

# Economic Inequality and Mobility

## Looking at the Evidence to Inform Philanthropy's Actions

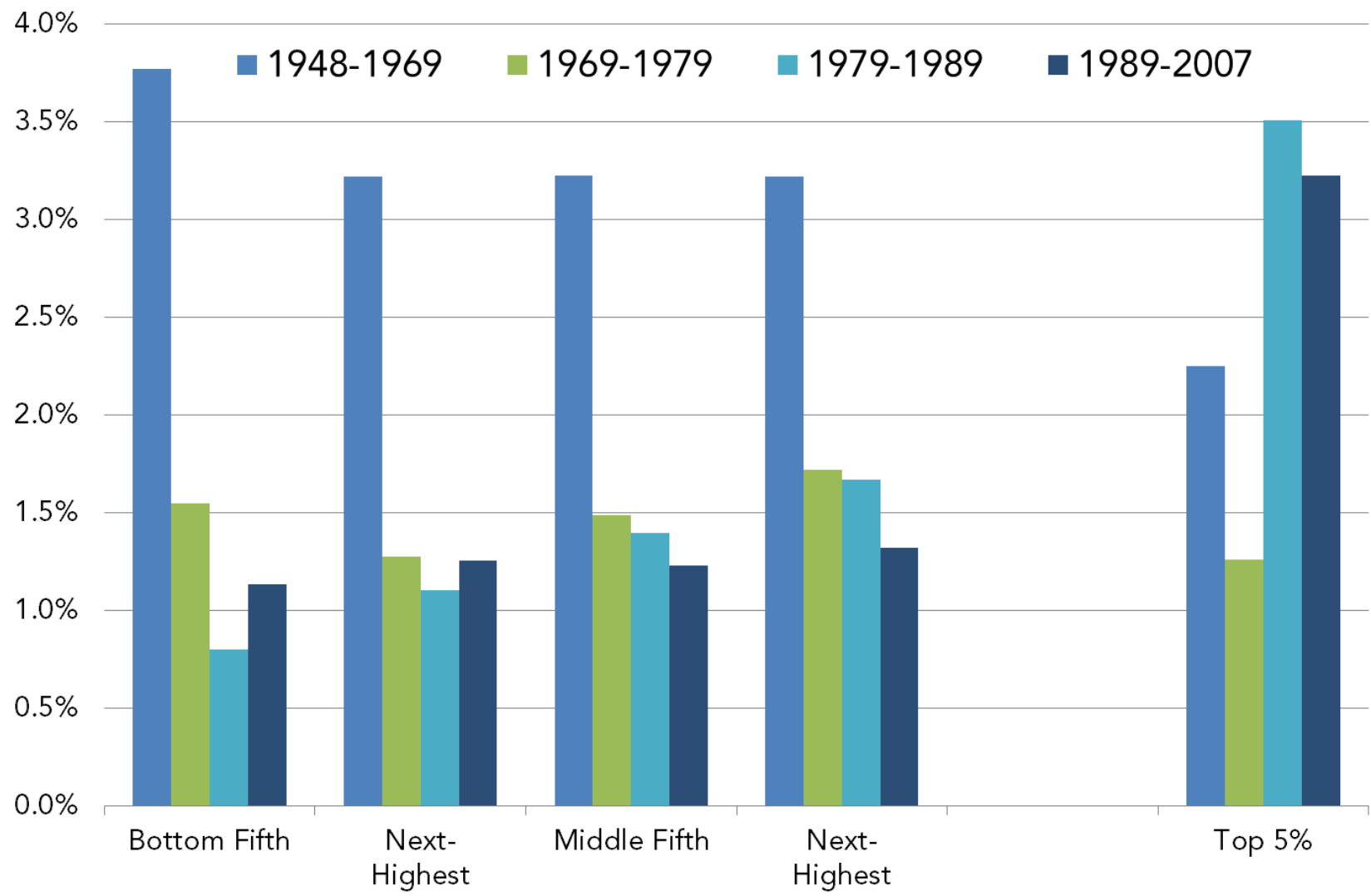
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SCOTT WINSHIP

WALTER B. WRISTON FELLOW, MANHATTAN INSTITUTE FOR POLICY RESEARCH

PRESENTATION TO PHILANTHROPY NEW YORK, MAY 19, 2015

## Annual Household Income Growth, 1948-2007



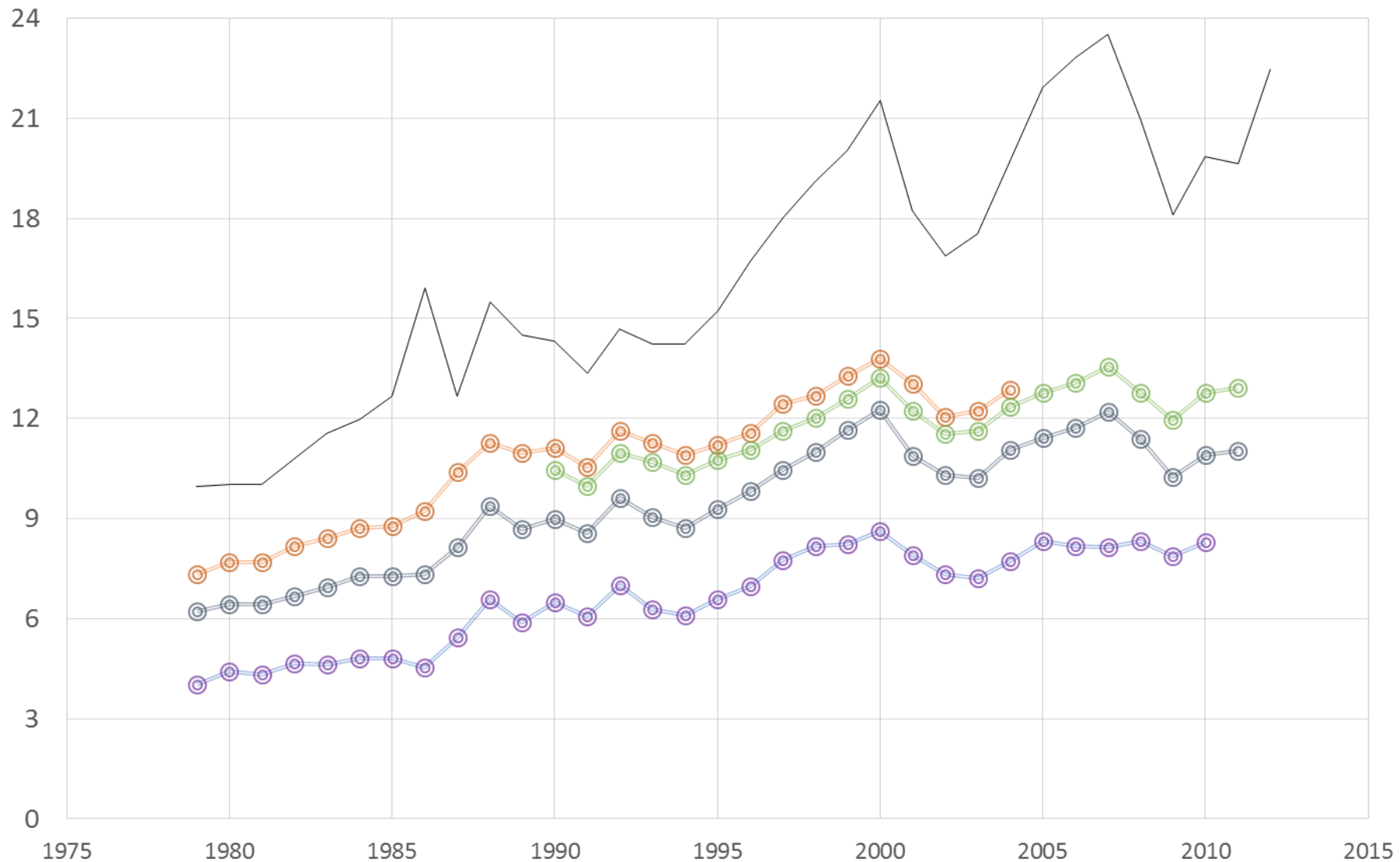
# Top 1% Share, Pre-Tax Earnings

○ Kopczuk/Saez/Song, Commerce & Industry Workers

○ Piketty/Saez, All Workers

○ Piketty/Saez, Tax Units

○ CBO, Nonelderly Households, Wages & Salaries (incl Hlth Ins)

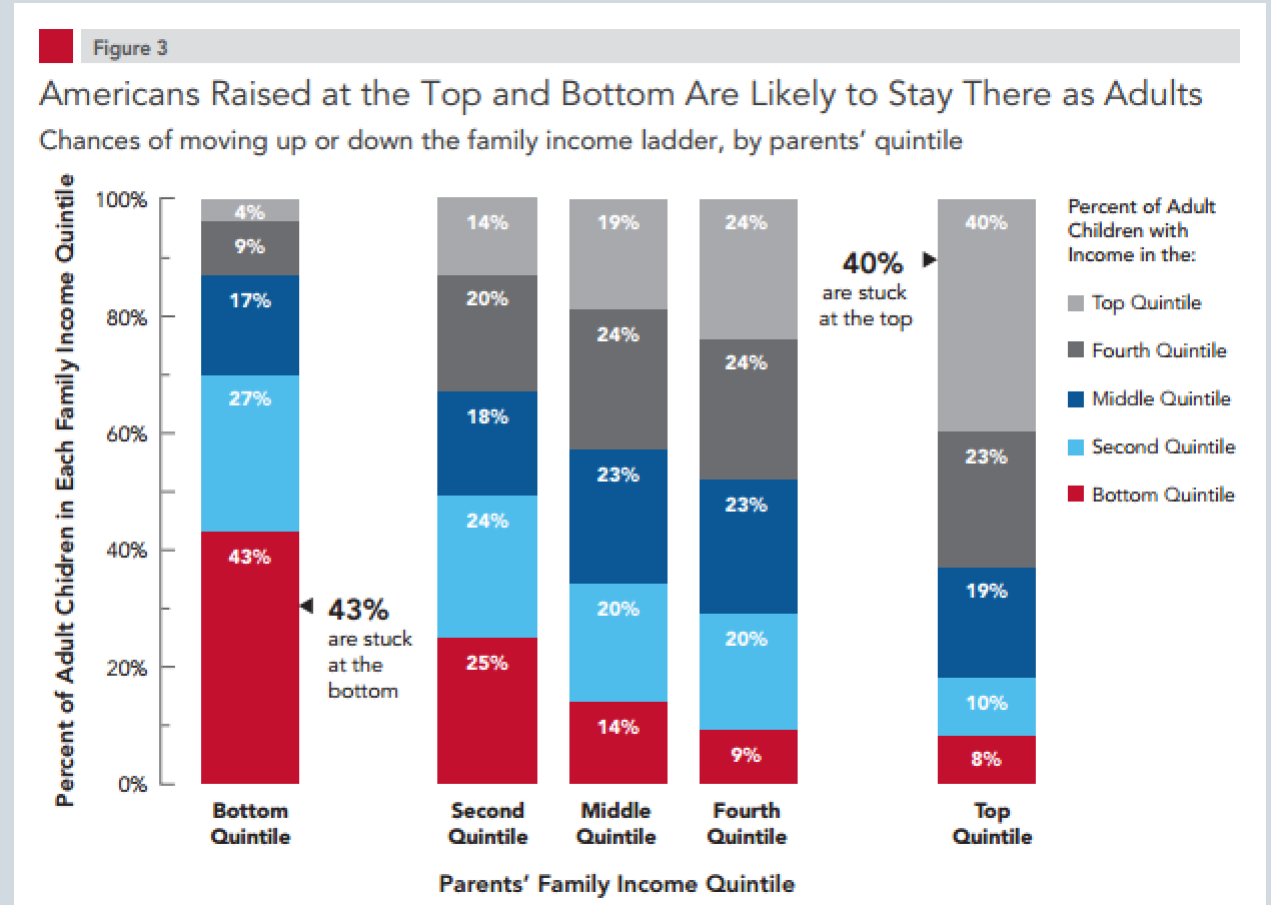


# How Much Mobility Is There?

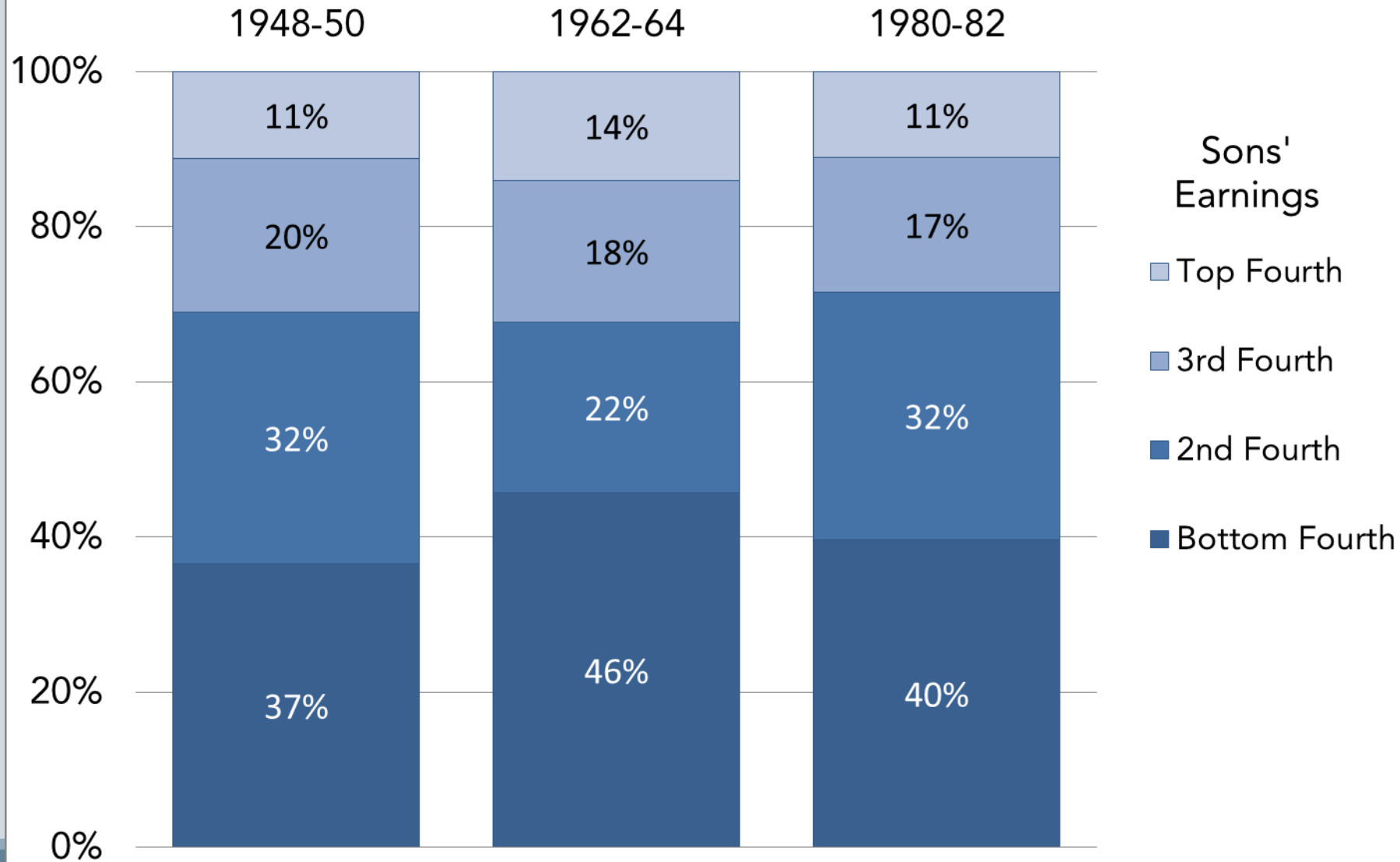
## Relative vs. Absolute

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

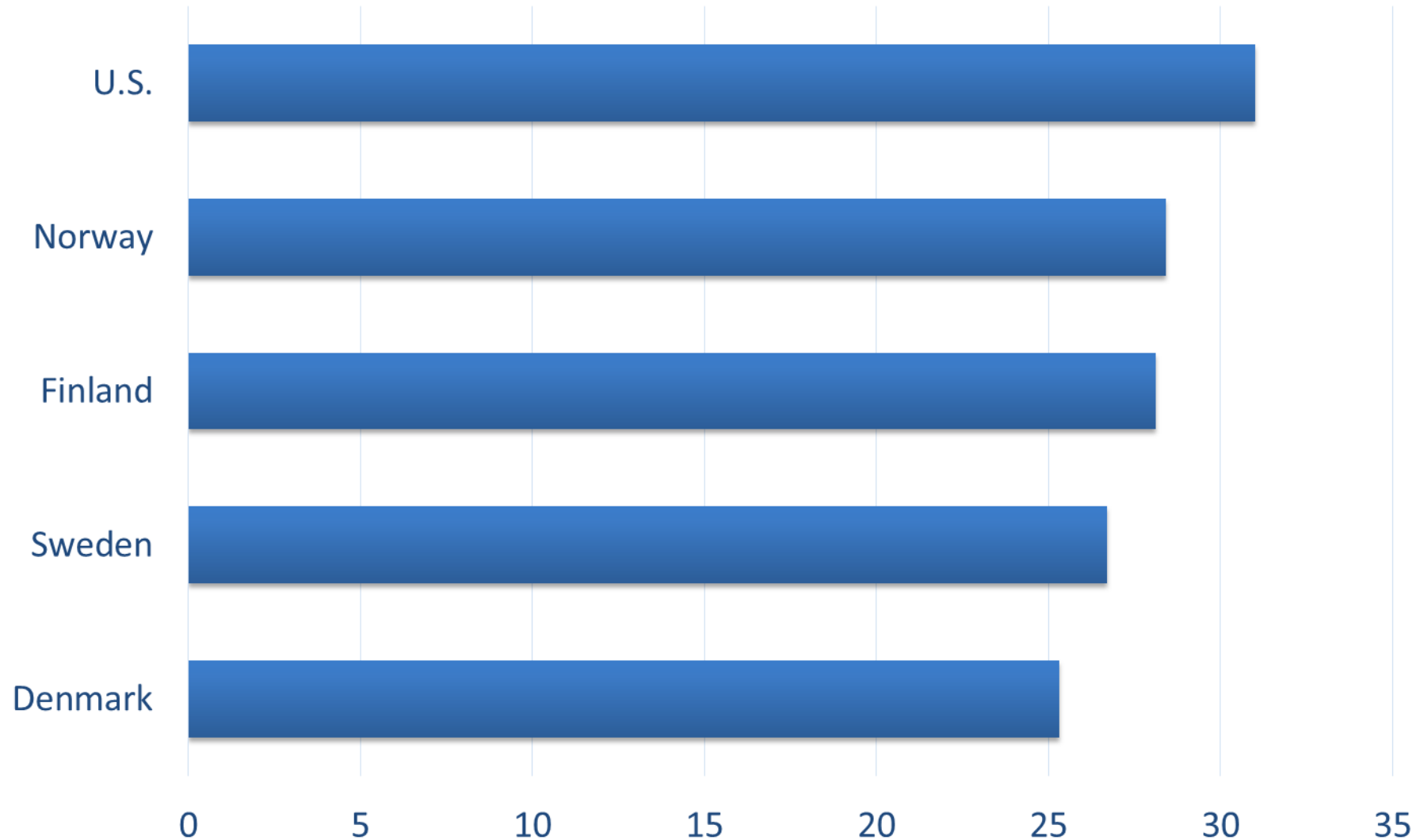


### Percent of Sons Growing Up In Bottom Fourth of Parental Income in Different Fourths of the Earnings Distribution, by Birth Year



Source:  
National  
Longitudinal Surveys  
estimates,  
Winship  
(forthcoming)

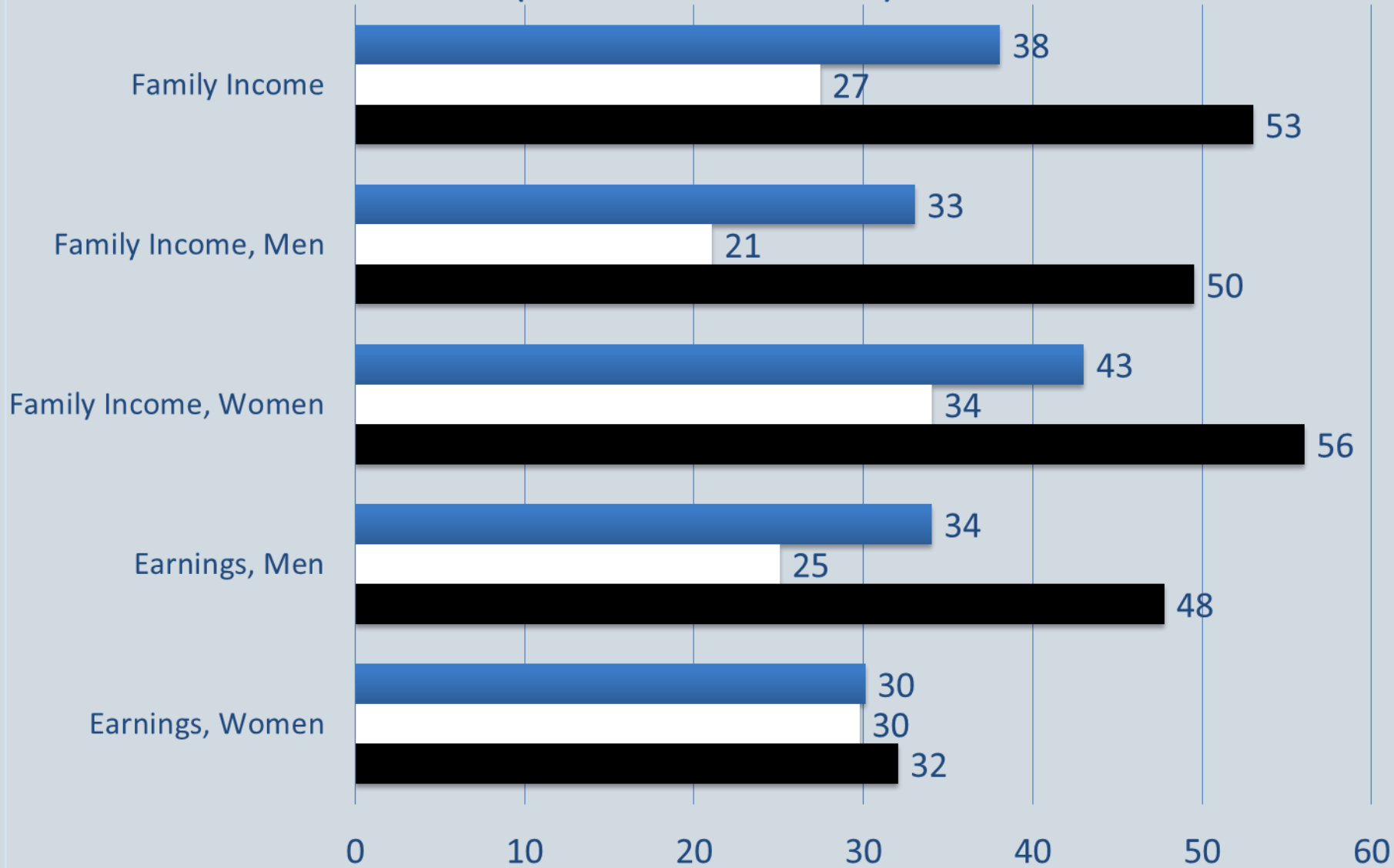
## Upward Earnings Immobility of Sons with Father Earnings in Bottom Fifth (% in bottom fifth as adults)



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)



■ All Adolescents  
■ White  
■ Black

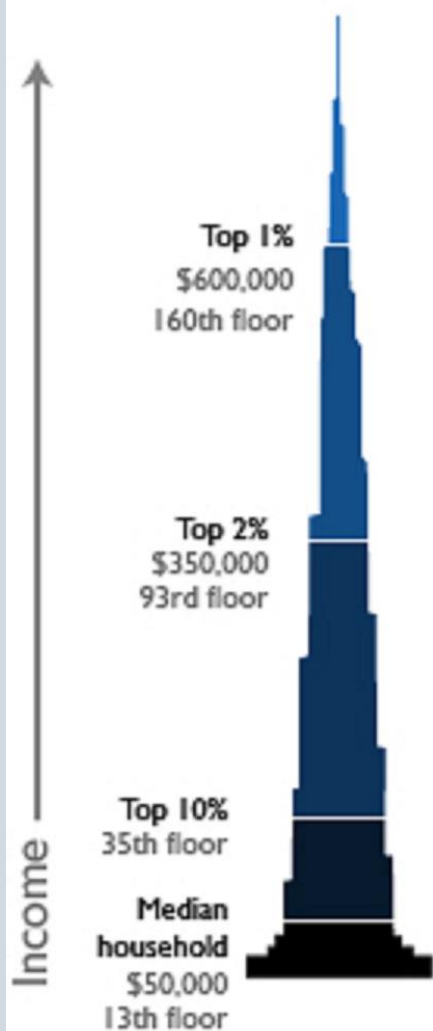
Source:  
NLSY79 estimates,  
Winship  
(forthcoming)

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SWINSHIP@MANHATTAN-INSTITUTE.ORG



*...if the top  
1% are on the  
top floor:*

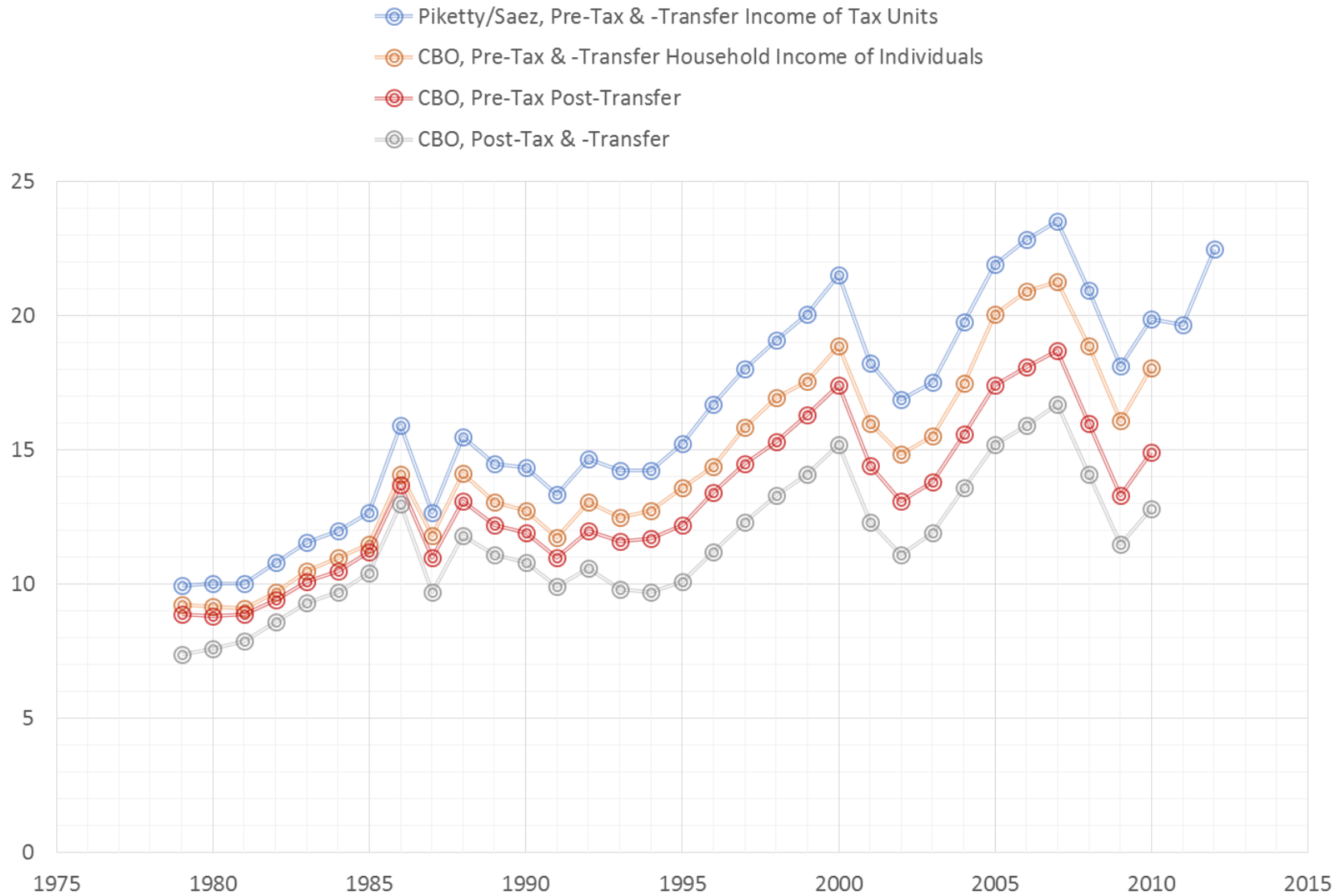


*...if Larry  
Ellison is on  
the top floor:*

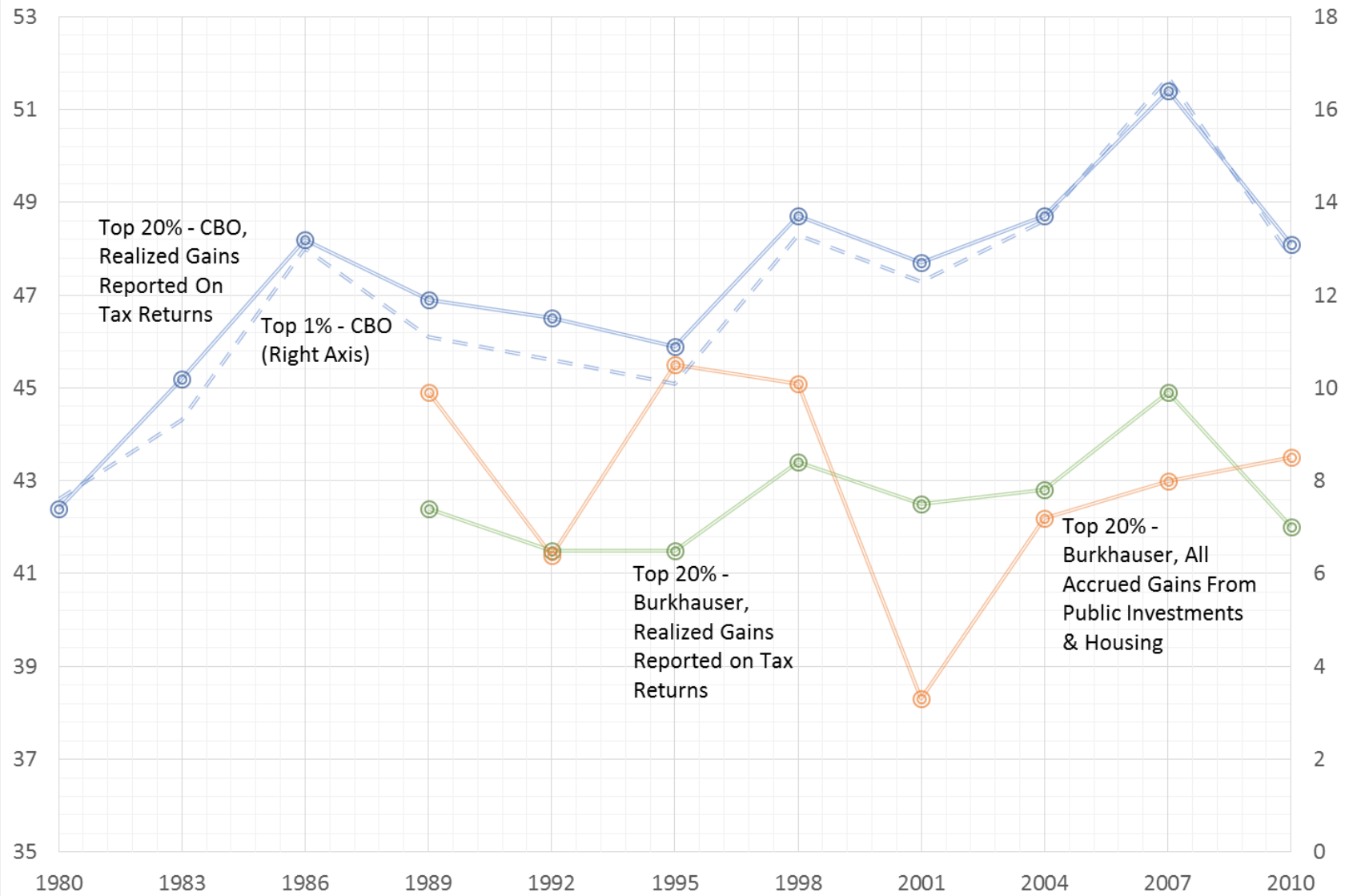


BROOKINGS

## Top 1% Share, Including Realized Capital Gains Reported on Tax Returns

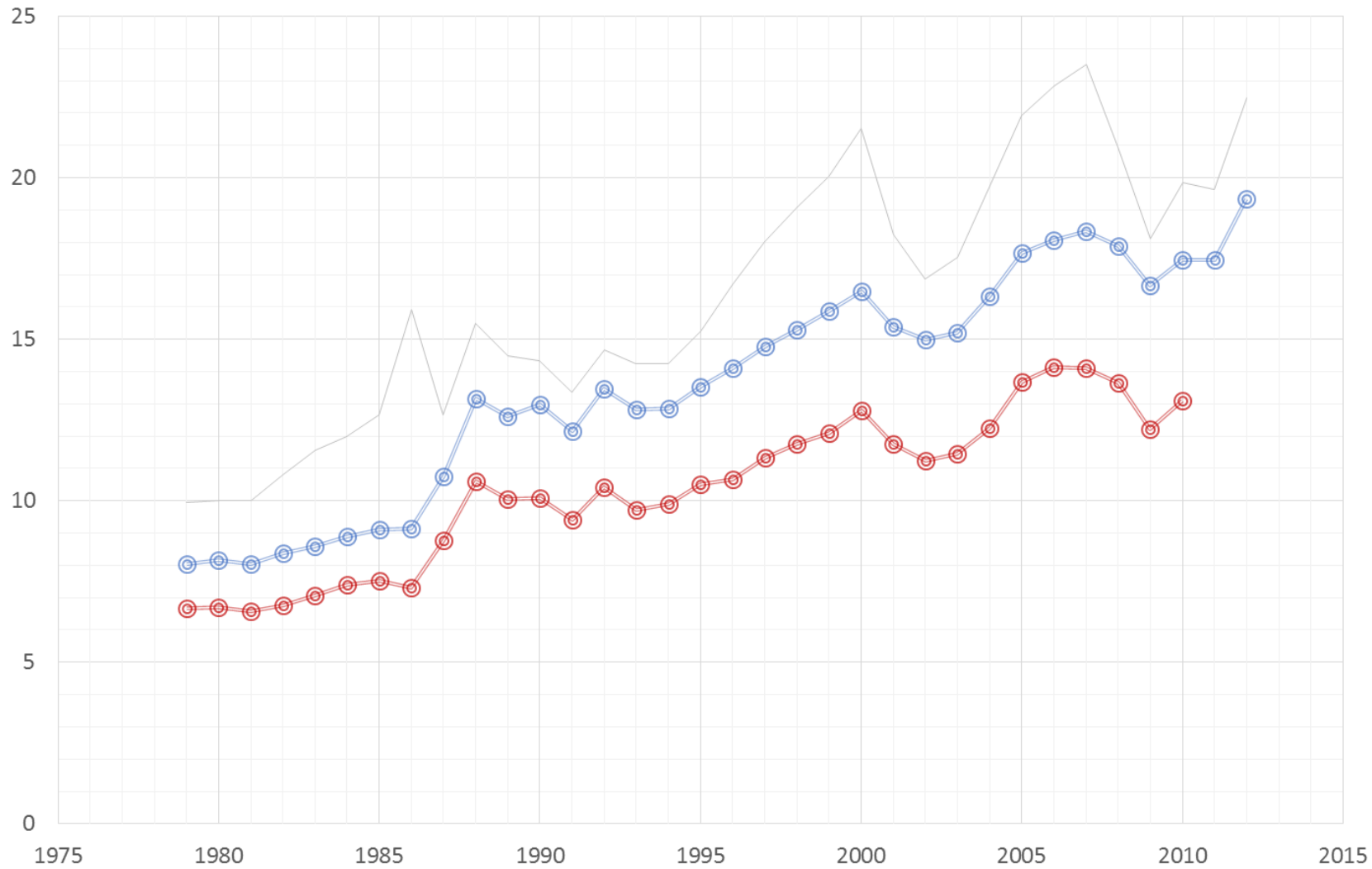


# Top Income Shares, Different Treatment of Capital Gains

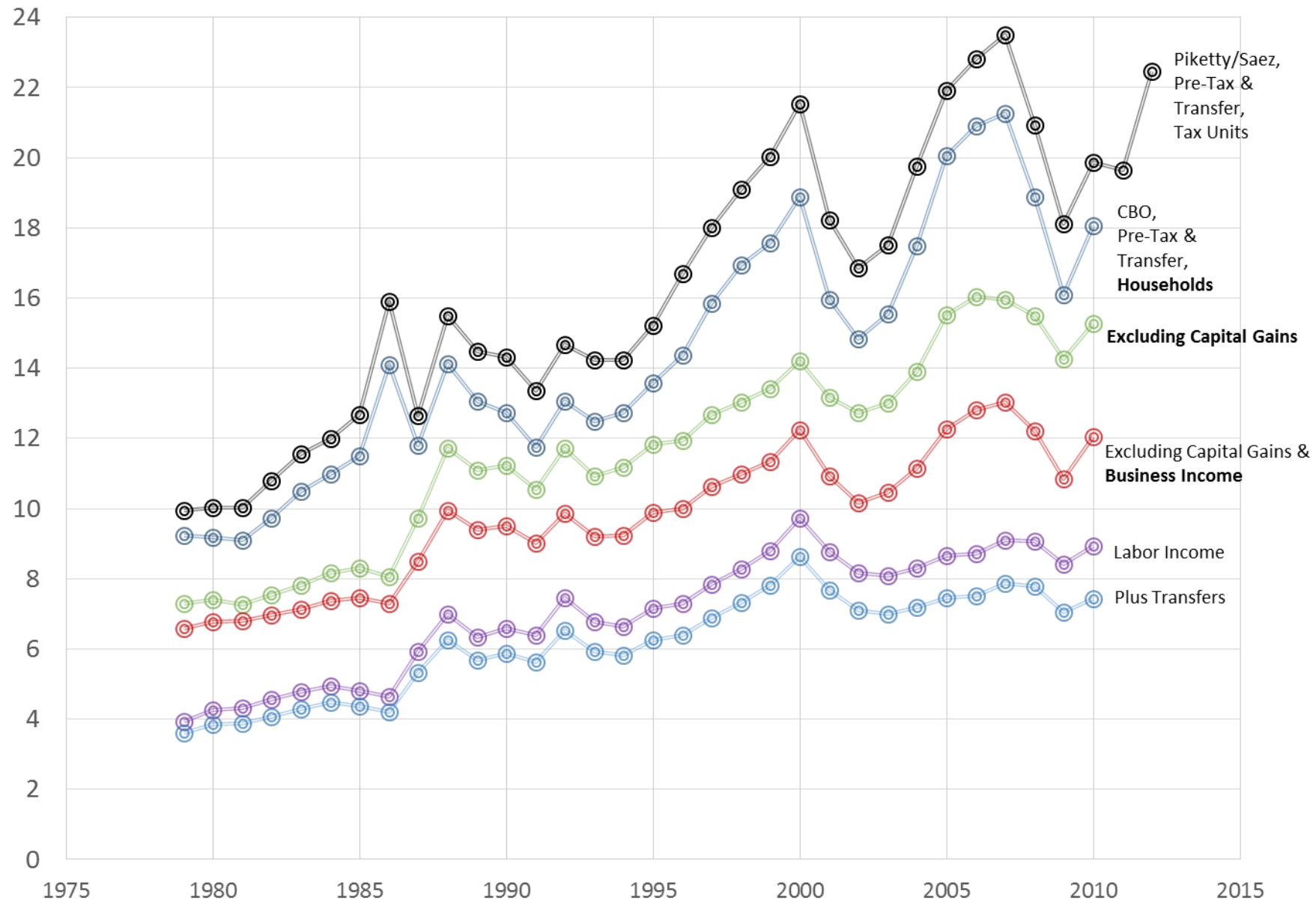


# Top 1% Share, Pre-Tax, Excluding All Capital Gains

—○— Piketty/Saez, Tax Units      —○— CBO, Household Income of Individuals

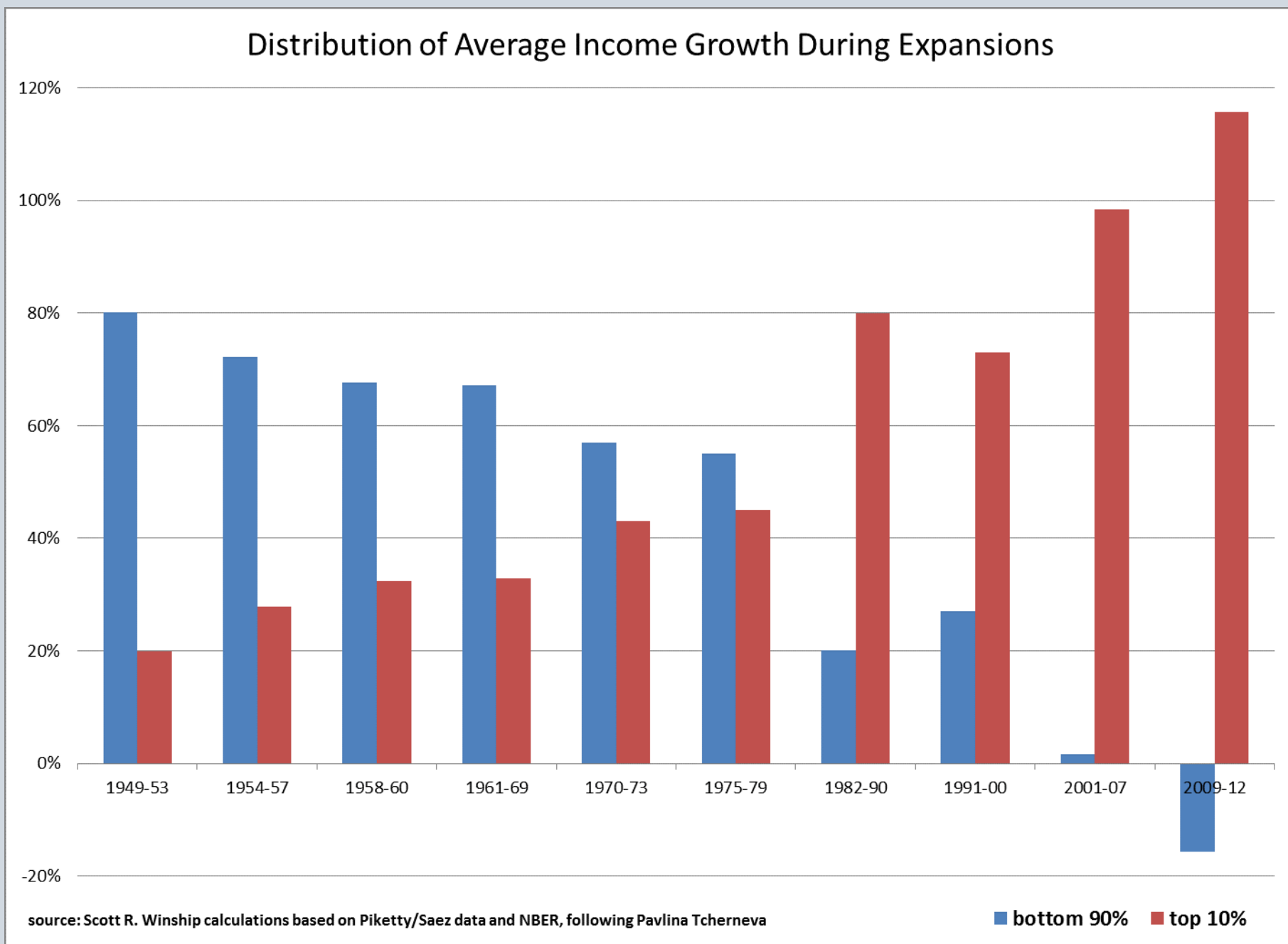


# Top 1% Share



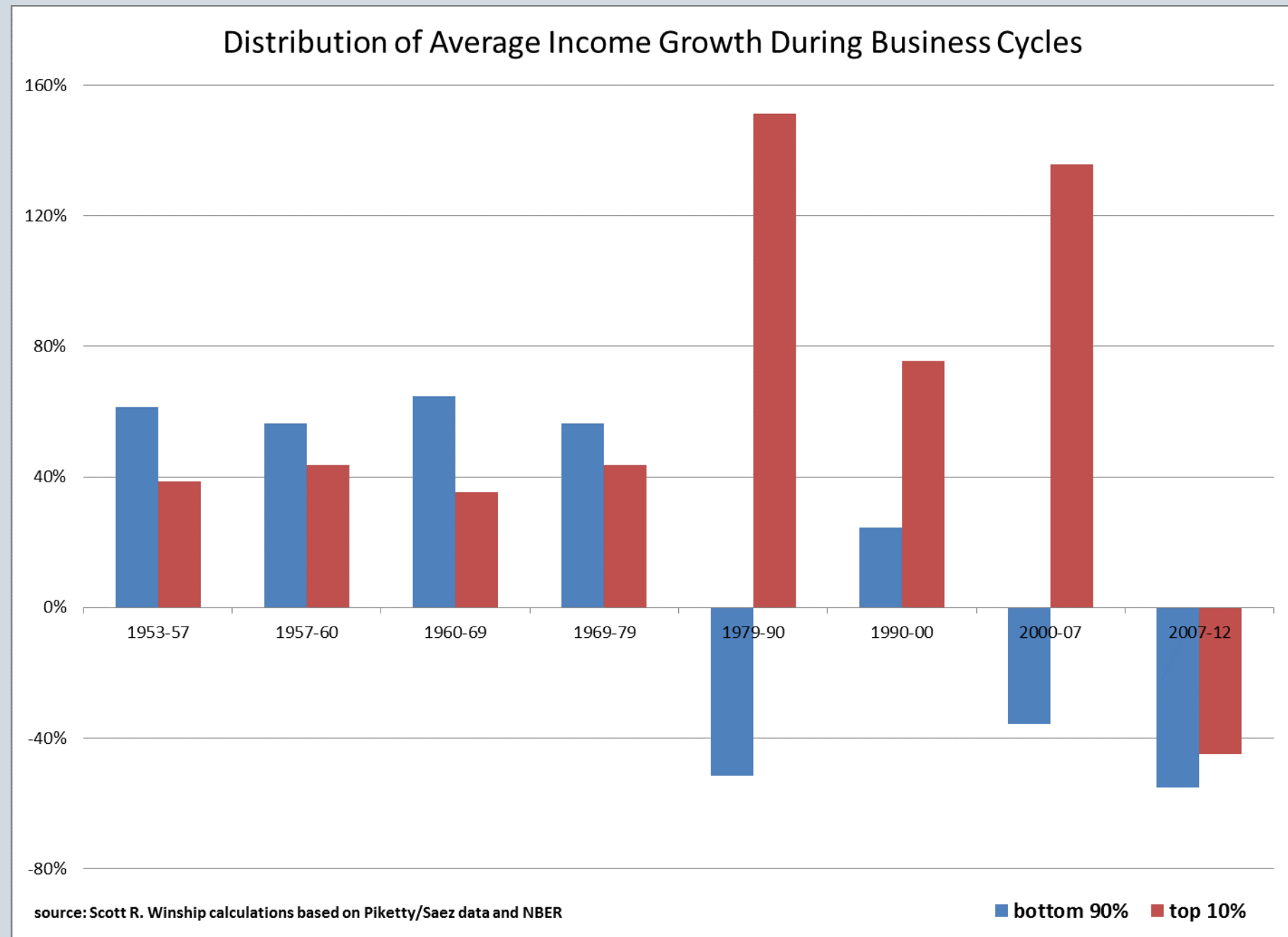
## Original Tcherneva Chart (via Piketty & Saez)

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



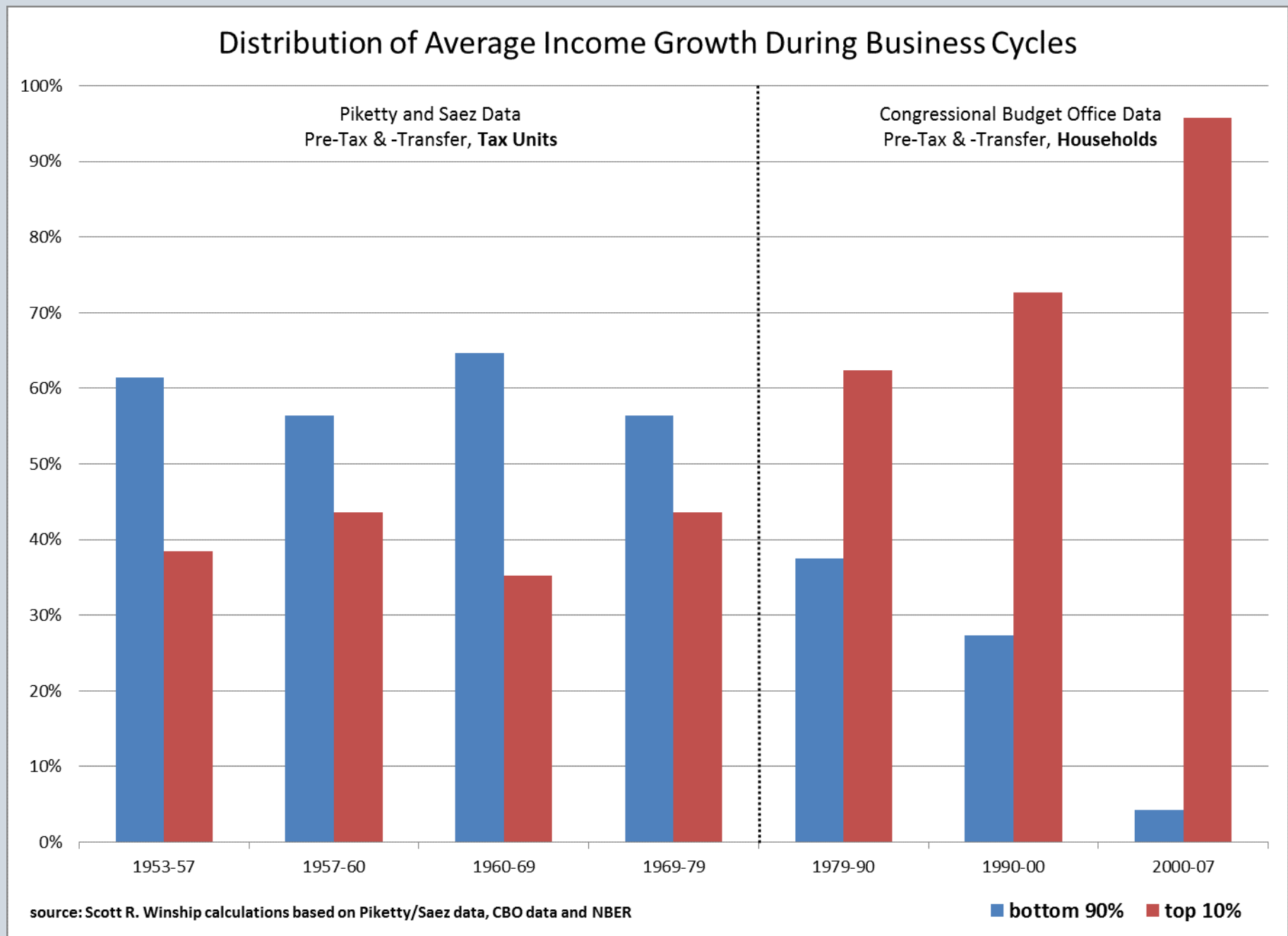
## Modification 1:

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



## Modification 2:

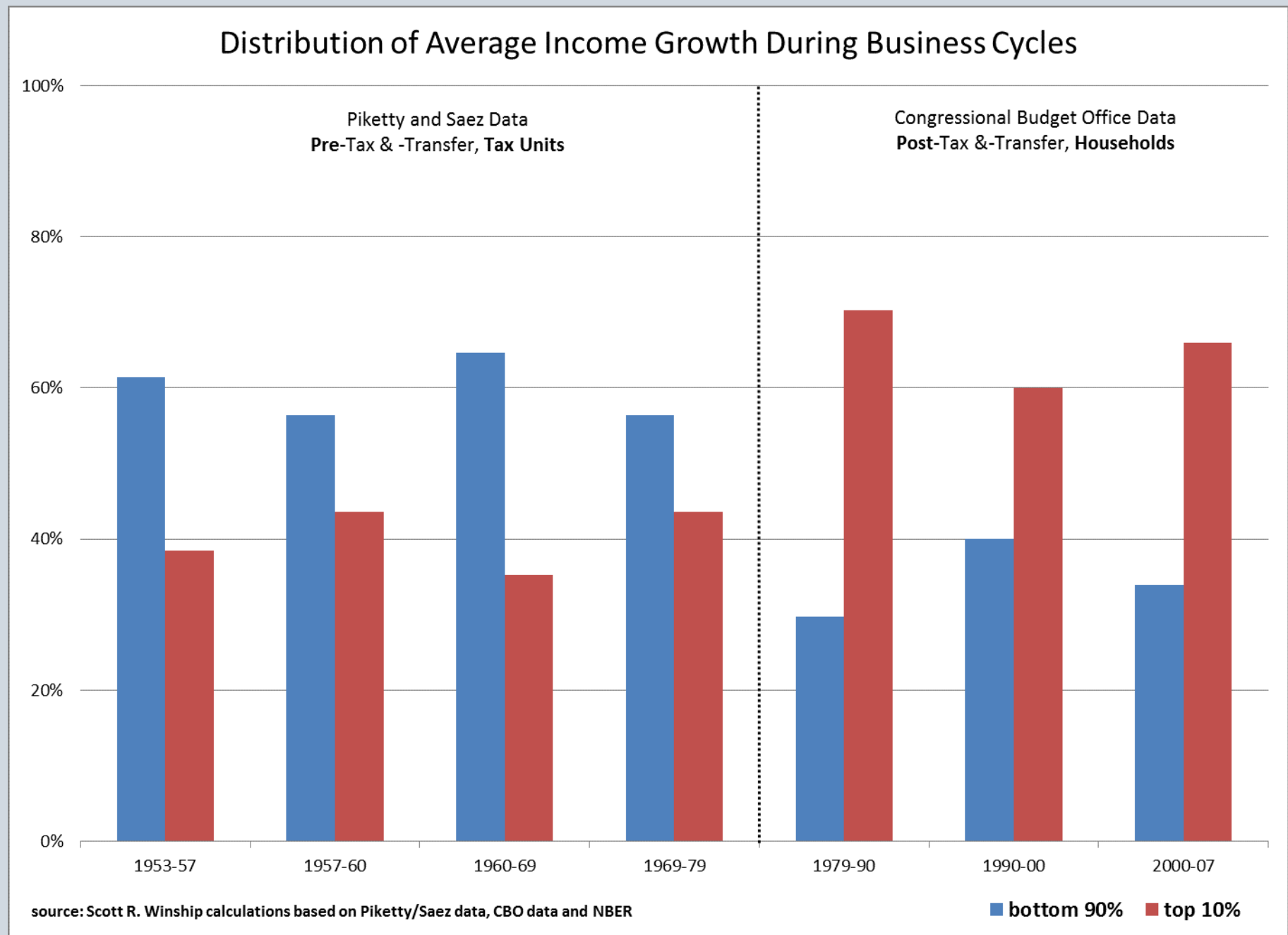
- Business Cycles
- ~~Tax Units~~ **Households**
- Pre-Tax & -Transfer Income
  - Including Realized Taxable Capital Gains
  - Combining Elderly & Working-Age Population





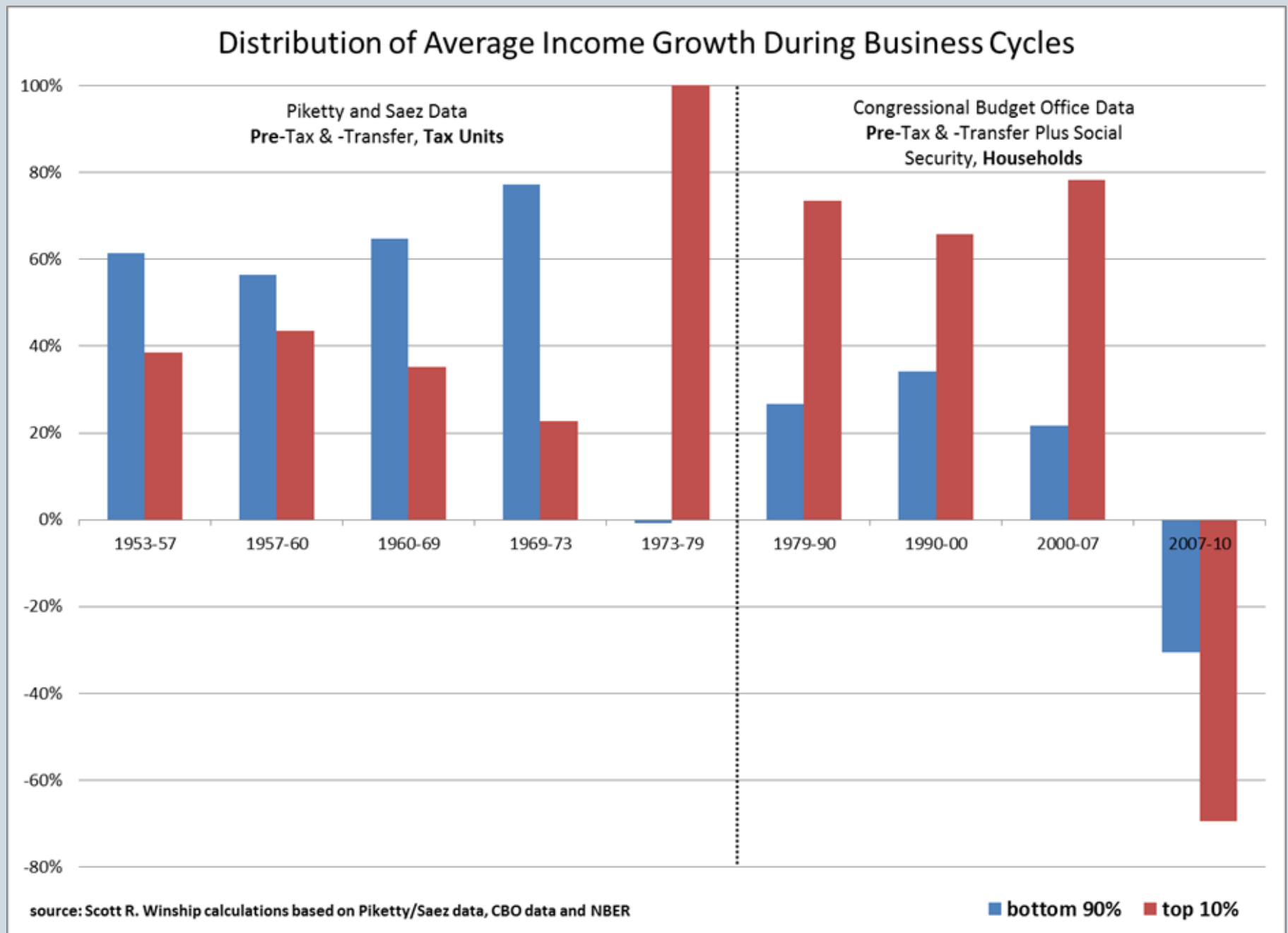
### Modification 3a:

- Business Cycles
- Households
- ~~Pre-Tax & Transfer~~  
**Income Post-Tax & -  
Transfer Income**
  - Including Realized Taxable Capital Gains
  - Combining Elderly & Working-Age Population

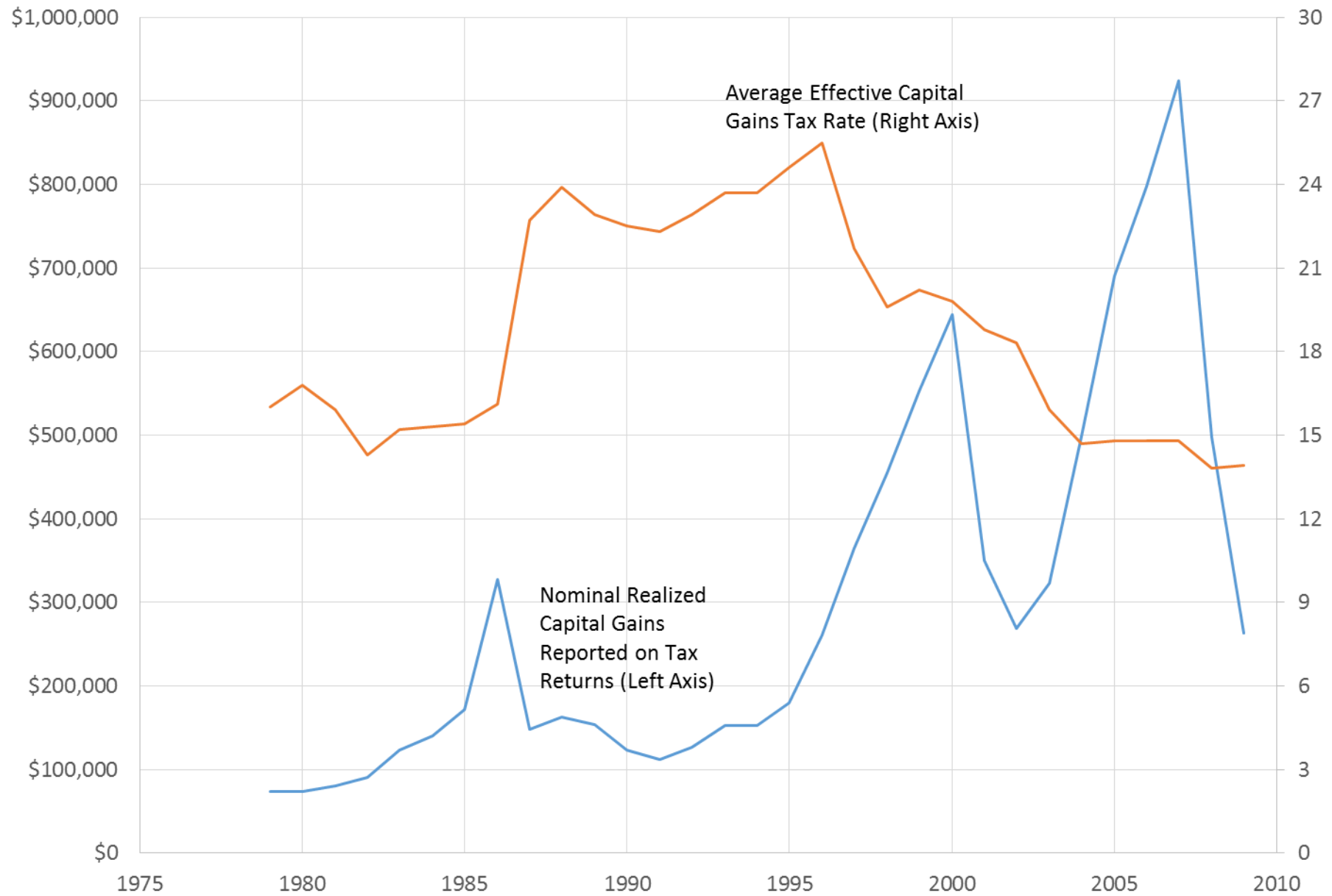


## NEW Modification 3b:

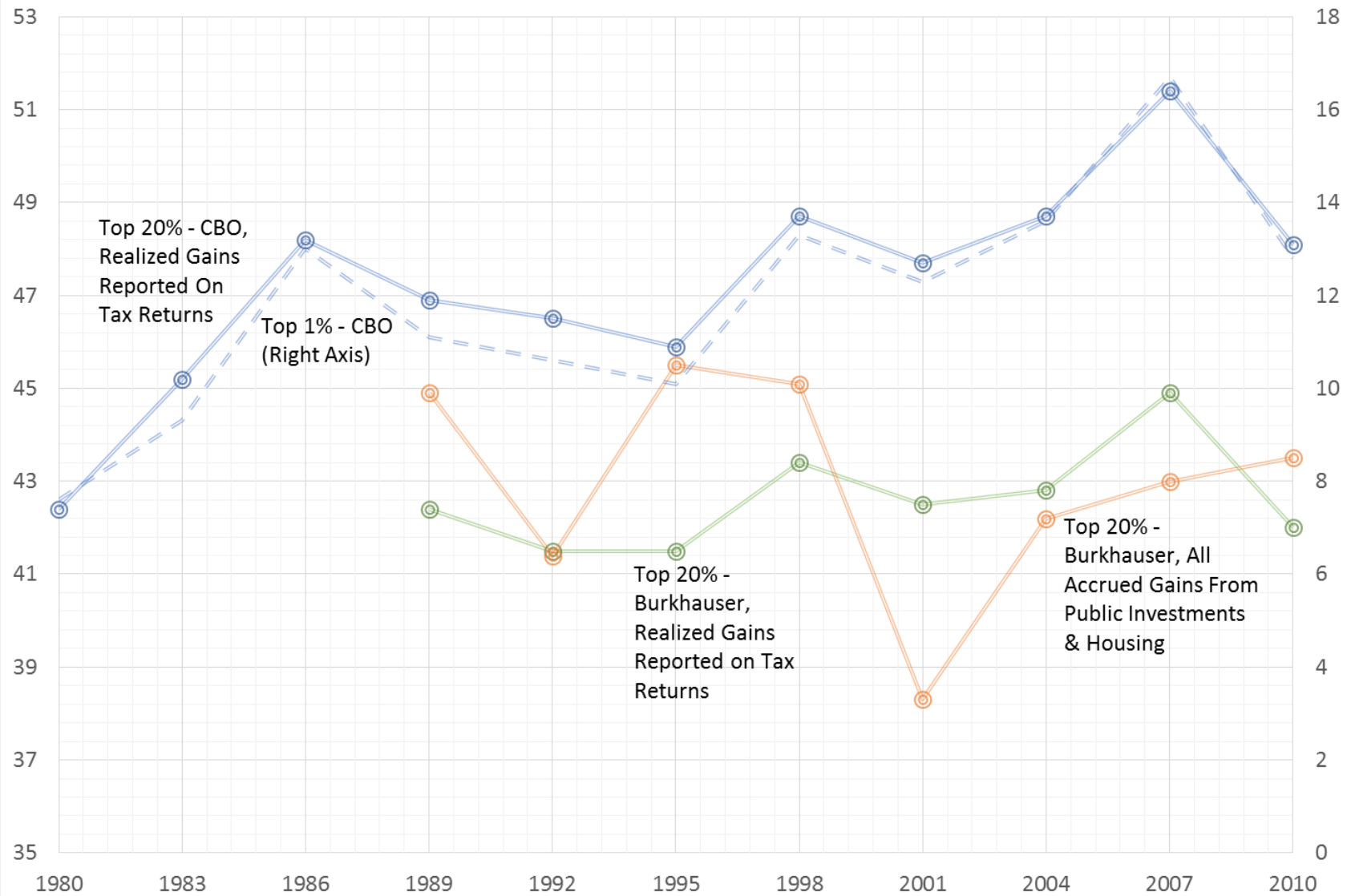
- ~~Business Cycles~~  
**Business Cycles**  
(Including 1969-73, 1973-79, 2007-10)
- Households
- ~~Pre-Tax & Transfer Income~~  
**Pre-Tax & -Transfer Income Plus Social Security**
  - Including Realized Taxable Capital Gains
  - Combining Elderly & Working-Age Population



# Capital Gains vs. Capital Gains Tax Rates

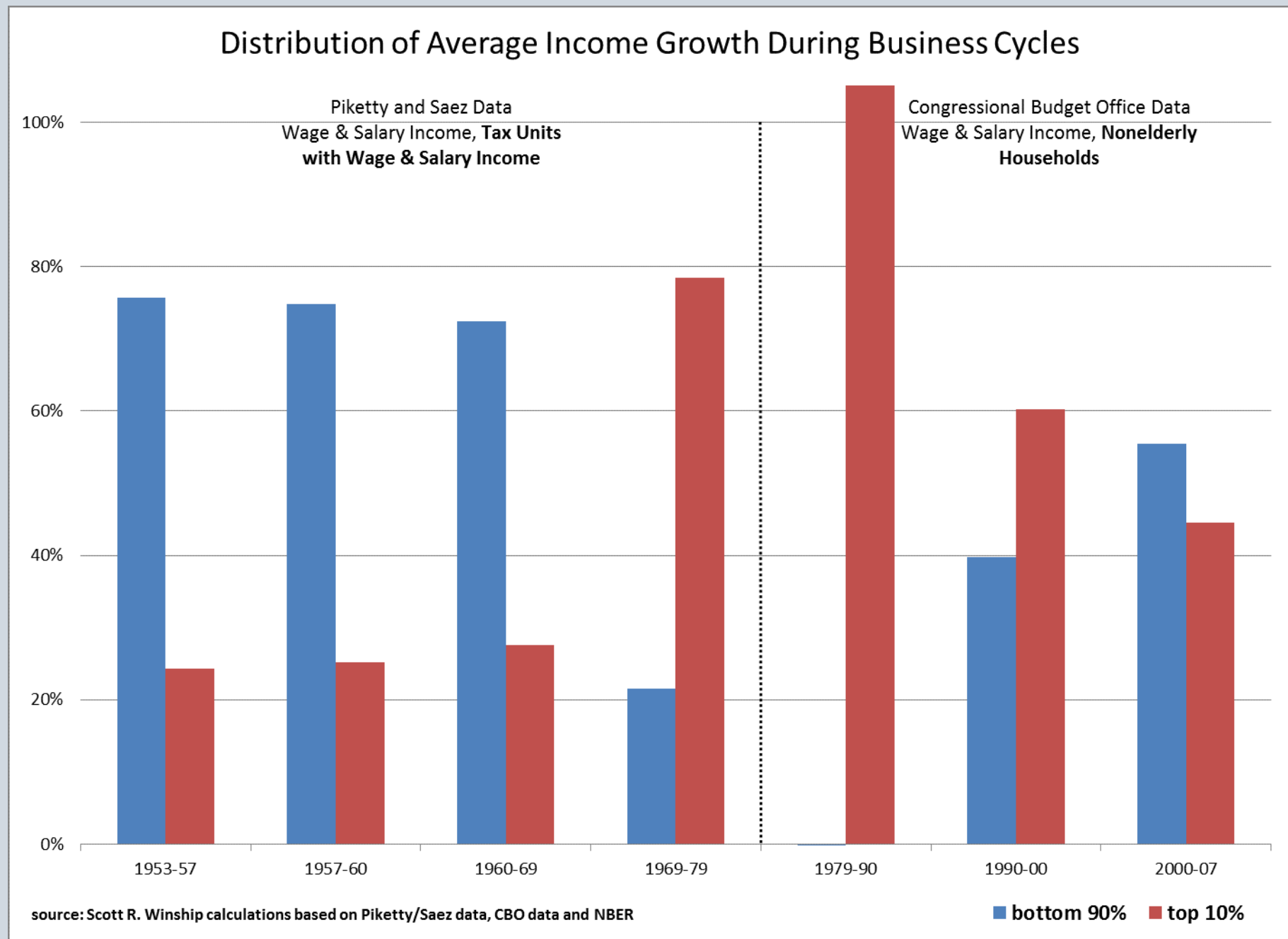


## Top Income Shares, Different Treatment of Capital Gains



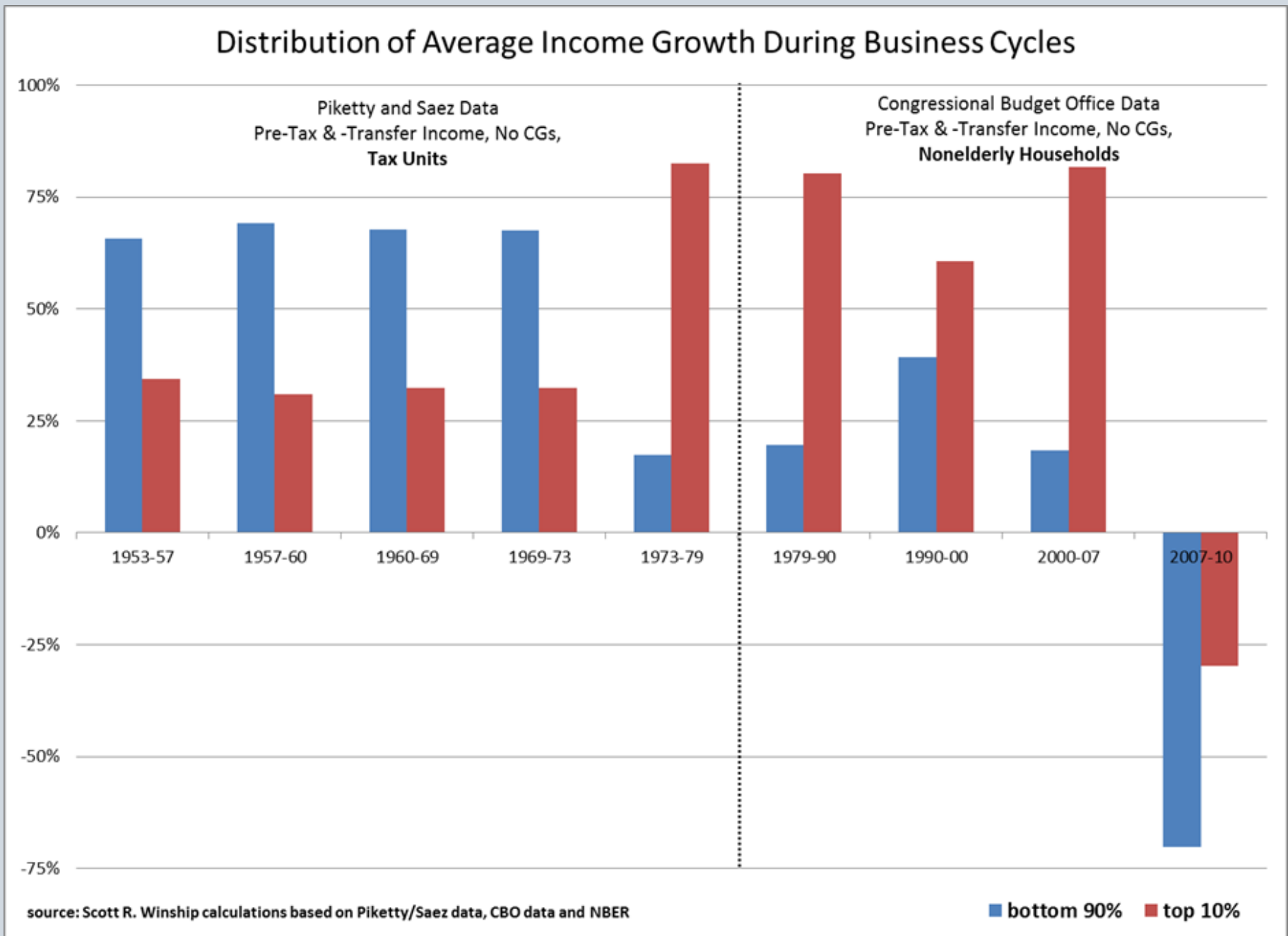
### Modification 3c:

- Business Cycles
- Households
- Pre-Tax & -Transfer Income
  - ~~Including Realized Taxable Capital Gains~~ **Wage & Salary Income Only**
  - ~~Combining Elderly & Working-Age Population~~ **Nonelderly**



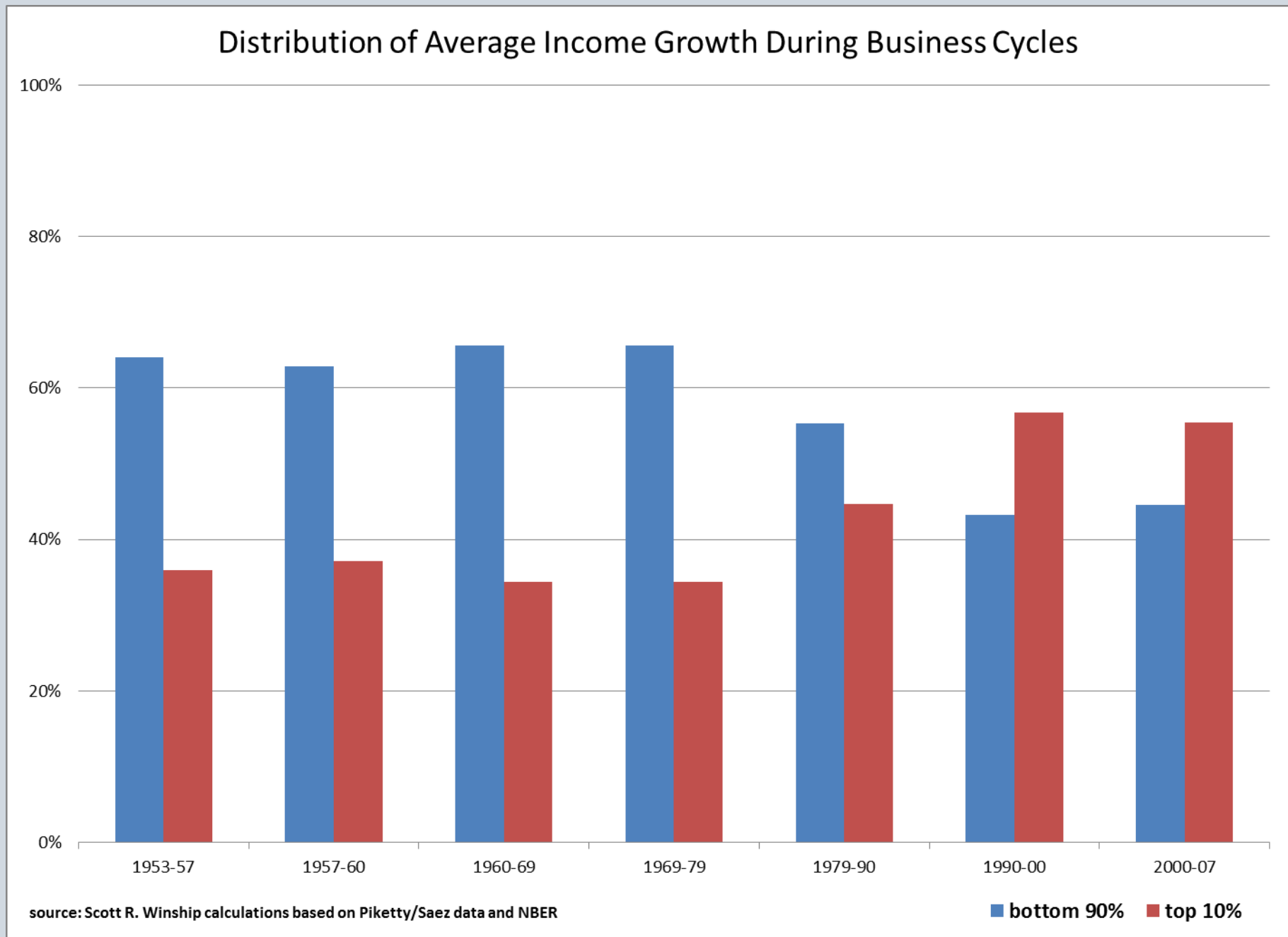
## NEW Modification 3d:

- ~~Business Cycles~~  
**Business Cycles**  
**(Including 1969-73, 1973-79, 2007-10)**
- Households
- Pre-Tax & -Transfer Income
  - ~~Including Realized Taxable Capital Gains~~ **Excluding Capital Gains**
  - ~~Combining Elderly & Working Age Population~~ **Nonelderly**



## 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**



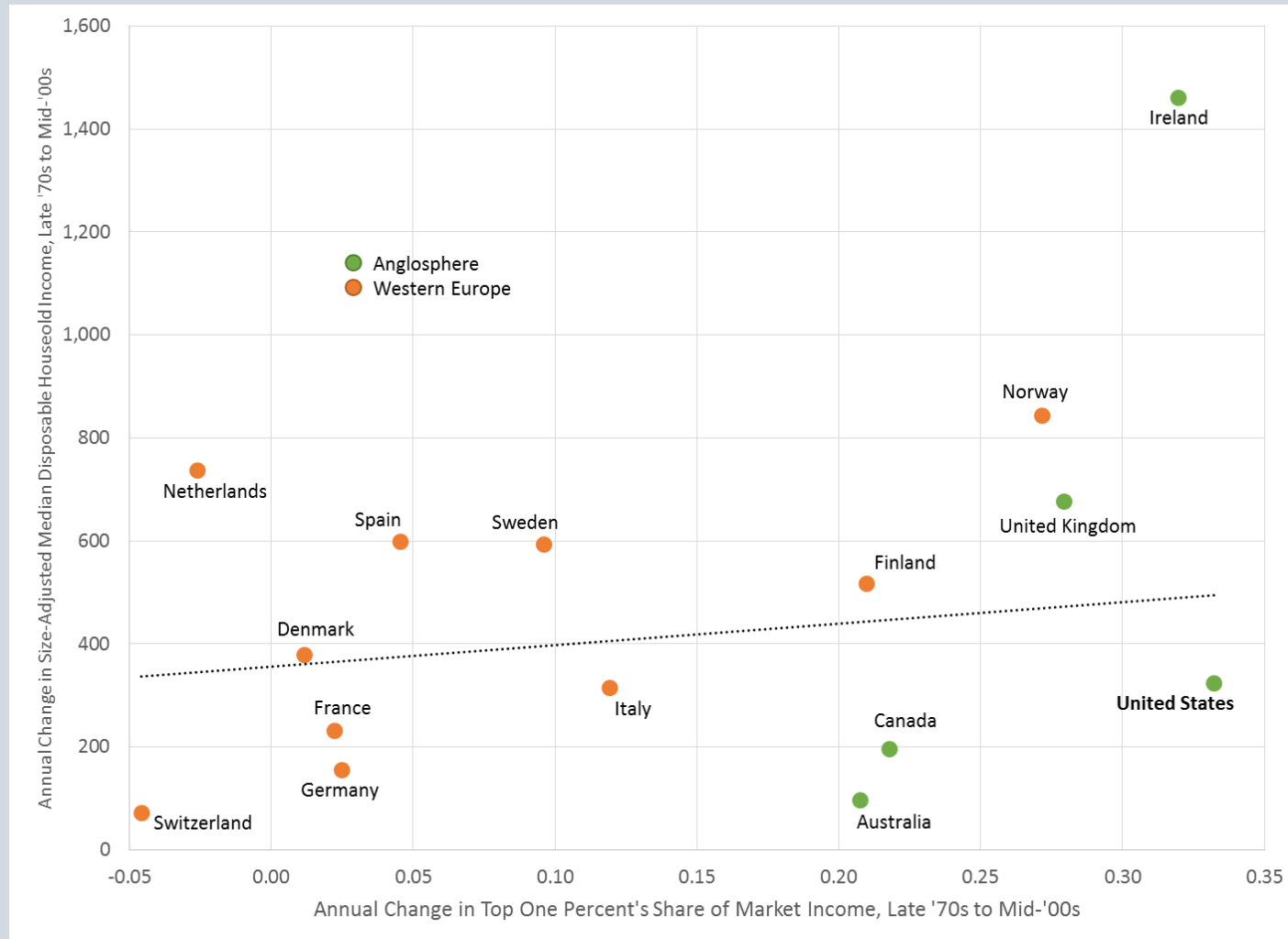
# Inequality and Economic Growth

## Academic Research Since 2000:

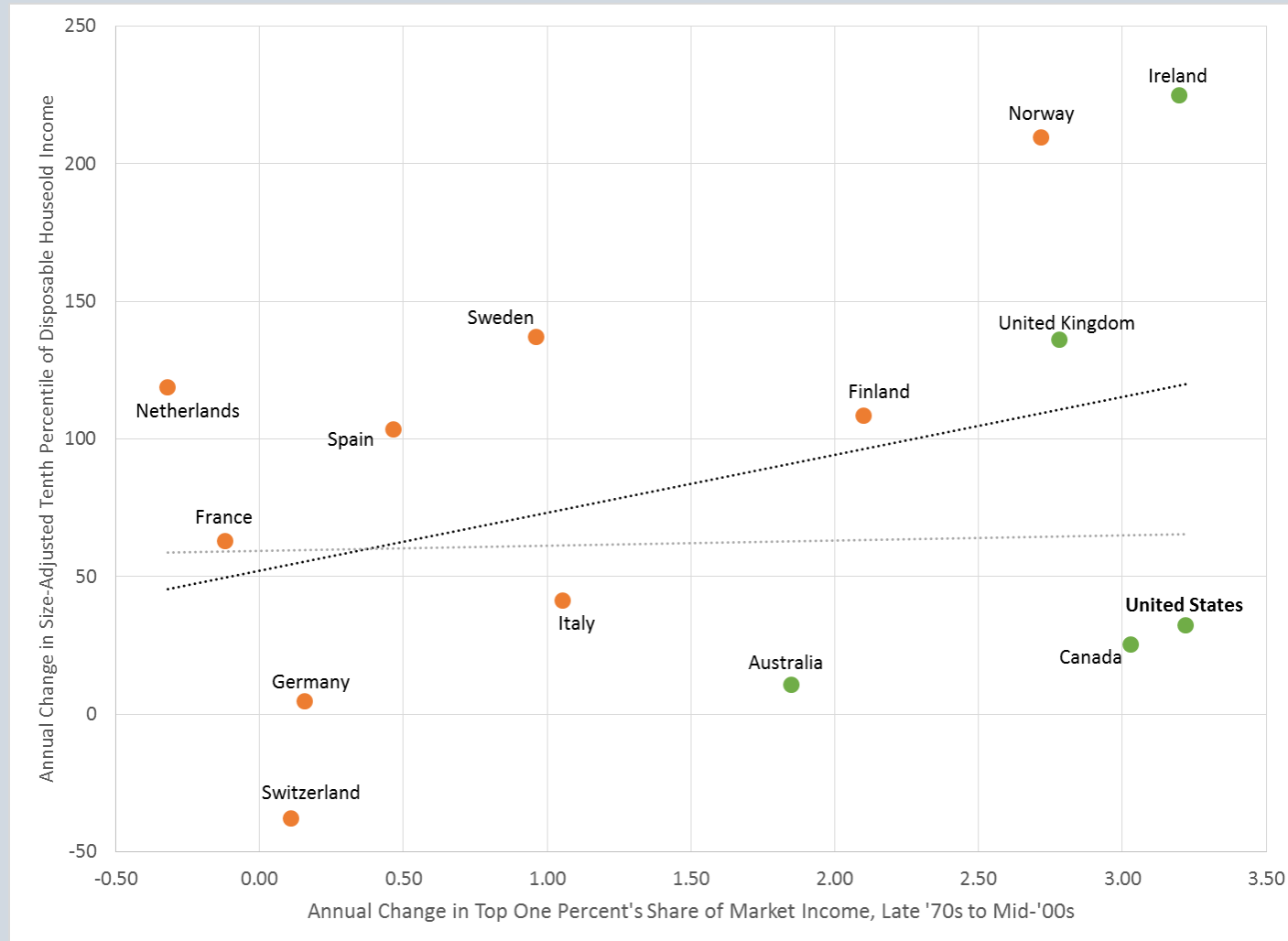
- Within a country, increases in income inequality correspond with stronger economic growth. (Forbes, 2000; Andrews, Jencks, and Leigh, 2011)
- Higher inequality between the top and middle is associated with stronger growth; inequality between the middle and bottom is associated with slower growth. (Voitchovsky, 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)



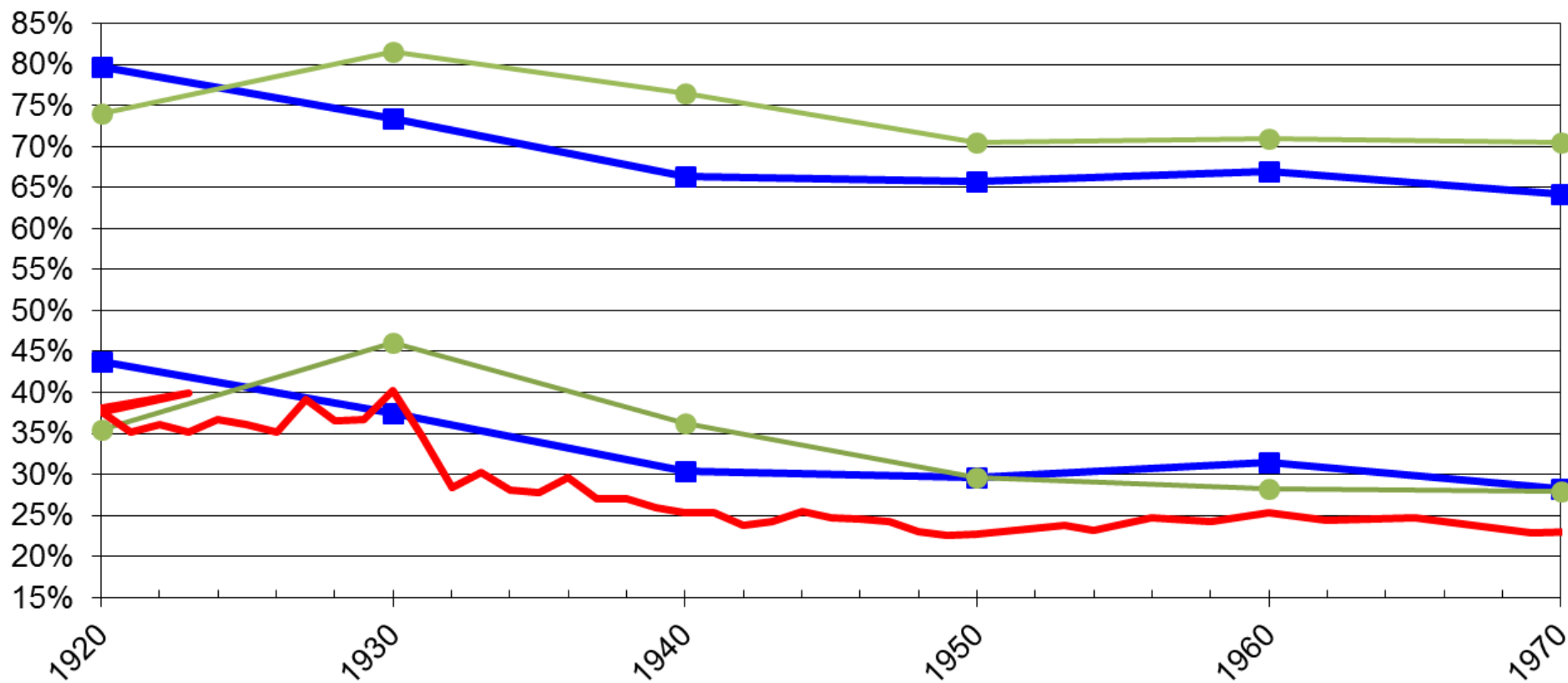
# Changes in Income Concentration vs. Changes in Middle-Class Living Standards across 15 Countries



# Changes in Income Concentration vs. Changes in Living Standards of the Poor across 14 Countries



## Wealth inequality in the US 1920 to 1970

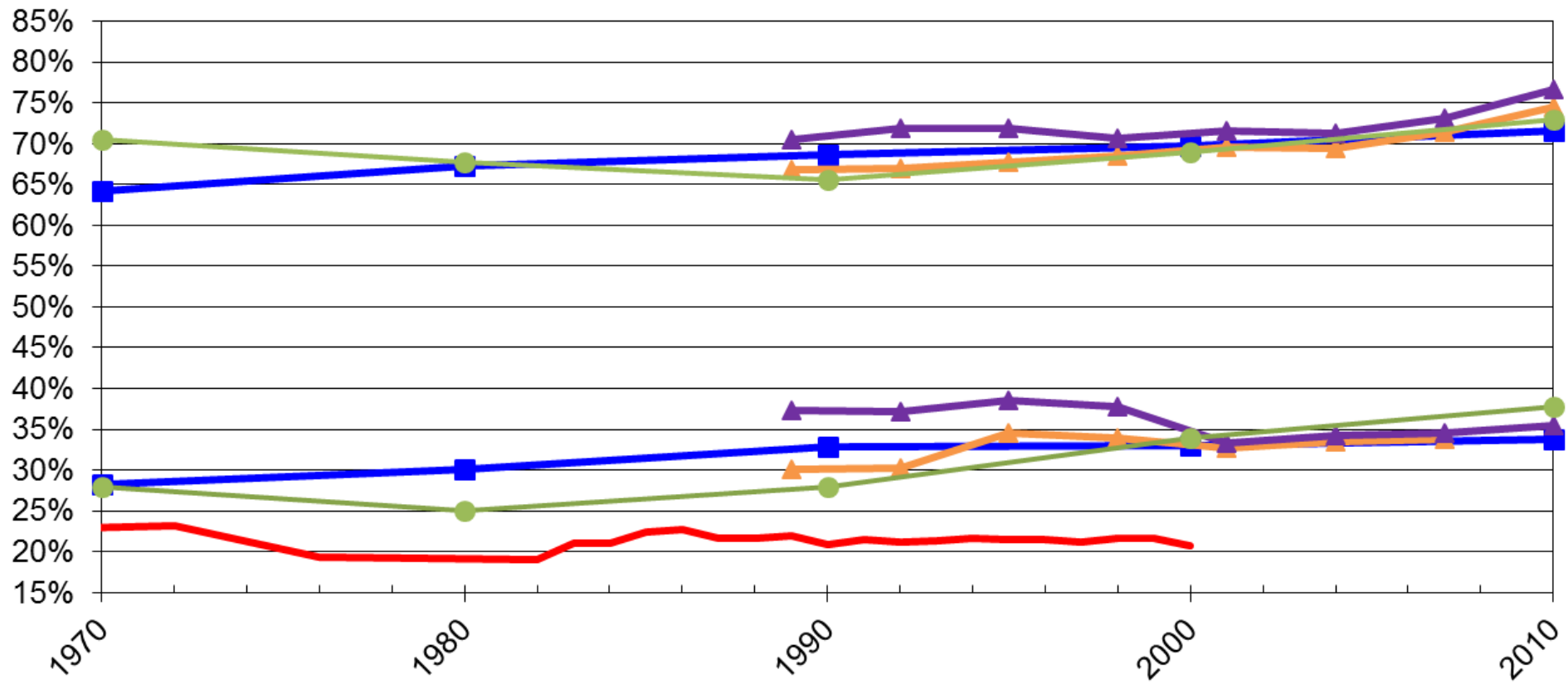


■ Piketty Top 1%  
■ Zucman and Saez Top 10%

■ KS Top 1%  
■ Piketty Top 10%

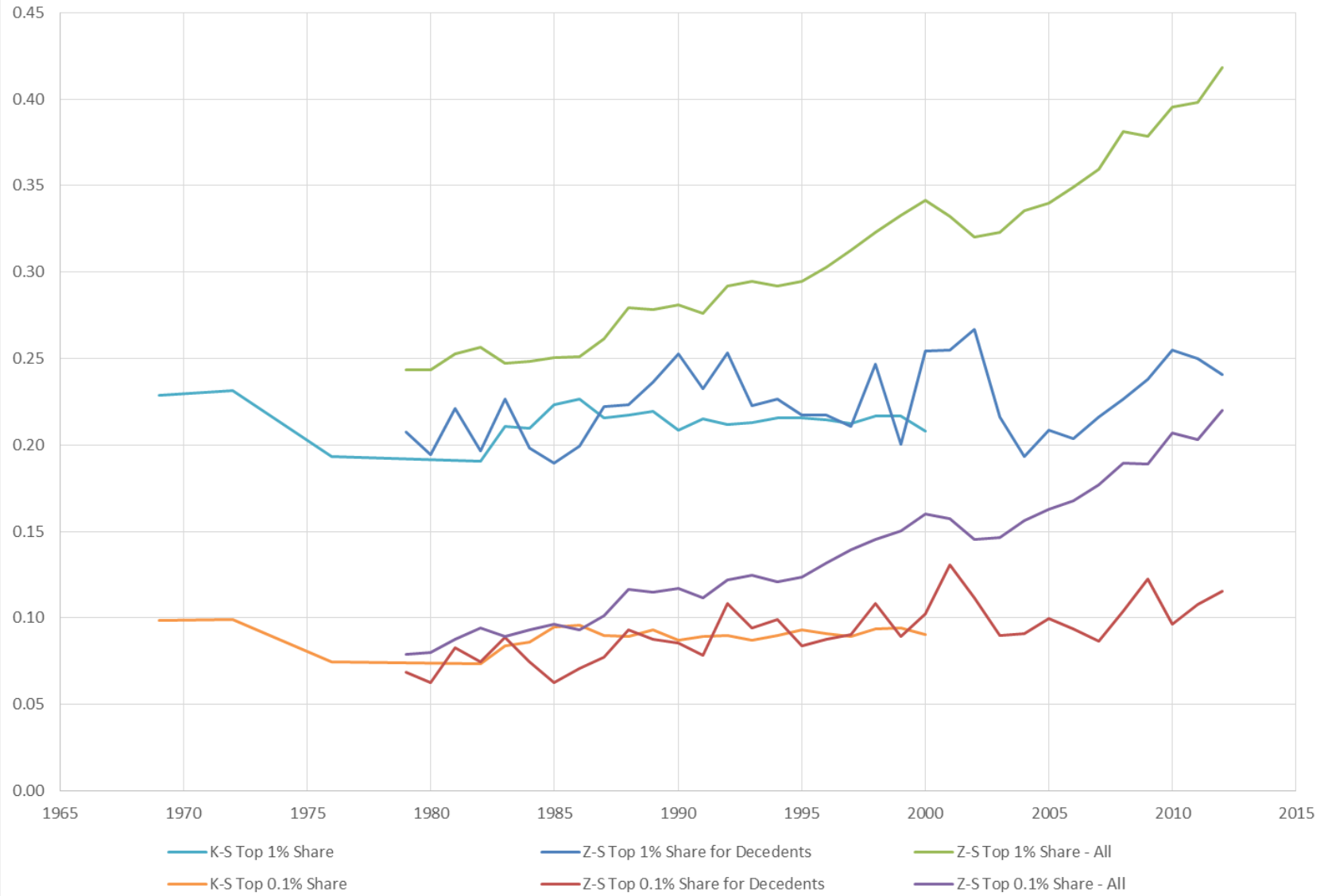
● Zucman and Saez Top 1%

## Wealth inequality in the US 1970 to 2010



- Piketty Top 1%
- Zucman and Saez Top 1%
- Fed 2012 Top 10%
- Fed 2010 Top 1%
- KS Top 1%
- Wolff 2010/12 Top 10%
- Wolff 2010/12 Top 1%
- Piketty Top 10%
- Zucman and Saez Top 10%

Top Wealth Share Estimates Using Different Methods



# Piketty in One Slide

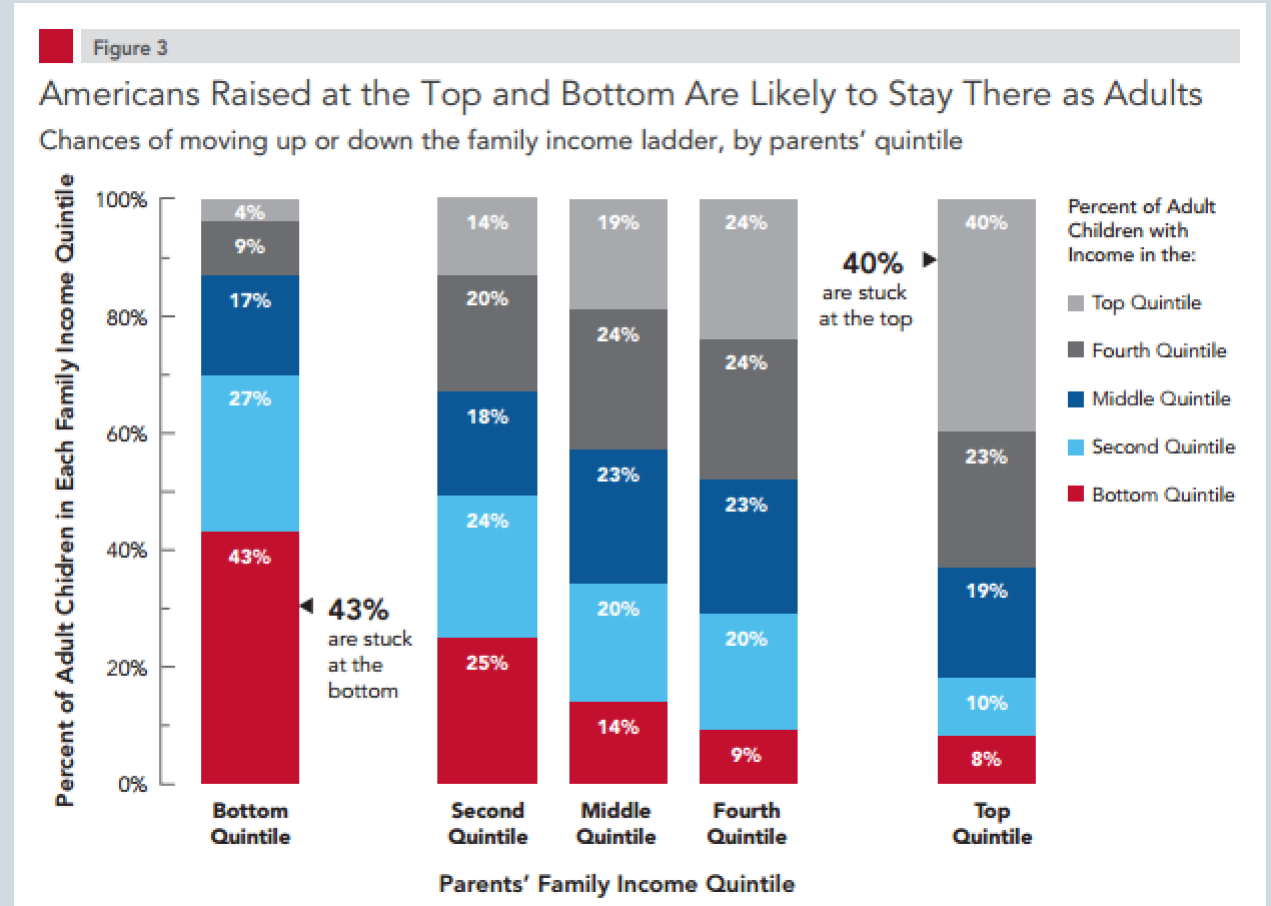
- The economic growth rate ( $g$ ) will fall.
- **If** the savings rate ( $s$ ) does not fall correspondingly, then wealth as a share of national income ( $\beta$ ) will rise.  $\beta = s/g$
- **If** the return to wealth ( $r$ ) does not fall correspondingly, then capital's share of income ( $\alpha$ ) 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.

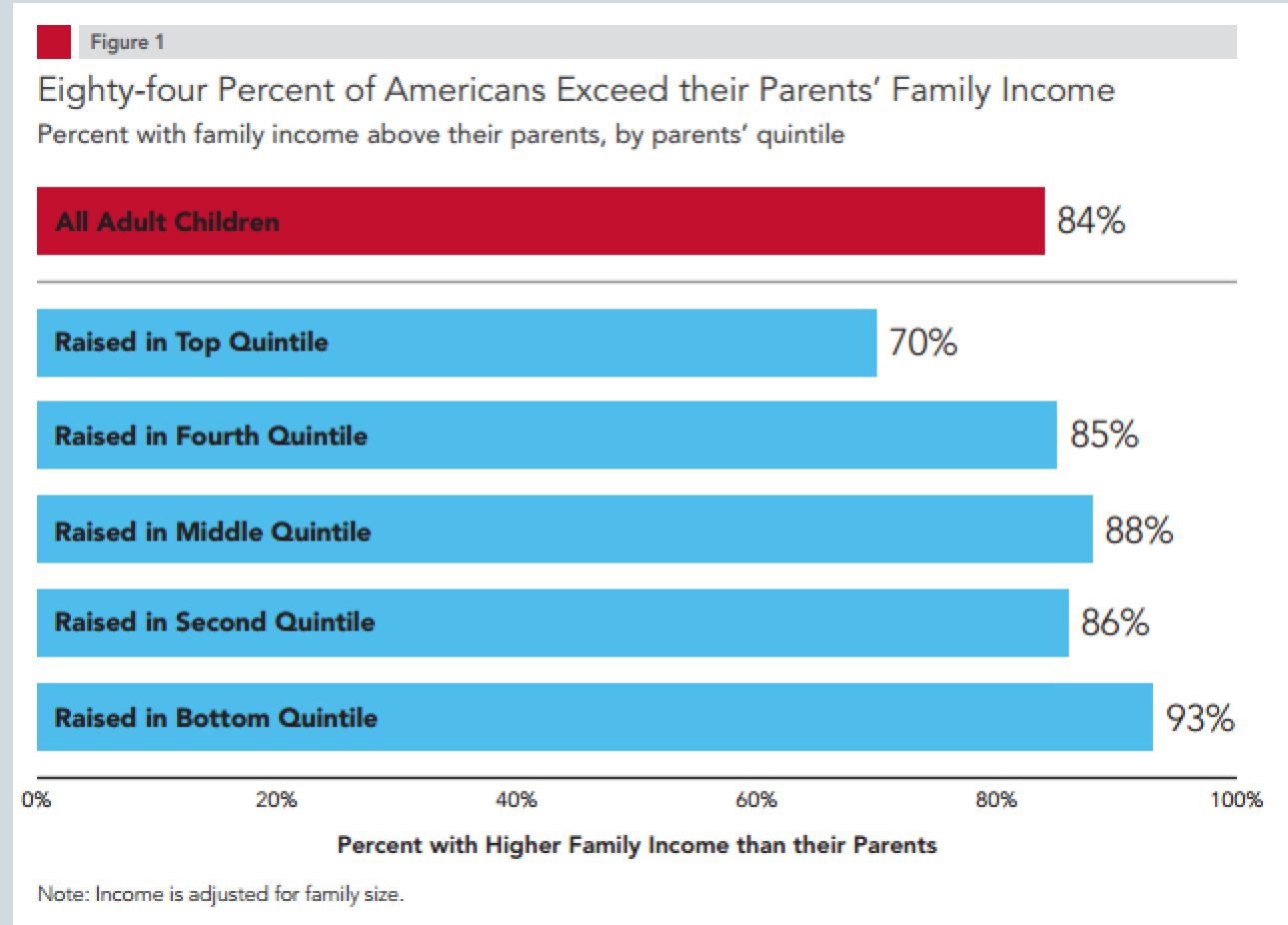
Pew Economic Mobility Project – “Pursuing the American Dream: Economic Mobility Across Generations”



# 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?

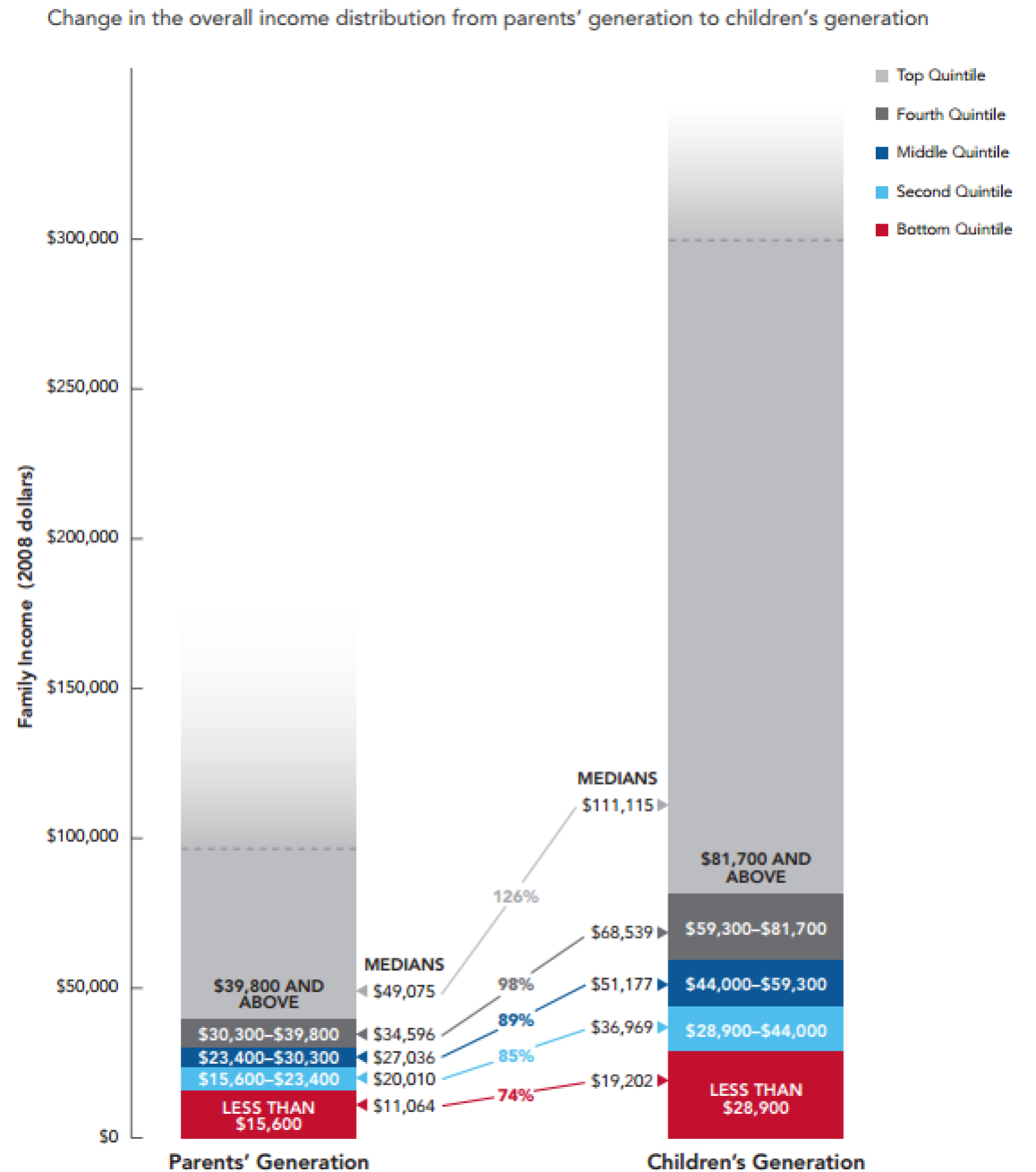
Much more positive story





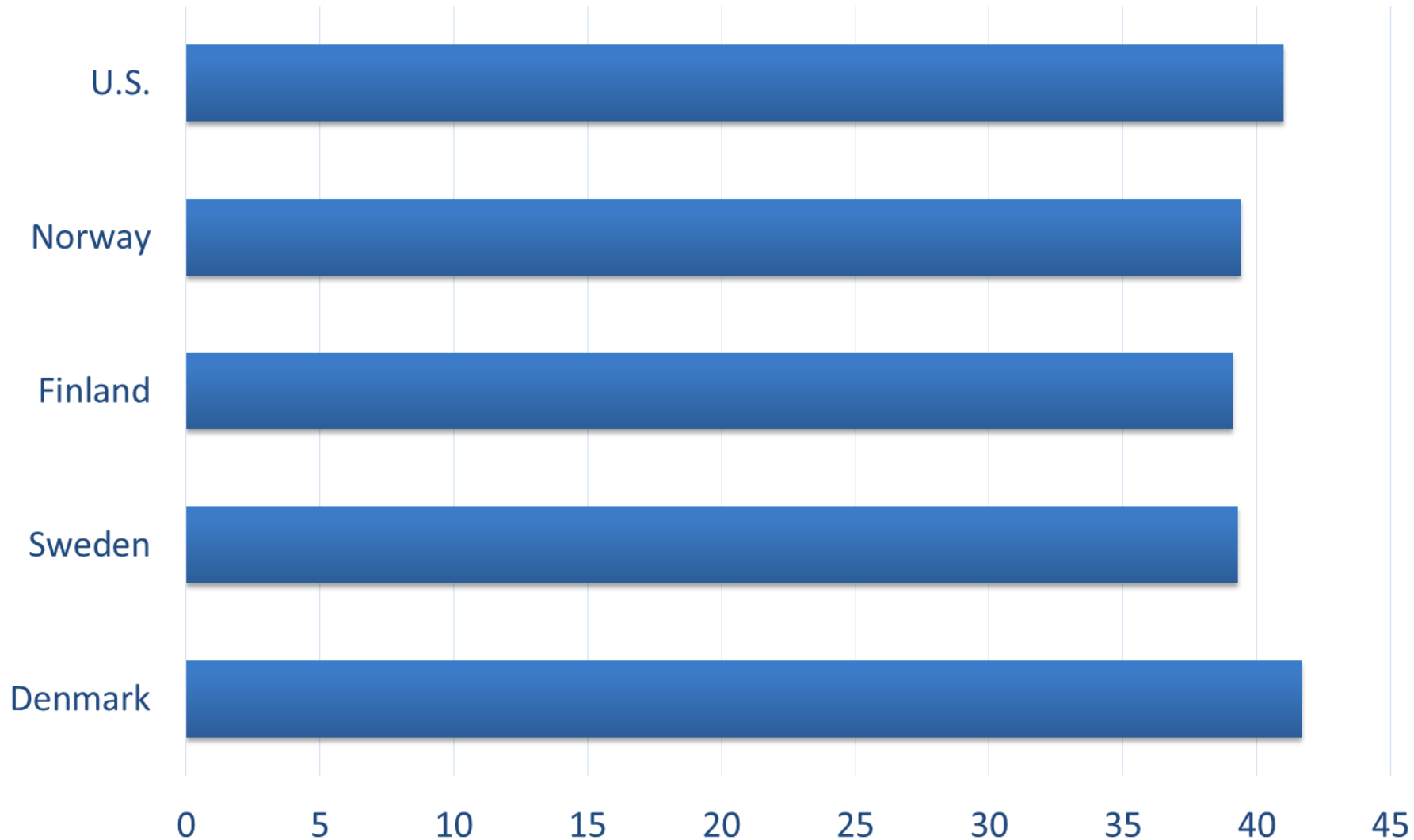
# How Much Mobility Is There?

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



Notes: Numbers are adjusted for family size. Each quintile contains 20 percent of the weighted sample. The dashed line represents the 95th percentile of the PSID sample.

## Downward Earnings Mobility of Sons with Father Earnings in Middle Fifth (% below middle fifth as adults)



Sources:  
Scandinavian  
countries from  
Jantti et al. (2006)

U.S. from  
Pew Economic  
Mobility Project  
(2013)

# Worse Than 30 Years Ago?

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## 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

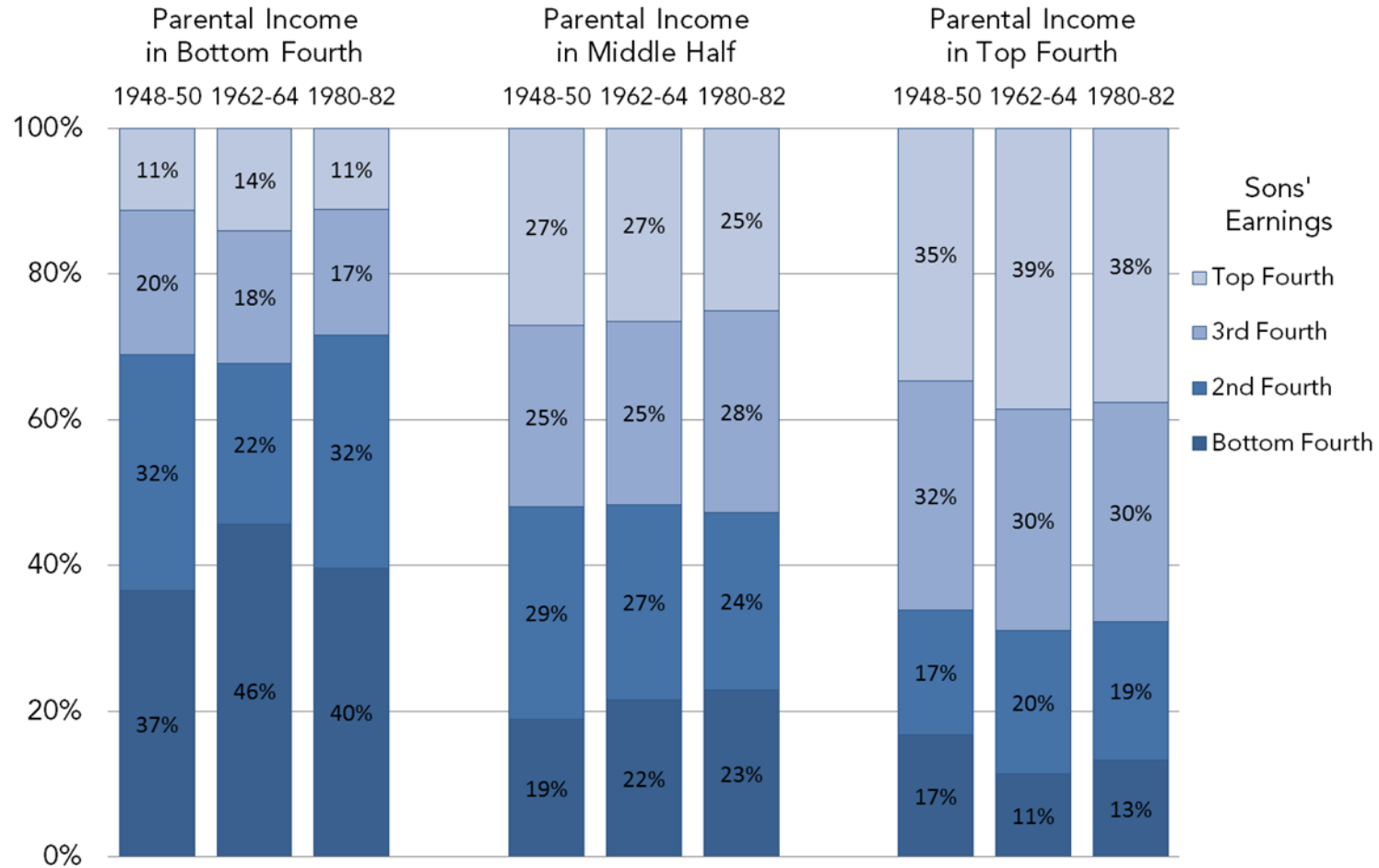
## Occupational mobility

- 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).

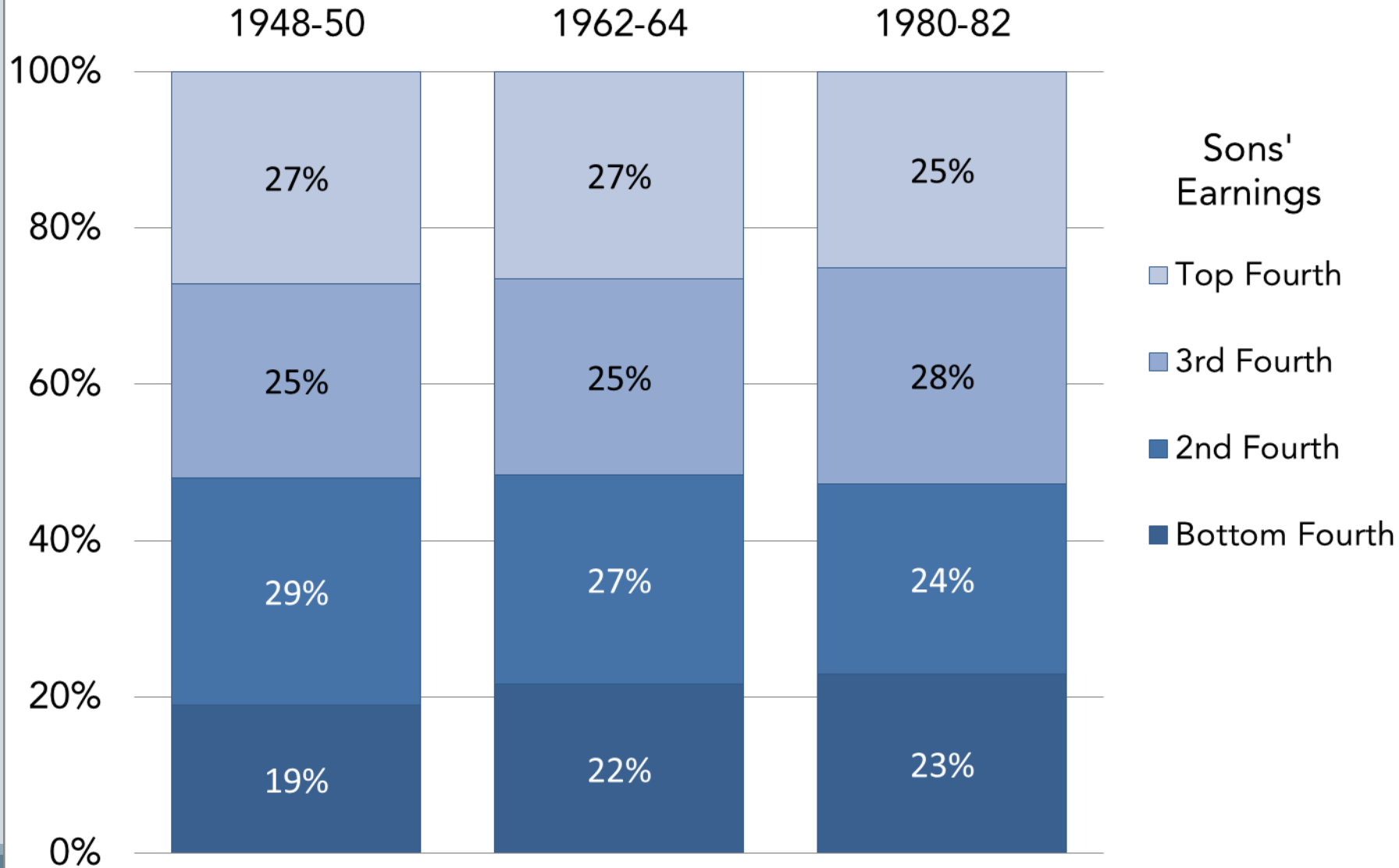
## Educational mobility

- 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**



### 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

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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...

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...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

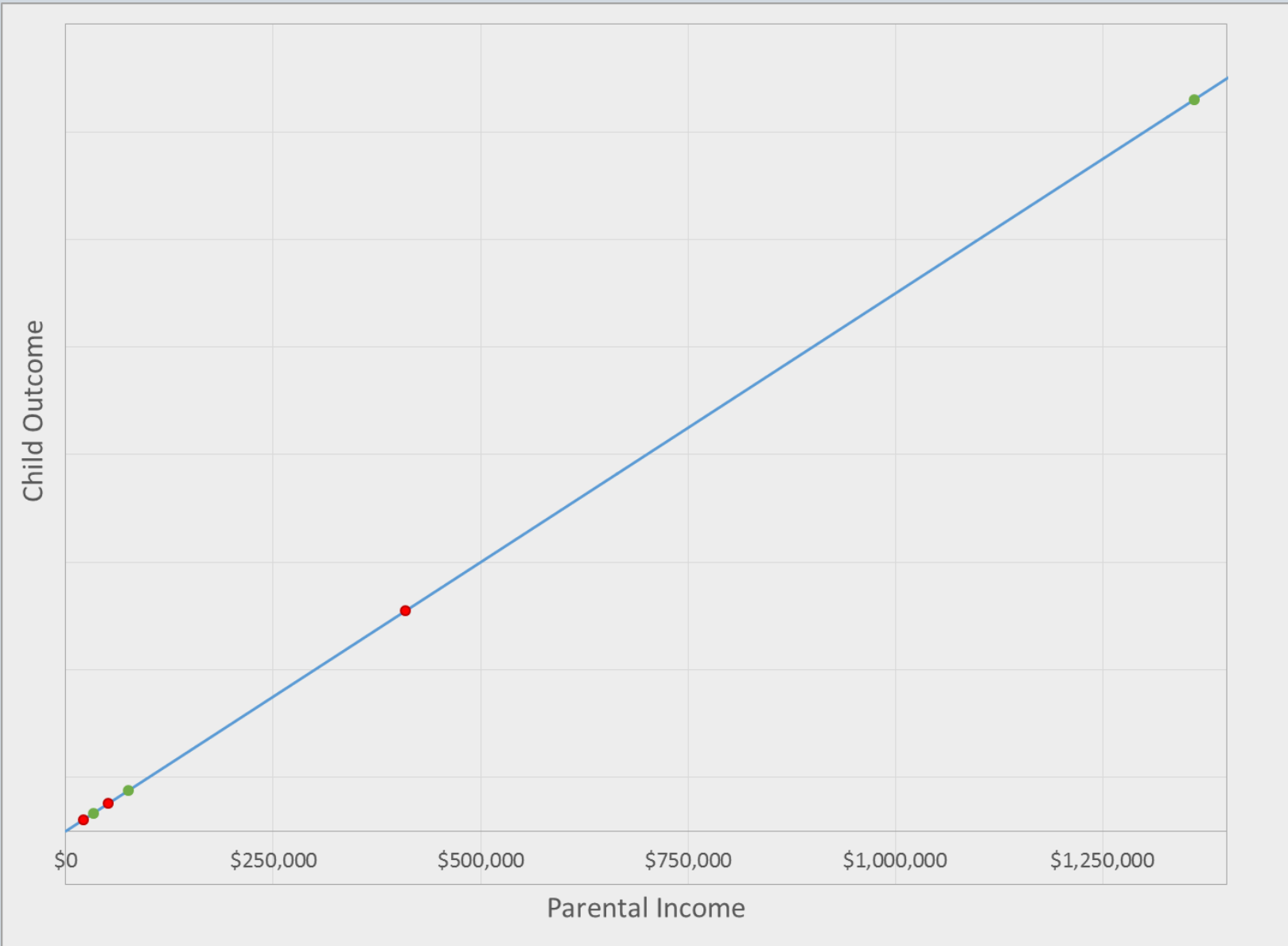
## Illustrative Example

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





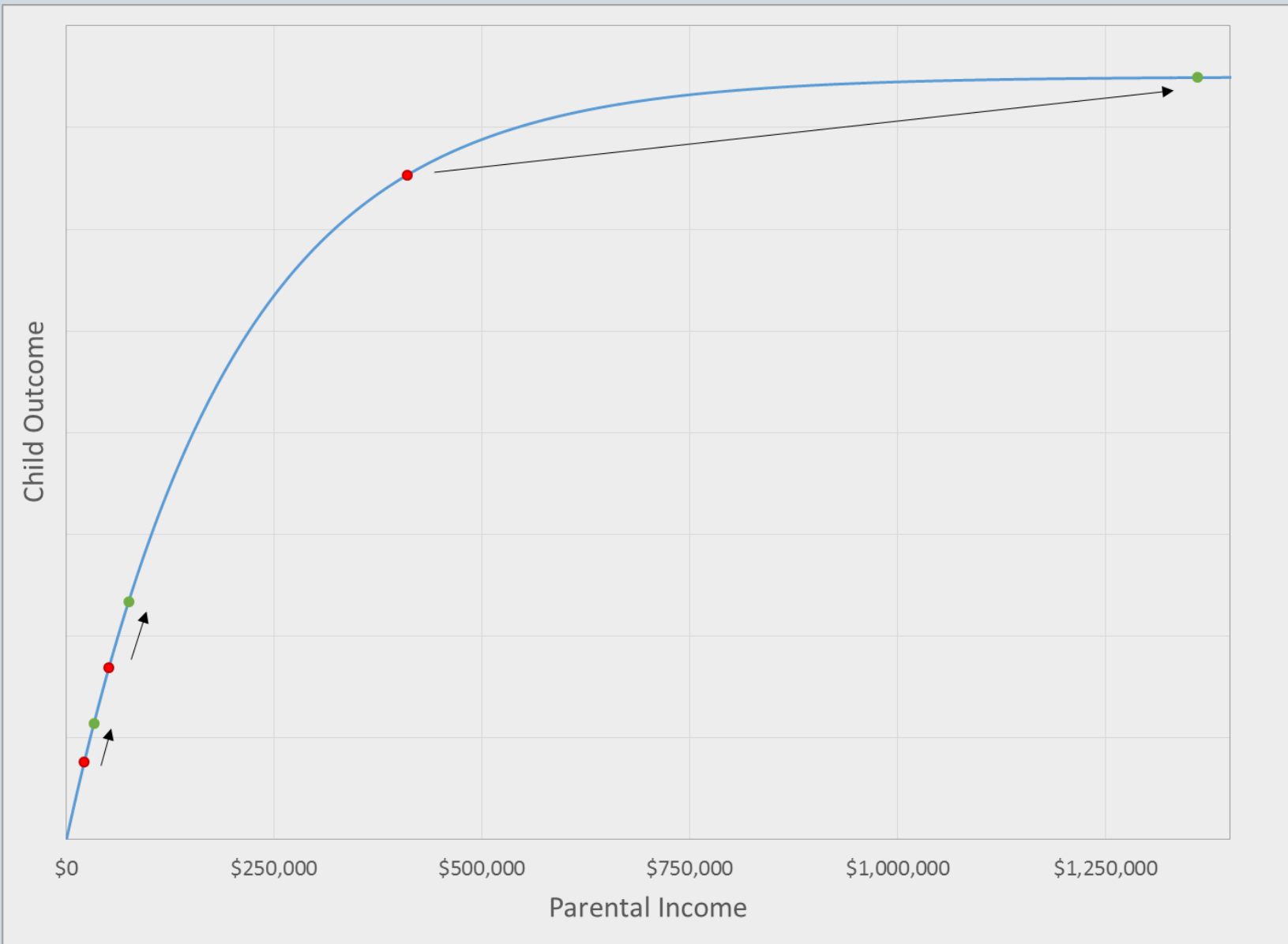
## Illustrative Example

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 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

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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

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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

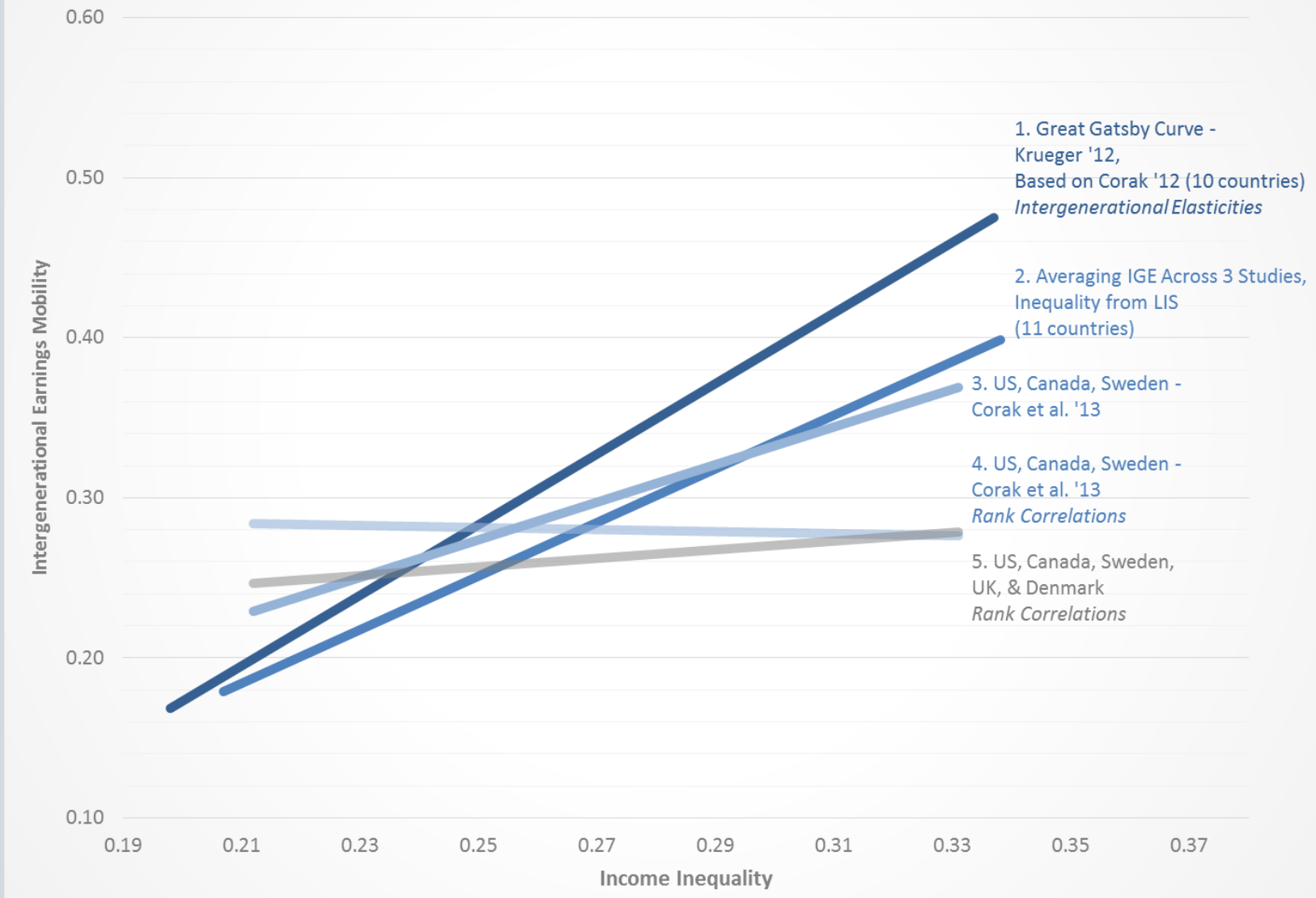
- 70% of children growing up in the bottom fifth won't make it to the middle as adults

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

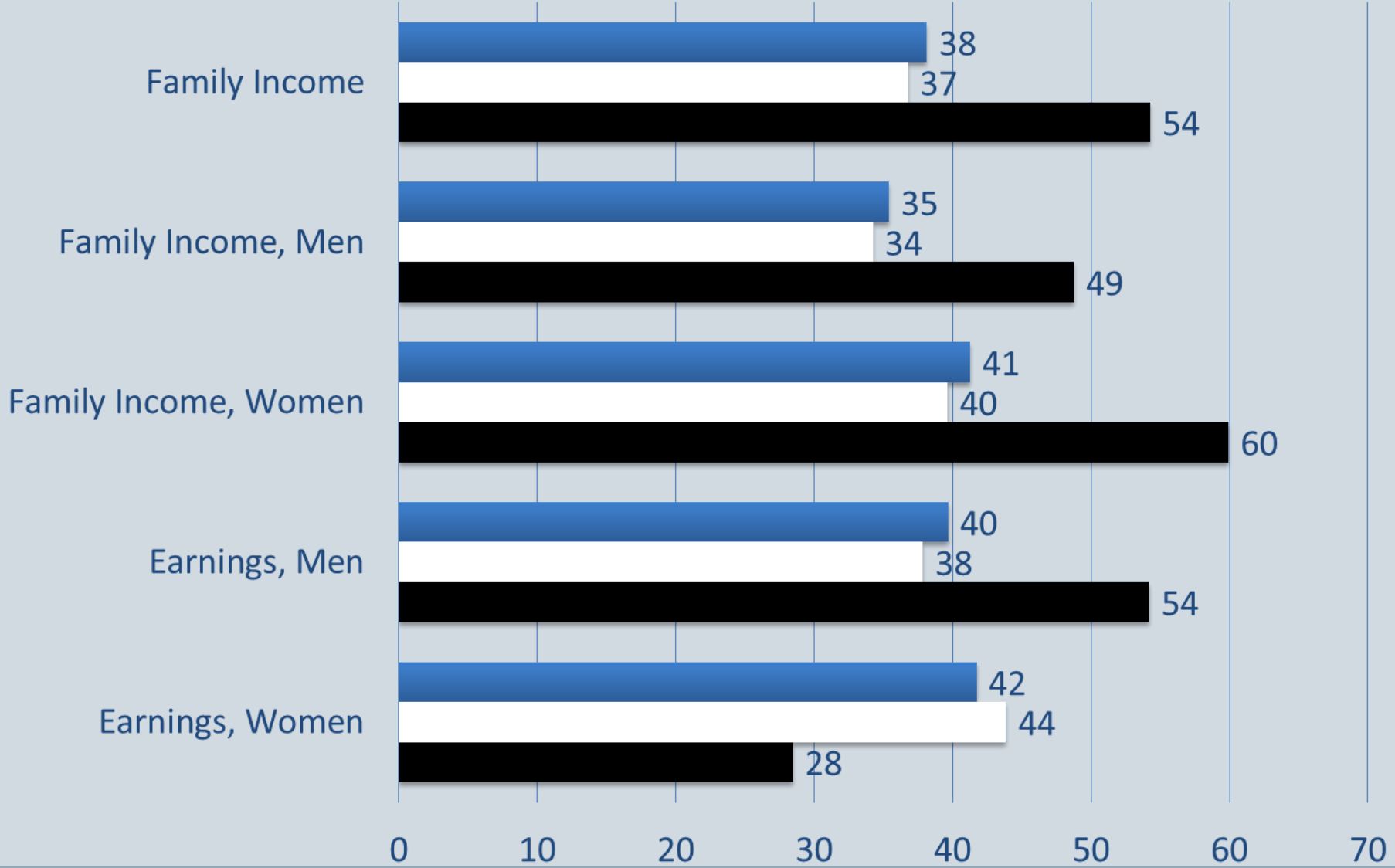
- Extent of between-sibling and between-cousin outcome inequality should remind us that many inequalities of opportunity are less “sociological” than we might think

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.

# Collapse of the Great Gatsby Curve



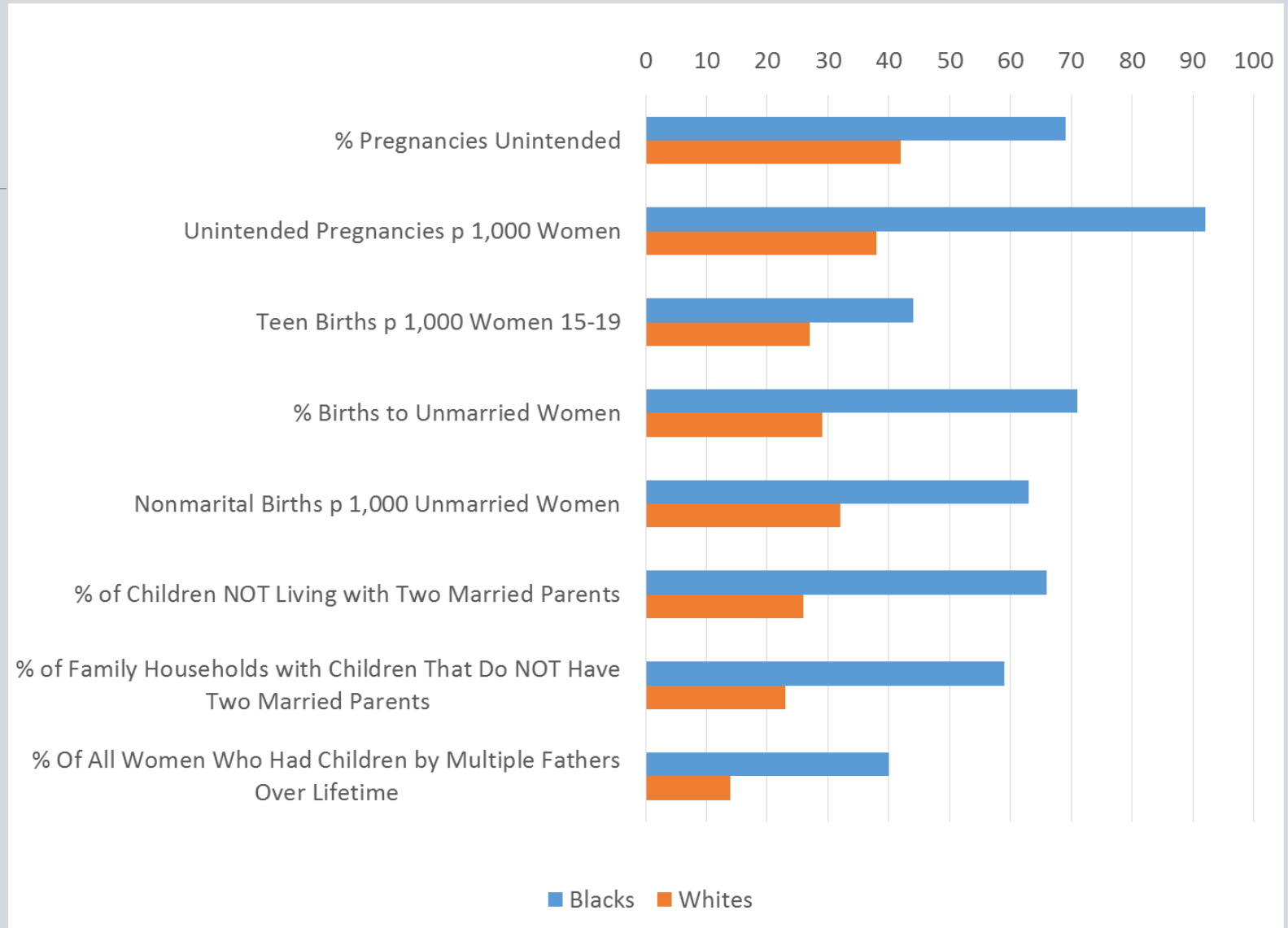
### Downward Mobility of Adolescents with Parental Income in the Middle Fifth (% below middle fifth as adults)



■ All Adolescents  
■ White  
■ Black

Source:  
NLSY79 estimates,  
Winship  
(forthcoming)

# Conservatives: “It’s Family Breakdown”



# Liberals: “It’s Segregation”

FIGURE 1

Average Neighborhood Poverty During Childhood  
Among Black and White Children Born 1955–1970 and 1985–2000

