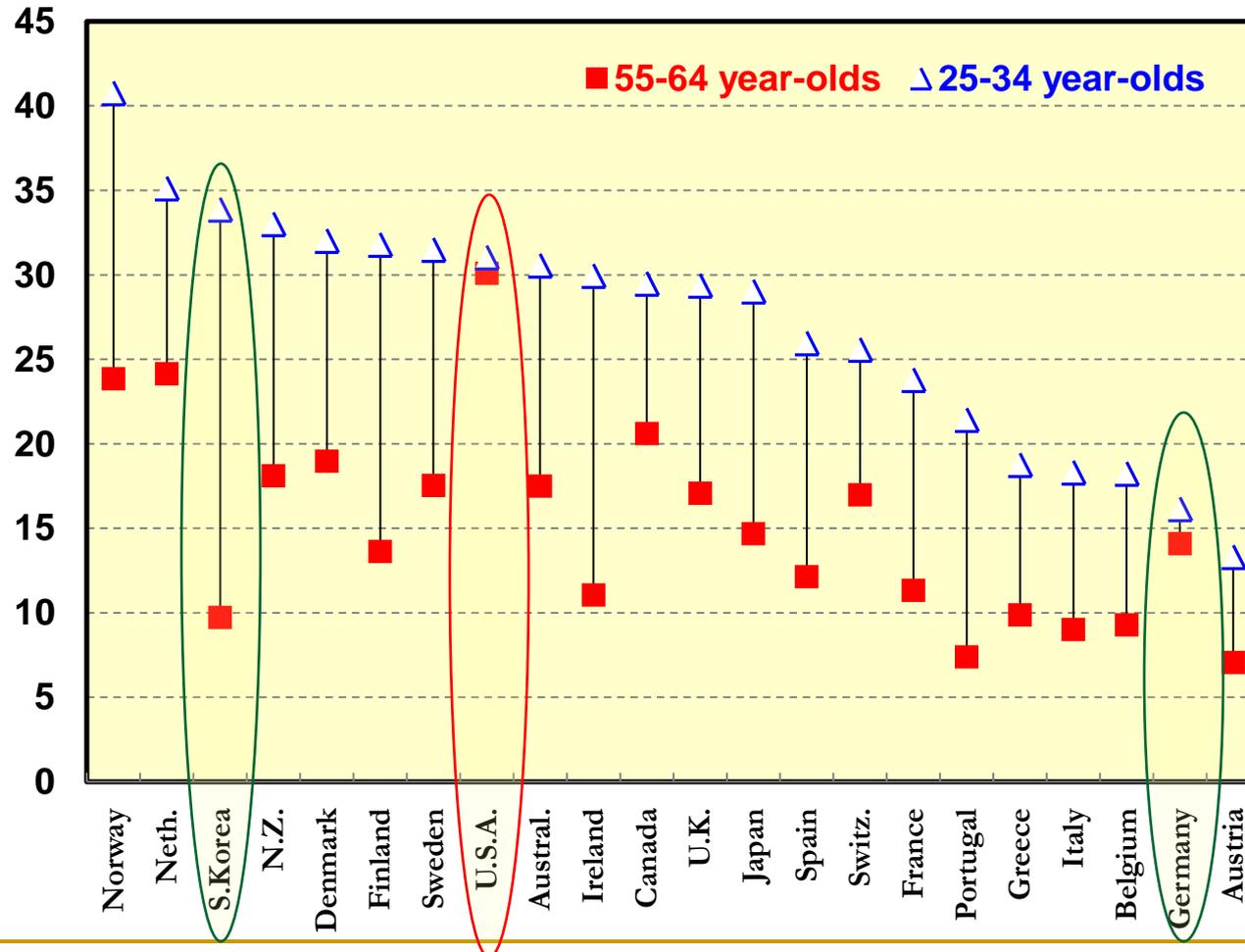


Source: OECD.

# Population that has completed college:

Percentage, by age group -- 2007

Percent of population



Source: OECD.

# Possible explanations

- Immigration into U.S.
    - **Many immigrants come with limited education, and their children face important schooling deficits**
  - Rising direct college costs
    - **Offset by lower “opportunity cost” of students’ time**
  - Increased variance of the earnings **payoff** from a college degree
  - Hard for youngsters to make long-term calculations
    - **Less necessary in countries where state bears more of the direct cost of post-secondary education**
  - U.S. forces students and parents to pay for more of the short-term cost of post-secondary education
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