

A Reappraisal of Trade Deficit and Income Inequality in the United States: 1985-2007



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Introduction

The recent resurgence of income inequality in the United States has spawned a wide-ranging discussion to its causes, which has often focused on America's historically high trade deficit in the past two decades. Our project revisits this issue by investigating the latest trends in the U.S. income disparity from 1985 to 2007, and systematically examining the factors that might have influenced the income inequality. To better understand income disparity, three different measures are employed: *Gini*, *Theil* and *Atkinson* index. Our results show that, only in the cases of Gini and Atkinson index, international trade explains a part of income inequality, but it surely can not be the whole story. Other factors, such as the changing role of women, the net migration rate, and the sectoral distribution of employment also play important roles in accounting for America's income inequality.

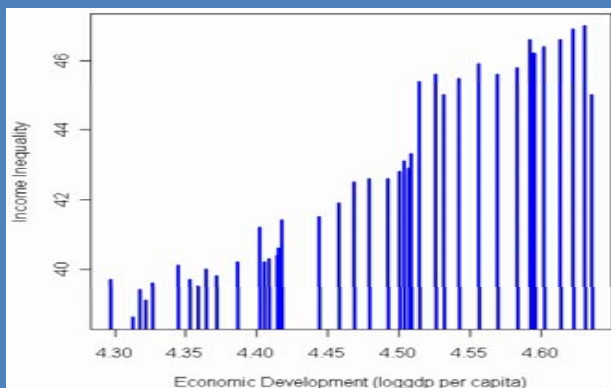
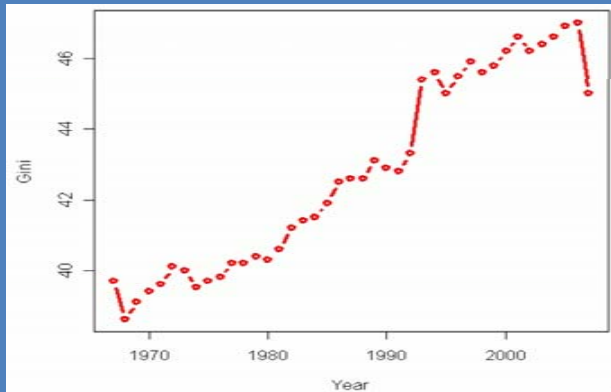


Table 1: Generalized Linear Regression Results: Gini Index

Significant Variables	Estimate	STD	Relative Importance
Dummy (time effect)	-1.0246*	0.3912	-0.4
Seniority	1.2303	0.5522	0.68
Net migration rate	1.1204**	0.3083	0.35
FDI	-0.7123*	0.2264	-0.16
Trade balance (deficit)	-0.9979**	0.2387	-0.24
Southern imports	-2.7514***	0.5350	-1.47
Agricultural dualism	-2.9158**	0.8767	-2.56
Secondary enrollment ratio	1.7144*	0.5866	1.01
% labor force in Agriculture	-3.4158*	1.1279	-3.83
% labor force in Service	-4.3309*	1.5186	-6.58
% labor force in Manufacturing	-3.2619*	1.3791	-4.5
Constant	259.2936*		
Adjusted R ²	0.9795		

Table 2: Generalized Linear Regression Results: Atkinson Index

Significant Variables	Estimate	STD	Relative Importance
Dummy (time effect)	-2.01150***	0.19867	-0.4
Unemployment rate	0.22793*	0.0932	0.02
% female in labor force	0.63164*	0.2570	0.16
Southern imports	0.63259*	0.2123	0.13
% labor force in Agriculture	-0.40032	0.2231	-0.09
Secondary enrollment ratio	-0.31082	0.1483	-0.05
Constant	4.78693		
Adjusted R ²	0.9878		

Table 3: Generalized Linear Regression Results: Theil Index

Significant Variables	Estimate	STD	Relative Importance
Dummy (time effect)	-6.0700***	0.3961	-2.40
Net migration rate	0.9977*	0.4227	0.45
% female in labor force	2.2494**	0.5650	1.22
% female-headed households	1.9186**	0.5354	1.00
% labor force in Agriculture	-4.1941***	0.9100	-4.01
% labor force in Service	-4.5734**	1.2299	-5.79
% labor force in Manufacturing	-4.4405**	1.3422	-6.19
Union	1.9928*	0.6796	1.33
Constant	258.5058**		
Adjusted R ²	0.9905		

Method

The core model can be specified as follows:

$$ineq = f(sdu_i, l_i, m_i, dem_i, edu_i, u_i, glob_i)$$

where *ineq* is a particular inequality metric, Gini, Atkinson or Theil, *sdu* is the sector dualism, where *i* = a; manu; and s, denoting the agricultural, manufacturing and service sector, respectively. Additionally, *l* is the aggregate labor market conditions, *m* is the monetary stability, *dem* is the demographic transition, *edu* is the overall education, *u* is the density of unionization, and finally *glob* represents the globalization.

Policy Analysis

- Trade protectionism is not the right solution that any government should adopt to fight poverty.
- The government should also try to provide a more effective shield to the female labor force and strengthen their social competence.
- The government should encourage a more flexible and mobile labor force to increase the number of people who are able to win from globalization.
- More priority should be given to the senior citizens.

Conclusion

A generalized linear regression model is used to estimate the extent and channels through which all kinds of factors influence the income distribution. Our results show that only in the cases of Gini and Atkinson index, international trade affects income inequality, either negatively or positively, but it surely can not be the whole story. Other factors, such as the changing role of women, education, union density, net migration rate and the sectoral distribution of employment also play quite important roles in accounting for America's rising income inequality. In the case of Theil coefficient, the effect of trade on income inequality is not significant at all. Therefore, the distributional impact of globalization on income does depend on the choice of inequality metrics.

Reference: Alderson, A., and Francois Nielsen (2002), "Globalization and the Great U-Turn: Income Inequality Trends in 16 OECD Countries", *American Journal of Sociology*, 107:5, 1244-1299.

Acknowledgment: The authors acknowledge the financial support provided by the Office of Research and Sponsored Programs and Economics Department at UWEC.