Economic Inequality and Mobility
Looking at the Evidence to Inform Philanthropy’s Actions

SCOTT WINSHIP
WALTER B. WRISTON FELLOW, MANHATTAN INSTITUTE FOR POLICY RESEARCH
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How Much Mobility Is There?

Relative vs. Absolute

One can be “stuck in the bottom” and be “middle class” by the standards of the early 1970s.

Median adult is better off than parents by 83 percent, or $26,000.
Percent of Sons Growing Up In Bottom Fourth of Parental Income in Different Fourths of the Earnings Distribution, by Birth Year

<table>
<thead>
<tr>
<th>Birth Year</th>
<th>Top Fourth</th>
<th>3rd Fourth</th>
<th>2nd Fourth</th>
<th>Bottom Fourth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948-50</td>
<td>11%</td>
<td>20%</td>
<td>32%</td>
<td>37%</td>
</tr>
<tr>
<td>1962-64</td>
<td>14%</td>
<td>18%</td>
<td>22%</td>
<td>46%</td>
</tr>
<tr>
<td>1980-82</td>
<td>11%</td>
<td>17%</td>
<td>32%</td>
<td>40%</td>
</tr>
</tbody>
</table>

Source: National Longitudinal Surveys estimates, Winship (forthcoming)
Upward Earnings Immobility of Sons with Father Earnings in Bottom Fifth (% in bottom fifth as adults)

- U.S.
- Norway
- Finland
- Sweden
- Denmark

Sources:
Scandinavian countries from Jantti et al. (2006)
U.S. from Pew Economic Mobility Project (2013)
### Upward Immobility of Adolescents with Parental Income in Bottom Fifth (% in bottom fifth as adults)

<table>
<thead>
<tr>
<th>Category</th>
<th>All Adolescents</th>
<th>White</th>
<th>Black</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family Income</td>
<td>38</td>
<td>27</td>
<td>53</td>
</tr>
<tr>
<td>Family Income, Men</td>
<td>33</td>
<td>21</td>
<td>50</td>
</tr>
<tr>
<td>Family Income, Women</td>
<td>43</td>
<td>34</td>
<td>56</td>
</tr>
<tr>
<td>Earnings, Men</td>
<td>34</td>
<td>25</td>
<td>48</td>
</tr>
<tr>
<td>Earnings, Women</td>
<td>30</td>
<td>30</td>
<td>32</td>
</tr>
</tbody>
</table>

Source: NLSY79 estimates, Winship (forthcoming)
Top 1% Share, Including Realized Capital Gains Reported on Tax Returns

- Piketty/Saez, Pre-Tax & -Transfer Income of Tax Units
- CBO, Pre-Tax & -Transfer Household Income of Individuals
- CBO, Pre-Tax Post-Transfer
- CBO, Post-Tax & -Transfer

Years: 1975 to 2015

Income Share: 0 to 25%
Original Tcherneva Chart (via Piketty & Saez)

- Expansions Only
- Tax Units
- Pre-Tax & -Transfer Income
  - Including Realized Taxable Capital Gains
  - Combining Elderly & Working-Age Population

source: Scott R. Winship calculations based on Piketty/Saez data and NBER, following Pavlina Tcherneva
Modification 1:
- Expansions Only

Business Cycles
- Tax Units
- Pre-Tax & -Transfer Income
  - Including Realized Taxable Capital Gains
  - Combining Elderly & Working-Age Population

Distribution of Average Income Growth During Business Cycles

source: Scott R. Winship calculations based on Piketty/Saez data and NBER
Modification 2:
- Business Cycles
- Tax Units \textbf{Households}
- Pre-Tax & -Transfer Income
  - Including Realized Taxable Capital Gains
  - Combining Elderly & Working-Age Population
Modification 3a:
- Business Cycles
- Households
- Pre-Tax & Transfer Income
  - Including Realized Taxable Capital Gains
- Combining Elderly & Working-Age Population

Source: Scott R. Winship calculations based on Piketty/Saez data, CBO data and NBER
NEW Modification 3b:

- Business Cycles
- Households
- Pre-Tax & Transfer Income
- Pre-Tax & Transfer Income Plus Social Security
  - Including Realized Taxable Capital Gains
  - Combining Elderly & Working-Age Population

Distribution of Average Income Growth During Business Cycles

Piketty and Saez Data Pre-Tax & Transfer, Tax Units
Congressional Budget Office Data Pre-Tax & Transfer Plus Social Security, Households

Source: Scott R. Winship calculations based on Piketty/Saez data, CBO data and NBER
Modification 3c:
• Business Cycles
• Households
• Pre-Tax & Transfer Income
  • Including Realized Taxable Capital Gains Wage & Salary Income Only
  • Combining Elderly & Working-Age Population Nonelderly
NEW Modification 3d:

- Business Cycles
- Households
- Pre-Tax & -Transfer Income
  - Including Realized Taxable Capital Gains
  - Excluding Capital Gains
- Combining Elderly & Working-Age Population
- Nonelderly

Distribution of Average Income Growth During Business Cycles
NEW Modification 4:

- Business Cycles
- Tax Units
- Pre-Tax & -Transfer Income
  - Including Realized Taxable Capital Gains
  - Combining Elderly & Working-Age Population
- Share Computed Using Nominal Income and Allowing Number of Tax Units to Change
Inequality and Economic Growth

Academic Research Since 2000:

• Within a country, increases in income inequality correspond with stronger economic growth. (Forbes, 2000; Andrews, Jencks, and Leigh, 2011)

• Higher inequality between the top and middle is associated with stronger growth; inequality between the middle and bottom is associated with slower growth. (Voitchovsky, 2005)

• Higher inequality in rich countries corresponds with stronger economic growth; higher inequality in poor countries corresponds with slower growth. (Barro, 2000, 2008; Pagano, 2004; Castello-Climent, 2010)

• Higher inequality in the Anglosphere is associated with stronger growth; higher inequality in continental Europe is associated with slower growth. (Castello-Climent, 2010)

• Changes in inequality in either direction correspond with slower growth. (Banerjee and Duflo, 2003)

• Within U.S. states, mixed evidence, but more support for inequality increasing growth than harming it (Panizza, 2002; Partridge, 2005; Frank, 2009)
Changes in Income Concentration vs. Changes in Middle-Class Living Standards across 15 Countries
Changes in Income Concentration vs. Changes in Living Standards of the Poor across 14 Countries
The economic growth rate \((g)\) will fall.

If the savings rate \((s)\) does not fall correspondingly, then wealth as a share of national income \((\beta)\) will rise. \(\beta = \frac{s}{g}\)

If the return to wealth \((r)\) does not fall correspondingly, then capital’s share of income \((\alpha)\) will rise. \(\alpha = r \cdot \beta\)

If concentration of capital income does not fall, then total income concentration will rise.

If the return to wealth exceeds the economic growth rate \((r > g)\), and if the savings rate of the wealthy does not fall sufficiently, then wealth concentration will also rise.

While \(r\) has been below \(g\) for decades, this is a historical anomaly. In the future \(r\) will exceed \(g\) (if capital taxes are eliminated?).

Rising wealth and income inequality will poison our democracy and lead to social strife.

“[The Bush tax cuts] will eventually contribute to rebuild a class of rentiers in the U.S., whereby a small group of wealthy but untalented children controls vast segments of the U.S. economy and penniless, talented children simply can't compete.” (interview with Daniel Altman, NYT)
How Much Mobility Is There?

“Relative Mobility” – ignoring dollar amounts, how tied to parents’ income ranking is the income ranking of adults?

“Stickiness at the ends” – Plenty of fluidity for adults who were raised in the middle (up and down), but less mobility at the top and bottom.

Pew Economic Mobility Project – “Pursuing the American Dream: Economic Mobility Across Generations”
How Much Mobility Is There?

“Absolute Mobility” – regardless of rankings, do adults have higher incomes than their parents did at the same age, after taking inflation into account?

Much more positive story
How Much Mobility Is There?

One can be “stuck in the bottom” and be “middle class” by the standards of the early 1970s.
Sources:
Scandinavian countries from Jantti et al. (2006)
U.S. from Pew Economic Mobility Project (2013)
Worse Than 30 Years Ago?

Income mobility
- 10 studies using PSID find no change: Reville (1996); Corcoran (2001); Levine and Mazumder (2002); Fertig (2003); Nam (2004); Mayer and Lopoo (2005); Harding, Jencks, Lopoo, and Mayer (2005); Hertz (2007); Lee and Solon (2009); Bloome (2013)
- 3 studies using NLS show declines between first two of three cohorts: Levine and Mazumder (2002); Bloome and Western (2011); Winship (forthcoming). BUT Winship (forthcoming) finds no change between first and third cohorts
- New study by Chetty et al. (2014) using IRS data finds no change since 1980

Occupational mobility
- Beller (2009) finds that “exchange mobility” declined between 1950s and 1970s cohorts; Mitnik, Cumberworth, and Grusky (2013) find recent declines but levels no worse in 2000s than in 1970s
- Research on cross-cohort changes over calendar years shows no decline through first half of 2000s: Hout (1988); Rytina (2000); Jonsson et al. (2011).

Educational mobility
- Evidence (mixed) suggests small changes in intergenerational association (if any) over time: de Broucker and Underwood (1998); Hertz et al. (2007); Pfeffer (2008); Hout and Janus (2011); Bloome and Western (2011)
Figure 2. Percent of Sons Ending Up in Different Fourths of the Earnings Distribution, by Parental Income and Birth Cohort

<table>
<thead>
<tr>
<th>Parental Income in Bottom Fourth</th>
<th>Parental Income in Middle Half</th>
<th>Parental Income in Top Fourth</th>
</tr>
</thead>
<tbody>
<tr>
<td>11% 14% 11%</td>
<td>27% 27% 25%</td>
<td>35% 39% 38%</td>
</tr>
<tr>
<td>20% 18% 17%</td>
<td>25% 25% 28%</td>
<td>32% 30% 30%</td>
</tr>
<tr>
<td>32% 22% 32%</td>
<td>29% 27% 24%</td>
<td>17% 20% 19%</td>
</tr>
<tr>
<td>37% 46% 40%</td>
<td>19% 22% 23%</td>
<td>17% 11% 13%</td>
</tr>
</tbody>
</table>

Sons' Earnings
- Top Fourth
- 3rd Fourth
- 2nd Fourth
- Bottom Fourth
Percent of Sons Growing Up in Middle Half of Parental Income in Different Fourths of the Earnings Distribution, by Birth Year

Source: National Longitudinal Surveys estimates, Winship (forthcoming)
Two Responses

How can that be?

OK, but this time is different....

Briefly....

Inequalities in many opportunity-promoting resources have grown (and/or will grow), but that might not have worsened inequality of opportunity much or at all (and might not in the future)

Some inequalities of opportunity have diminished, or at least levels of opportunity at the bottom have improved

Can argue that opportunity is too unequal without arguing that it is growing more unequal.

Look for a future post elaborating at economics21 (and cross-posted at the Brookings Institution’s Social Mobility Memos blog)
Inequalities in many opportunity-promoting resources have grown, but that might not have worsened inequality of opportunity...

...much...

- Some inequalities may not have grown much (or may have grown less than conventional wisdom has it)
- Other resources that have become more unequally distributed may not be that important for opportunity (or less important than conventional wisdom has it)

...or at all

- Many resource inequalities have always been high (e.g., income inequality)
- There are almost surely diminishing returns to additional resources
- Resources available to poor children have not necessarily diminished (e.g., parental income) and their outcomes have not necessarily worsened (e.g., college degrees) even when inequalities have grown
Illustrative Example

Income grows by 53%, 47%, and 232% for bottom fifth, middle fifth, and top 1%
(CBO, 1979-2010 for hh’s w/ kids, post-tax & -transfer)

Ratios of Incomes:
Rich/poor rises from 19.0 to 41.3
Rich/middle rises from 8.0 to 18.2

“Outcome” improves by 53%, 47%, and 232% (by assumption)

Ratios of Outcomes:
Rich/poor rises from 19.0 to 41.3
Rich/middle rises from 8.0 to 18.2
Income grows by 53%, 47%, and 232% for bottom fifth, middle fifth, and top 1%
(CBO, 1979-2010 for hh’s w/ kids, post-tax & -transfer)

Ratios of Incomes:
Rich/poor rises from 19.0 to 41.3
Rich/middle rises from 8.0 to 18.2

“Outcome” improves by 49%, 39%, and 15% (by assumption)

Ratios of Outcomes:
Rich/poor ratio falls from 8.5 to 6.6
Rich/middle ratio falls from 3.9 to 3.2
Some inequalities of opportunity have diminished, or at least levels of opportunity at the bottom have improved.

Poverty has declined and living standards improved
Racial, religious, and gender discrimination have declined
Teen pregnancy and births have plummeted
Unwanted births have fallen
Crime has fallen dramatically
Drug use has fallen
Exposure to lead (and probably other toxins) has declined
Health care access has expanded
Conclusion

Rather than arguing for more-equal opportunity because opportunity has become more unequal (or is growing more unequal), we should simply argue that opportunity is too unequal

- 70% of children growing up in the bottom fifth won’t make it to the middle as adults

Very real possibility that the most important factors promoting or impeding opportunity today are the same factors as 50 years ago, despite changes for the better or worse in the levels and distribution of various opportunity-promoting resources

- Extent of between-sibling and between-cousin outcome inequality should remind us that many inequalities of opportunity are less “sociological” than we might think

At any rate, identifying which factors are most important today is a difficult enough task without assessing how the distribution of opportunities has changed or how the importance of different inequalities has changed. It may not be necessary to do so.
Downward Mobility of Adolescents with Parental Income in the Middle Fifth (% below middle fifth as adults)

- **Family Income**
  - All Adolescents: 38%
  - White: 37%
  - Black: 54%

- **Family Income, Men**
  - All Adolescents: 35%
  - White: 34%
  - Black: 49%

- **Family Income, Women**
  - All Adolescents: 41%
  - White: 40%
  - Black: 60%

- **Earnings, Men**
  - All Adolescents: 40%
  - White: 38%
  - Black: 54%

- **Earnings, Women**
  - All Adolescents: 42%
  - White: 28%
  - Black: 44%

Source: NLSY79 estimates, Winship (forthcoming)
Conservatives: “It’s Family Breakdown”
Liberals: “It’s Segregation”