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## Charles Ballard Interview

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Werner Sichel Lecture Series

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Professor Charles Ballard of Michigan State University delivered the lecture “The Fall and Rise of Income Equality in the United States” Sept. 27, 2017 as part of the Werner Sichel Lecture Series at Western Michigan University. Ballard detailed the “Great Convergence” of income equality in the United States that grew out of policies of the 1930s and 1940s and a “Great Divergence” of inequality starting about 1980. Ballard called this income gap, which is now greater than during the Gilded Age, “the largest economic phenomenon of our lifetimes.” We spoke to Ballard following his lecture.

**You talk about the Great Convergence being almost entirely policy driven and then the Great Divergence being partially policy driven and partially due to other factors. As you look to the future, if you see a sort of convergence again, does that come from policy change or something other than policy?**

My crystal ball is just as cloudy as other people’s crystal ball but certainly something could happen, some demographic shift, something could happen, but I believe if we were to return to another period of convergence, rather than divergence, the places where I expect that is most likely to happen is through policy changes. Through greater support for education and more progressive taxation, the various things I talked about this afternoon. I don’t know whether unions will ever become strong again, but they were for a generation. They were an important player in reducing inequality. We might have an increase in the minimum wage, although I’d like to be careful about how far we go; nobody’s suggesting a minimum wage of \$50 an hour and for good reason, because that would lead to such dislocation. What you want is to perhaps increase it incrementally so you can have a wage boost for some people but not lose too many jobs. That’s why a lot of economists think that education and training for good quality jobs is more important. You want people where their employer is happy to pay them \$20 or \$25 an hour instead of the 15 or 12 as the legal minimum that many employers are reluctant to pay.

You did see the thing in the paper the other day: Target has announced that by 2020 they will pay 15 dollars, if I understood that correctly that’s going to be a company-wide minimum wage. I was surprised by that. That might be because they think that’s where the equilibrium is going. And if we can just continue to have an economic expansion, I didn’t talk about it much this afternoon, but the number one way to help those at the bottom is full employment. We had this catastrophic loss of employment a decade ago, now we’ve had 7 ½ years of job growth.

If we could continue that for another 5 years, 10 years that would be very good and it would have to put upward pressure on wages. It’s just that, for better or worse, unfortunately, the longest expansion in American history lasted 10 years. And this one’s now getting close to that.

**And onto your point of income inequality: during the last expansion, we didn’t see a narrowing of inequality. If the expansion does continue, are you seeing signs it’s going to be any different from last time?**

Every business cycle is unique, so knowing exactly how it will go is hard for me to tell. The downturn in ‘08 and ‘09 was so severe—here’s the one statistic that blows my mind the most: in one month between December ‘08 and January ‘09, Michigan lost more than 100,000 jobs. Just staggering. And you had this tidal wave of job losses that was at its worst for about 10 months. And now years later we’re still climbing out of that. National total employment has long since passed where it was before the recession. In Michigan, we’re still below where we were in 2000. But full employment is sort of necessary but not sufficient. Full employment goes a long way. After all, the poverty rate has now gone down substantially and noticeably in both of the last two years, and that’s because of more people at the bottom getting jobs. But poverty is still, what, 12 or 13 percent, which is just astonishing. Full employment is great, but some of these other things, perhaps more explicit policies, I would be in favor. You can tell I’m sort of politically progressive, but I

would be in favor of doing more to help those in the middle and at the bottom through tax and transfer policies of various sorts.

**You talked about the import-export imbalance requiring a delicate touch. What are some of the things we could do to surgically improve the situation.**

In terms of our behavior toward the rest of the world, this is something that both Donald Trump and Hillary Clinton mentioned in the campaign. There were not a lot of things they both talked about in the same direction, but one was our tax treatment of foreign source income in the corporate tax of the United States. The earnings in other countries are subject to tax in the United States, but only when the profits are repatriated back to the United States. That gives companies an incentive to park their money overseas. And the estimates I have seen is that runs to \$2.5 trillion being put to use in Singapore rather than put to use in the United States.

There are various policies that have been put forth to try to change that. One is just say, “ok, they are deemed to have been repatriated” so there’s something to tax, and then it doesn’t matter whether you keep it in Singapore. Some of it would undoubtedly be brought back to the United States. That’s one.

Having said that, I’m not sure where that’s sufficient. I saw somewhere an executive of a big company and they asked him, if this were to happen so you would bring a substantial chunk of money back from overseas, what would you do, and he said “Well, the obvious things: more dividends for my shareholders, share buybacks to prop up the share price, and more mergers and acquisitions.” And you notice that none of those increases the productive capacity of the United States economy at all. None of those does anything to appreciably help the bottom half of the economy. And so I think we’d have to make progress on many fronts.

To the issue of international trade, that’s a very hot button issue and one that makes me uncomfortable, because historically you’ve had tit for tat retaliation and the classic one is when we raised our tariffs very high in 1930, all of our trading partners retaliated and the members of Congress who voted for those tariffs said “we’re protecting American jobs.” By two years later, one third of the nonfarm workforce is out of work. Of course, I hasten to add that the Great Depression was not exclusively caused by tariffs, and they’re not even the biggest thing, but they sure didn’t help. Because you’ve got this collapse of trade. I want to go very carefully.

You could place a tax on companies that want to move their operations overseas. I think we could do that. I don’t think that would be a wholesale retreat from our trade obligations. But what I don’t want to do is get into a trade war with China, because I just think that it’s like, OK, you identify a disease: Chinese imports have adversely affected substantial numbers of American workers, and that’s a bad thing. Of course, we didn’t do much to help those American workers. And in fact, rather than doing more to help those American workers, what there’s a lot talk about now is “let’s just cut off the imports from China.”

Well, that’s going to raise prices. Wal-Mart didn’t buy that stuff from China rather than from North Carolina just because they like to speak Chinese, they bought it because it was at a lower price. So American consumers will end up paying a higher prices and you can expect some sort of retaliation since the Americans who are engaged in export industries will lose out.

President Trump last week said we have a trade deficit with South Korea, therefore. The implication of what he was saying, in my view, was that trade deficits are prima facie evidence that we are being screwed by the other guy. It’s a lot more complicated than that. For instance, we have trade surpluses with Brazil, Australia, Netherlands, the United Kingdom. That’s our trade surplus; it’s their trade deficit. According to Trump’s logic, that can only happen because we are screwing them. They are the victims of unfair trading practices. No. I think what’s going on is that American companies make things that the Dutch people want to buy and

we sell it to them, and we sell more to them than we buy back from them. This argument that deficits are specifically the result of some unfair practice is just not true. What we in the United States do is we consume more than we produce. We have a low saving rate and then if American consumers don't save much and the federal government saves less than zero by running big deficits, we as a nation basically don't save hardly at all. In that case one of two things can happen. One, there will not be any funds for investment in the United States or, if there is investment in the United States, it's going to be financed by somebody else. And what we've been doing for the last 40 or 50 years is, we are big spenders and we buy a lot of stuff from overseas, more than we sell, and we give these other countries IOUs. Thus the answer to the trade deficit is to save more and to stop spending more than you produce. If you consume more than you produce, by definition, you have to have something coming in from outside. Just like an ordinary household, if they consume more than they produce that means they're borrowing and they're giving some bank or somebody some piece of paper that says we'll pay you back later. That's what the United States has done as a nation.

This is another way of saying, for many of the things I identify as sources of the great divergence, there's an obvious policy. We slowed down our educational investment? Let's do more to speed up our educational investment. We've made taxes less progressive? Let's make them more progressive. But trade is the really tricky one, because the unintended or intended adverse consequences of a trade war would be so large that they might swamp anything that we would gain from "protecting" the jobs of some American workers.

**You spoke of the primacy of racism in explaining the income gap. As director of the State of the State Survey, have you made a concerted effort to get at the effects of racism in your polling?**

I wish I had done more. There are limits to what we can do for budgetary reasons and we can only go into the field when it's paid for and most of the paying for is by other clients and they pay for what they want to pay for. But we have asked questions that touch on, that ask about some of these issues. We've asked: there's a wage gap between men and women. Do you think it's mostly due to discrimination, mostly due to job skills or a combination? Same with whites and blacks, do you think it's mostly due to discrimination or job skills or a combination.

Conservatives tend to say it's not due to discrimination, it's due to differences in job skills. But the breakdown when we ask the same question about men and women and blacks and whites, people are more likely to say that the black-white difference is due to job skills. A lot of Michiganders and Americans, race makes us very uncomfortable, and that's one of the reasons I talked about it some today is I think we need to talk more about the things we are uncomfortable talking about. I think it's difficult for a lot of Americans, mostly white Americans, to say "hey, there's a history of discrimination and it's ongoing." It may have been reduced, but it's still a big thing. People were more willing to say that the male-female gap is due to discrimination than they were willing to say that the black-white gap is due to discrimination.

**You spoke of a number of causes of the Great Divergence, none of which looked specifically racist in charts and graphs. But you made a point to specifically say, I believe racism is a very important contributing factor to all of this, with mass incarceration and the other underpinnings. Other economists might stick close to those charts and not address what's behind them, while you walk into that gap. I imagine it's a scary gap to walk into.**

It is scary to walk into because Americans are so uncomfortable, and one thing that makes a lot of Americans really mad is if they think you're calling them a racist. Because being a racist is something that has been discredited except among the tiny minority of folks in Charlottesville. There is this fringe who revel in being in their racism. A lot of whites don't want to be called racists even if their attitudes may consciously or subconsciously tilt a little bit in that direction.

I emphasize: I would argue that race is more important than any of these other things. I don't think that it's the whole thing. A social and economic phenomenon as big as the Great Divergence is bound to have multiple reasons, both political and economic, interacting with each other. One of the things that I put early on was an explanation I think has contributed a great deal to this divergence but that really isn't the result of any policy and that's there's been this speedup in automation that has replaced certain types of workers. In the campaign, there was so much emphasis on immigration and imports, that's because it's easy to be angry at foreigners. It's hard to be angry at the robot computer that is now in the factory where your father used to work. Maybe at some point we'll have Luddites who walk into the factories with sledgehammers and smash the robots, but I don't see that happening any time soon (and I don't think that would be productive). But I think we have not, as a society, done nearly as much as we need to prepare for the changing workforce as a result of repetitive tasks being so much replaced.

Well, we had a revolution a hundred, hundred-fifty years ago, where instead of having individual people out in the field with a sickle and a bag, now we have gigantic combines. But that transition was largely completed by many decades ago. Now we're in this thing where manufacturing workers have been replaced, not just by Chinese imports but even more by automation.

Lou Glazer with Michigan Future, his whole story is we have to develop more talent. This wave of automation like a tsunami, and no one will be unscathed, but we will do best if we have higher skills. A lot of what I say sort of agrees with that. I would like us to do even more on pre-K. I would like us to have full-day Kindergarten statewide. In K through 12, we have this 19<sup>th</sup> century school year. Meanwhile, Netherlands and Australia: 200 days a year. We have 180 days a year, in many districts de facto 170 days a year. The rest of the world is doing three, four, five, six weeks of instruction more than we do. Our schedule came out of an agricultural work schedule. 100 years ago, a lot of the kids did that. Now it's a tiny fraction. And now I think if we were to say let's start anew, nobody would have a three-month vacation where kids forget a lot of what they learned: and here's the inequality part, the deterioration of skills is much worse among low-income low-socioeconomic status kids. Because my child has a dad who's a Ph.D. I'm going to make sure he's in summer camp, I'm going to do all these things. But what if you're a poor family with a single mom who's working two jobs and barely putting food on the table and you're basically sort of sitting around all summer?

I recognize I'm selfishly interested in this, but the savage cuts to higher education funding in Michigan, I would reverse those. People will hear me say that and say, "oh, he just wants more money." Well, my paycheck depends upon whether I get an article published, upon my teaching evaluations, it depends on how much other stuff I do. I think that if we were to restore higher ed funding to where it was, it wouldn't do a lot to my paycheck, but it would do a lot to the tuition paid by my students.

I've heard so many stories of families where they've heard the high sticker price and they don't know they might be able to get really good financial aid so they don't even try, they don't apply to college even though they might be able to afford it if they knew of the financial aid. So pre-school to Ph.D., cradle to career, I think that is a very high priority. And if we did that it would help a lot of white kids but it would also help a lot of black kids too.

### **Education funding is an investment, but the research says you get a lot out of that investment.**

You get a lot. The highest income states, what do they all have in common? They have more highly education populations than we have in Michigan. And it's not just nationally, it's within the Great Lakes region. We're fifth. We're ahead of Indiana, and if you get out of the Great Lakes region we're ahead of Mississippi and West Virginia, but I don't want to compete with the bottom; I want to compete with the top. And all of the top places have a more highly educated workforce.

One thing that's a challenge in Michigan is we're victims of the fabulous success that we had 60 years ago. In the 1950s, a young man gets out of high school, it's a pretty rational decision to go to work in an auto factory rather than going to college. We were riding that terrific wave and it was great, but then we developed some attitudes of "I don't have to go to college and, in fact, I shouldn't have to go college. The world owes me a good job without any college." And, of course, that feeds in with the anti-tax mania and that's put stress on our ability to create a highly talented workforce for the future of Michigan.