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## Reducing Income Inequalities: The Case of Austin

by

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According to many economic development specialists, cities that support high-tech industries can expect to show higher and longer running rates of growth. Such has been the case in Austin. An increasing specialization in high-tech activities has transformed this city. Upscale services have mushroomed to supply the demands of an increasingly better educated, more affluent labor force. Unemployment rates have dipped near zero.

Economic growth, however, does not come without a price. The Austin boom has been accompanied by increased pollution and traffic congestion, skyrocketing housing prices, and a scarcity of qualified labor. Most important among the costs of this new prosperity, however, is the increasing gap in income inequalities.

What are the implications of a widening income gap? Social implications and policy remedies depend on the trend of the income gap. Is the gap increasing because incomes are soaring at the very top and plunging at the very bottom or because incomes are soaring at *both* the bottom and the top but increasing much faster for those at the top?

### Two Scenarios

According to the January 2, 2000, *Austin American Statesman*, “Only some private-sector workers are winning enormous increases in wages while most are not.” The implication here is that the gap is growing because incomes are soaring at the top and plunging or stabilizing at the bottom. That is, the poor in Austin have lost ground as a result of the specialization in high-tech activities. Such a scenario recalls many Latin American cities where the widening chasm between income groups has both diminished the opportunities for the poor to buy essential goods and created a landscape where shanties are incorporated alongside million dollar homes. We call this prospect the “shantytown scenario.”

Refuting this image, University of Texas at Austin economics professor Stephen Bronars asserts in another *Austin American Statesman* article (January 23, 2000) that everyone has gained from Austin’s high-tech boom. According to Bronars, “the poor in Austin have not become poorer: real wages for the bottom 10 percent of the distribution increased by almost 20 percent in the 1990s.” In other words, the poor are finding more job opportunities and experiencing increased purchasing power. Although real wages for the poor have not increased at the same speed as those of, say, a high-tech engineer, neither are these wages plunging. This scenario outlines two cities within one: in one, houses cost \$70,000; and in another, \$500,000 plus.

## Policy Considerations

Has the high-tech development in Austin created a shantytown or a cities-within-a-city scenario? In addition to the increased real income for the bottom 10 percent of the Austin population during the 1990s, there has been an increase in three of the activities that generate low-income employment: hotels, restaurants, and personal services have grown very rapidly in Austin. Indeed, these sectors have grown faster in Austin than in San Antonio, where tourism speeds up the growth in these areas. As the figures indicate, Austin's rates of growth of employment in these areas exceeded those of both San Antonio and Texas in the 1980s and 1990s, the period in which high technology took off in Austin.

Which policies should the government implement to create a more equal income distribution? In the shantytown scenario, the poor are excluded from the benefits of economic development. Their stagnant or diminishing incomes can best be addressed by an increase in minimum wages. In contrast, economic development generally improves the standard of living for the poor in the cities-within-a-city scenario: *some* basic needs are increasingly satisfied as real wages increase. At the same time, however, it becomes more difficult for low income groups to purchase, for example, good housing because of the rising costs that accompany rapid economic development. In this scenario, the appropriate policy measure would be to develop affordable housing programs.

## Conclusions

Economic development in Austin has improved standards of living for all income groups. Growth in the city's high-tech industry has resulted in increases in job opportunities and real wages not only in the high-tech sector but also in sectors that traditionally provide low income employment. As long as employment and real wages continue to increase for the poor, Austin can avoid the shantytown scenario that haunts cities in which the immense gulf between rich and poor cannot be bridged.

Nevertheless, Austin must confront the demand for services—particularly for affordable housing—typically provided by government to low income people. At the same time, the city must address the problems, such as increased pollution and traffic congestion, created by the rapid population growth that has accompanied the high-tech boom.

These problems call for policies that generate both short- and long-term effects. As an immediate effect policy, city officials should develop programs that target specific, necessary goods currently unaffordable to the poor. In particular, the city officials should focus on revamping affordable housing programs. In a parallel action, local government should implement policies for the long term. In particular, officials should allocate resources to train and educate the high-tech workforce of tomorrow. Efficient government organizations and tax structures are necessary to guarantee a livable city for all residents.

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