



Osher Lifelong Learning Institute, Spring 2023
Contemporary Economic Policy

University of California, Santa Cruz
May, 2023

Host: Jon Haveman, Ph.D.
National Economic Education Delegation

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1

1



Available NEED Topics Include:

- US Economy
- Healthcare Economics
- Climate Change
- Economic Inequality
- Economic Mobility
- Trade and Globalization
- Minimum Wages
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- Black-White Wealth Gap
- Autonomous Vehicles
- Healthcare Economics

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2

2

Course Outline

- **Contemporary Economic Policy**

- Week 1 (5/2): Economic Inequality
- **Week 2 (5/9): Economic Mobility**
 - **And a little about the debt ceiling....**
- Week 3 (5/16): Discriminatory Policies in U.S. History
- Week 4 (5/23): The Black-White Wealth Gap



3

Submitting Questions

- **Please submit questions of clarification in the chat.**
 - I will try to handle them as they come up.
- **We will do a verbal Q&A once the material has been presented.**
- **Slides will be available from the NEED website shortly (https://needecon.org/delivered_presentations.php)**



4



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Economic mobility

Jon Haveman
NEED
May 9, 2023



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But First.....



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Existential Threat: Coming This June!



7

What is the Debt Ceiling?

- An amount of debt that the federal government can not exceed without congressional approval.
- From the Constitution: only Congress can authorize the borrowing of money on credit of the United States (Article I, Section 8).
- During WWI, requests came so fast and furiously, that Congress put in place the Debt Ceiling.
 - Approvals then occurred only periodically.
- And it continues today.

8

5 Things to Know about the Debt Ceiling

1. The debt limit has been raised continually for more than a century.
2. Raising the debt limit is not about new spending; it is about paying for previous choices policymakers legislated.
3. Only one other advanced country—Denmark—has a separate debt limit rule like ours (but theirs isn't binding).
4. Now that the debt hit the ceiling, the Treasury Department is using several extraordinary measures to postpone the day of reckoning.
5. The economic consequences of a large-scale, intentional default are unknown, but predictions range from bad to catastrophic.



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Source: <https://www.brookings.edu/2023/01/19/7-things-to-know-about-the-debt-limit/>

9

9

A Couple of Comments

- **Budget expenditures are laws. Why does the debt ceiling “law” trump all other laws.**
 - Failure to pay the debt and fund programs authorized by Congress would break many laws. (ref Laurence Tribe op-ed in the NYT)
- **The debt ceiling, \$31.4 trillion, includes not only debt held by the public, but also intra-governmental debt.**
 - Suppose Social Security runs a **surplus**:
 - That money goes into the general “fisc”,
 - Treasury notes that it now owes Social Security some money, and
 - That **adds to the debt**.
 - Removing intra-governmental debt would give us \$6.9 trillion in space beneath the ceiling.

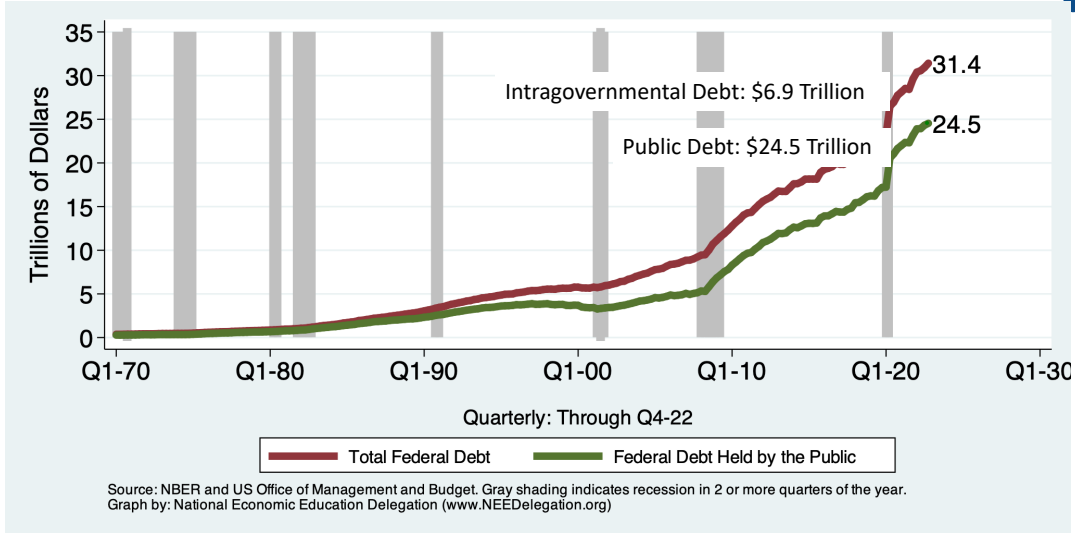


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10

10

2 Types of Debt



How Bad Could It Be?

Lessons from 1979 & 2011

- **Accidental partial default in 1979:**
 - Increased borrowing costs by \$40 Billion!

- **Government shutdown was very costly:**
 - Stock markets plunged (17%).
 - Employment growth stuttered.
 - Treasuries – downgraded credit ratings.
 - Borrowing costs rose.

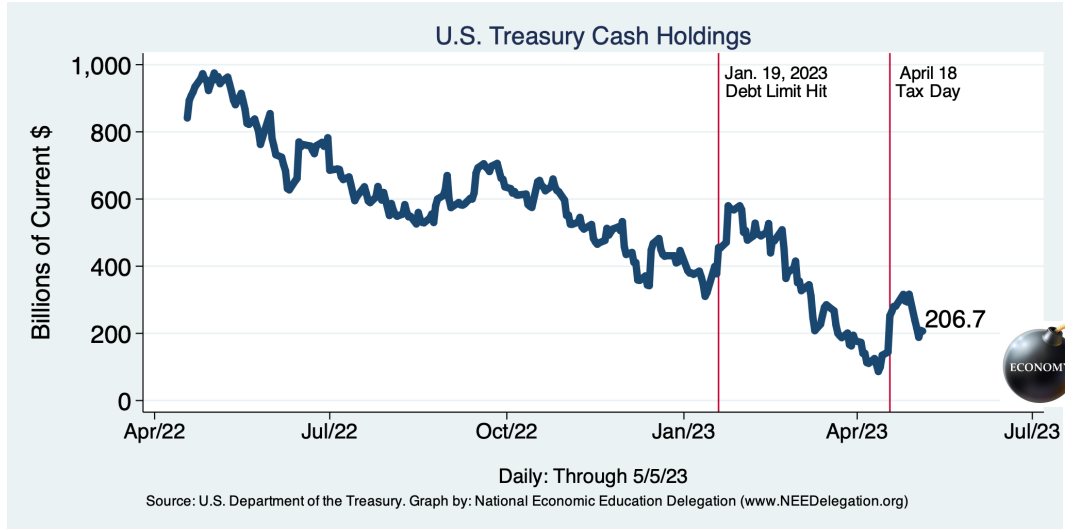


A Recent Estimate of the Potential Damage:

- **Moody's Analytics:**
 - Could cost up to 6 million jobs,
 - Drive unemployment up to 9%, and,
 - Wipe out \$15 trillion in household wealth.



Countdown to Default



15

And now... Economic Mobility

16

Credits and Disclaimer

- **This slide deck was authored by:**

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- Kathryn Wilson, Kent State University
- Jon Haveman, NEED

- **Disclaimer**

- NEED presentations are designed to be nonpartisan.
- It is, however, inevitable that the presenter will be asked for and will provide their own views.
- Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED).



17

Outline

I. What do we mean by economic mobility?

II. Empirical patterns of economic mobility

III. What is the desired level of economic mobility?

IV. Exploring channels/barriers to upward mobility and policy options



18



I. What do we mean by economic mobility?

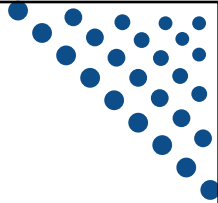
Definition and motivation



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19

19




Economic Mobility – Defined

- **Economic Mobility – Our working definition:**
 - Ability to advance beyond the status of your parents.
- **Variety of measures:**
 - Income
 - Wealth
 - Education level
 - Occupation
 - Home ownership

More Broadly:
The ability to improve your socioeconomic status.

We will consider *intergenerational mobility in INCOME*.



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20

20

Absolute and Relative Mobility

- **Absolute mobility:** the difference in income from one's parent.
 - You're higher on the escalator than your parents were at the same age.
 - It is possible for *everyone* to experience upward absolute mobility, especially if the escalator is going up.

- **Relative mobility:** the change in income rank from one's parent.
 - You have fewer people above you on the escalator than your parents did.
 - Increased relative mobility requires both upward and downward movement.



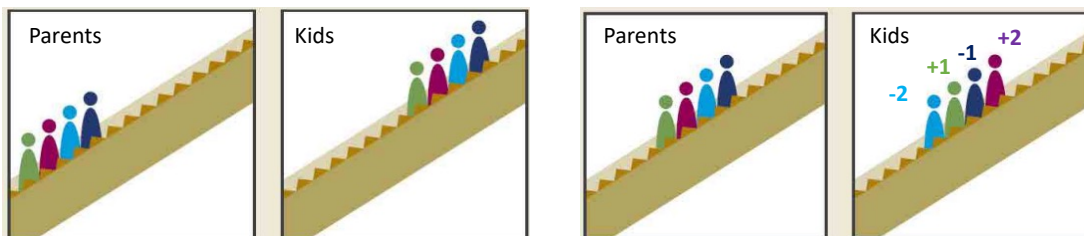
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21

21

More on Absolute vs Relative Mobility

- **Can there be absolute mobility with NO relative mobility?**
 - Yes: if everybody experiences the same increase in income, there will be no relative mobility.
- **Can there be relative mobility with NO absolute mobility?**
 - Yes: There can be a dramatic reshuffling of the distribution even if there is no increase in average income.



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22

22

Economic Growth and Mobility

- **Economic growth should drive absolute mobility**
 - It has the potential to raise all incomes.
 - But the extent of mobility that results depends on how income is distributed.
- **Economic growth and relative mobility are unrelated**
 - Growth does not have implications for whether kids are more or less likely to rise above their parent's position in the income distribution.



23

II. Empirical patterns of Economic Mobility

What are the facts?



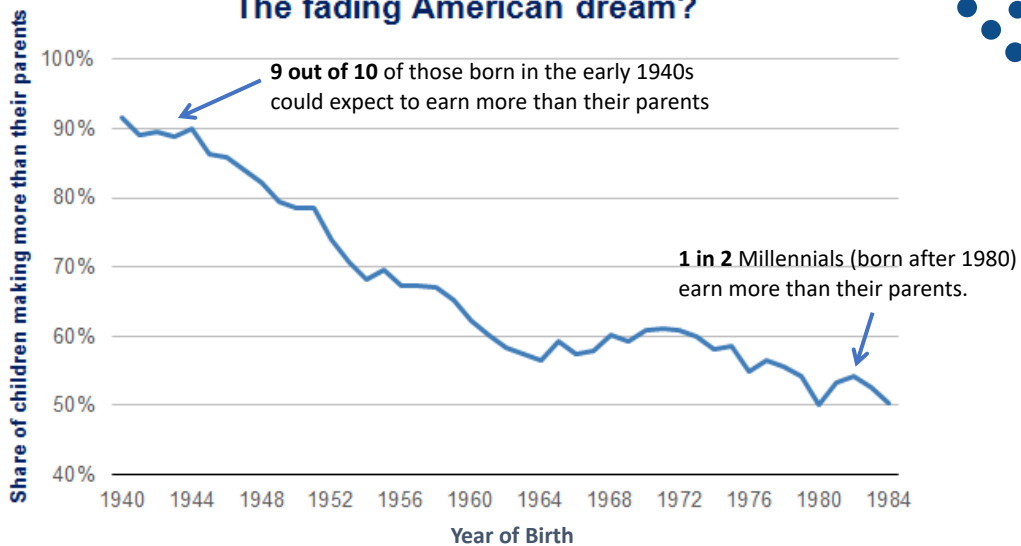
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Mobility – Big Picture for Absolute Mobility

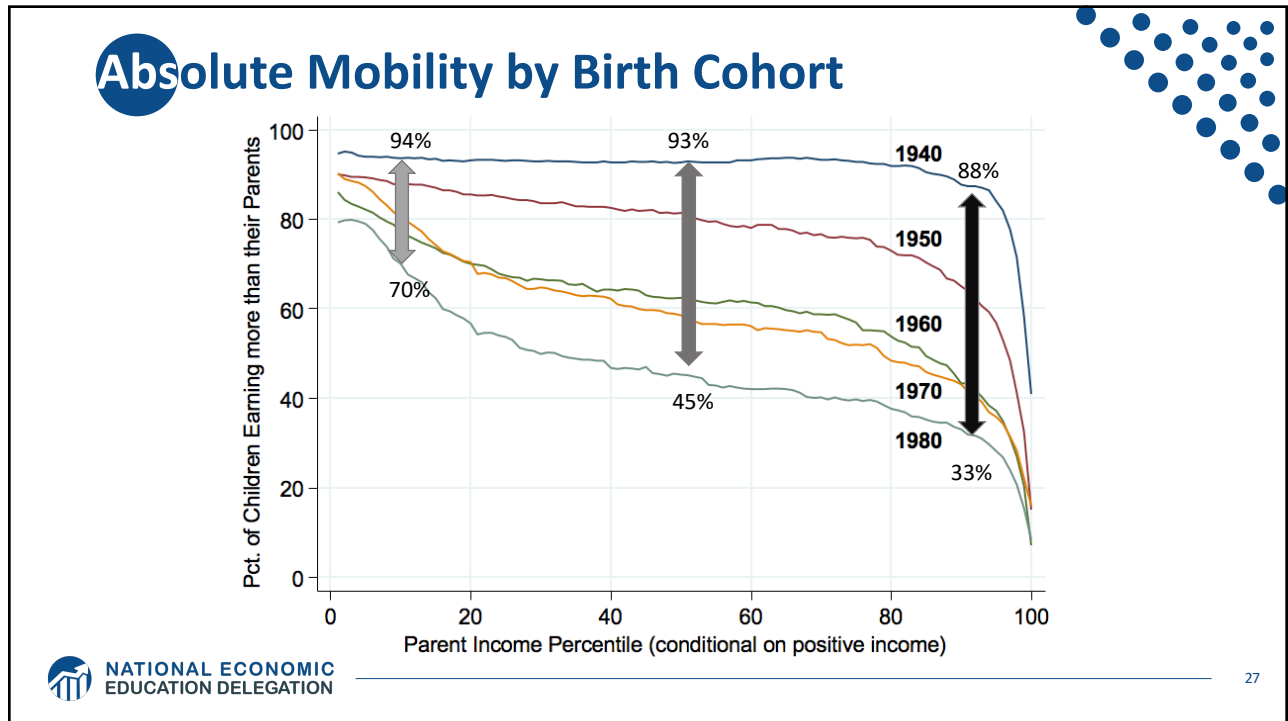
Decline in *absolute* mobility in the United States:

- 90% of those born in the early 1940s could expect to earn more than their parents in real terms. For millennials, the fraction is closer to 50%
- Below-median earnings have not increased in real terms since the 1970s.

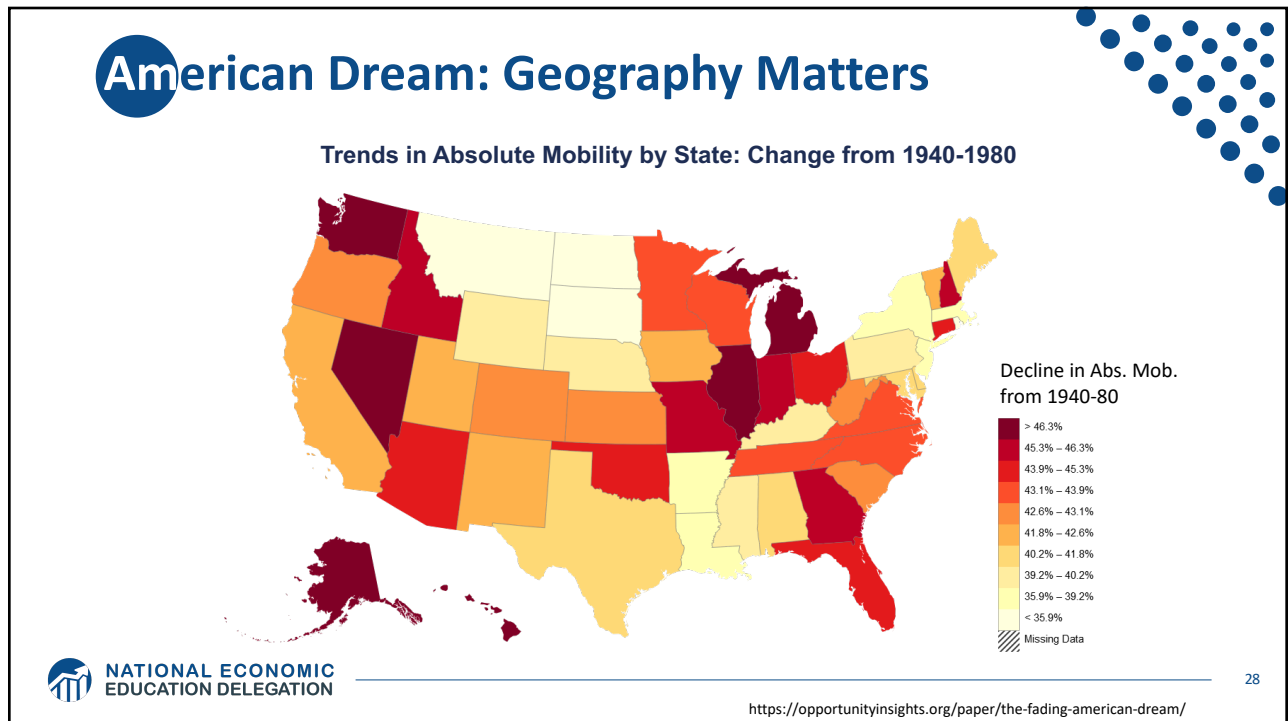
The fading American dream?



Source: Chetty et al., "The fading American dream: Trends in absolute income mobility since 1940"



27

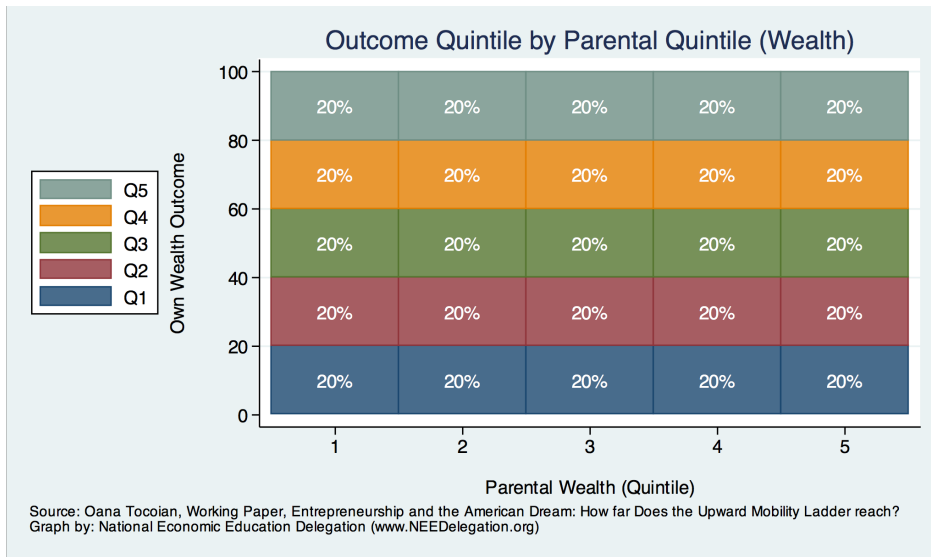


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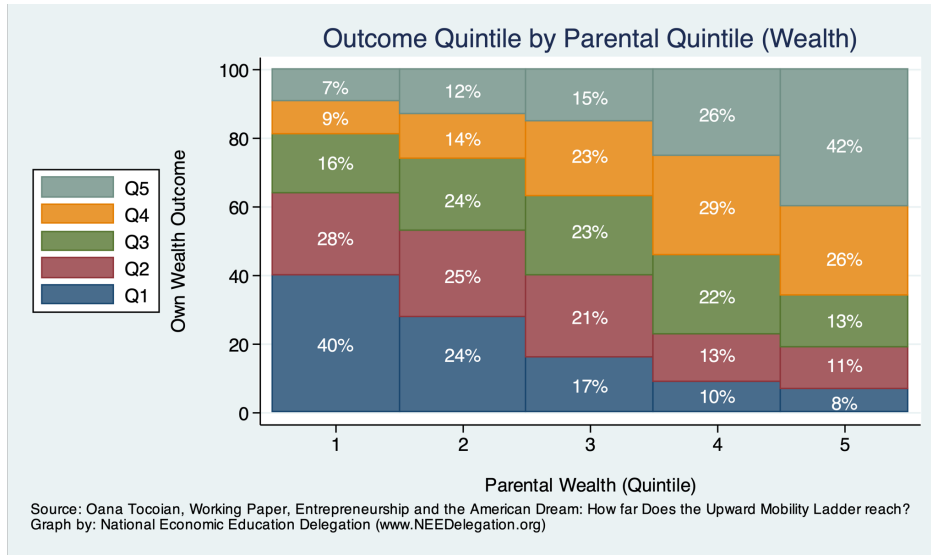
Measuring Relative Mobility

- **Reminder:** Relative mobility is the change in income rank from one’s parent.
- **Transition Probabilities:** Likelihood that an individual ends up in a different income quintile than their parents.
- **Perfect Mobility:** For each of the parental income quintiles, 20% of their offspring end up in each income quintile as adults.

Wealth Mobility – Perfect Mobility

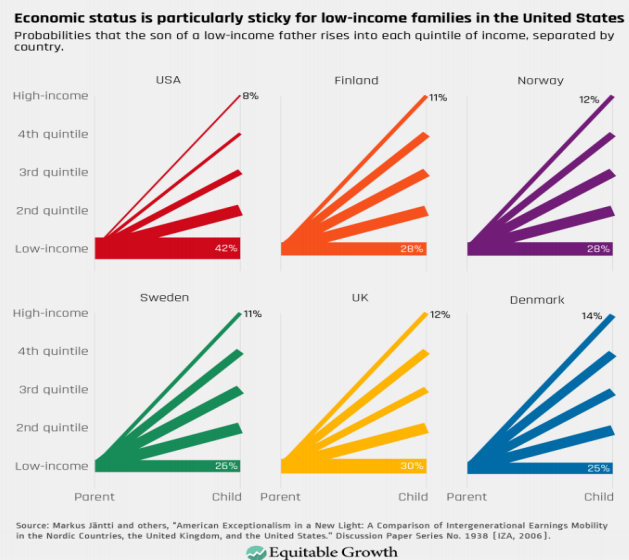


Wealth Mobility - Actual



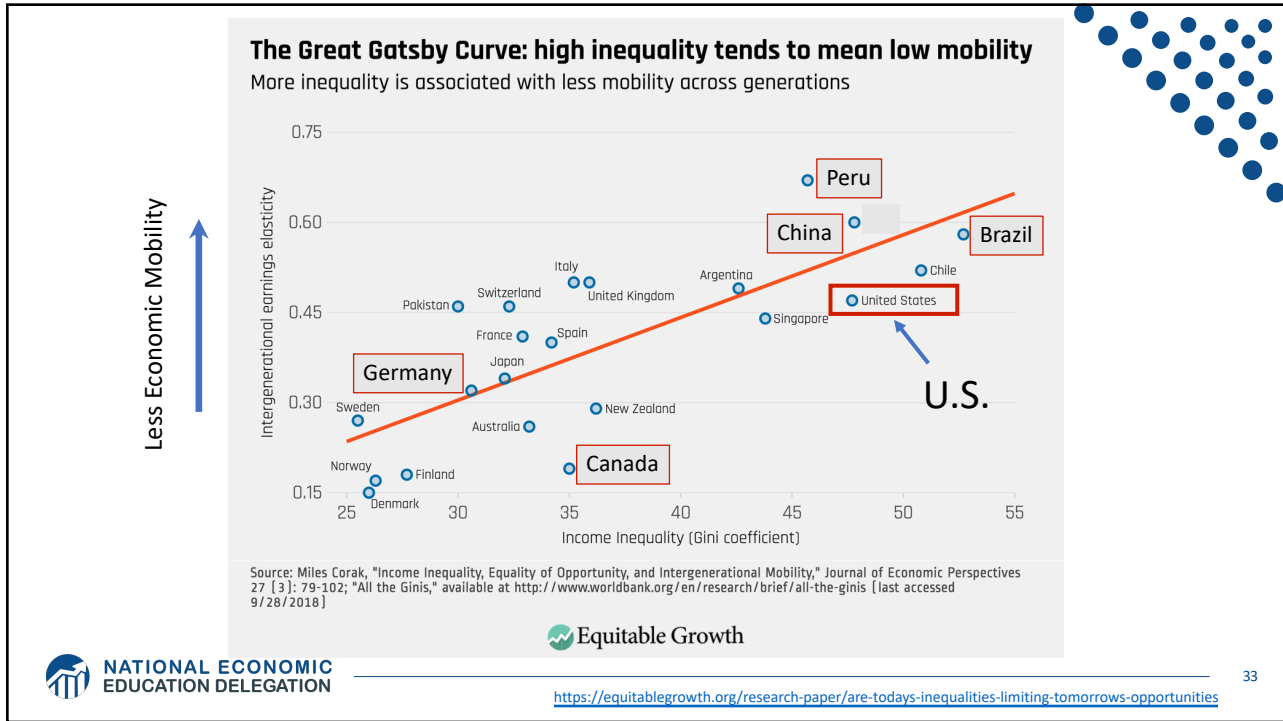
31

Transitions: International Comparisons

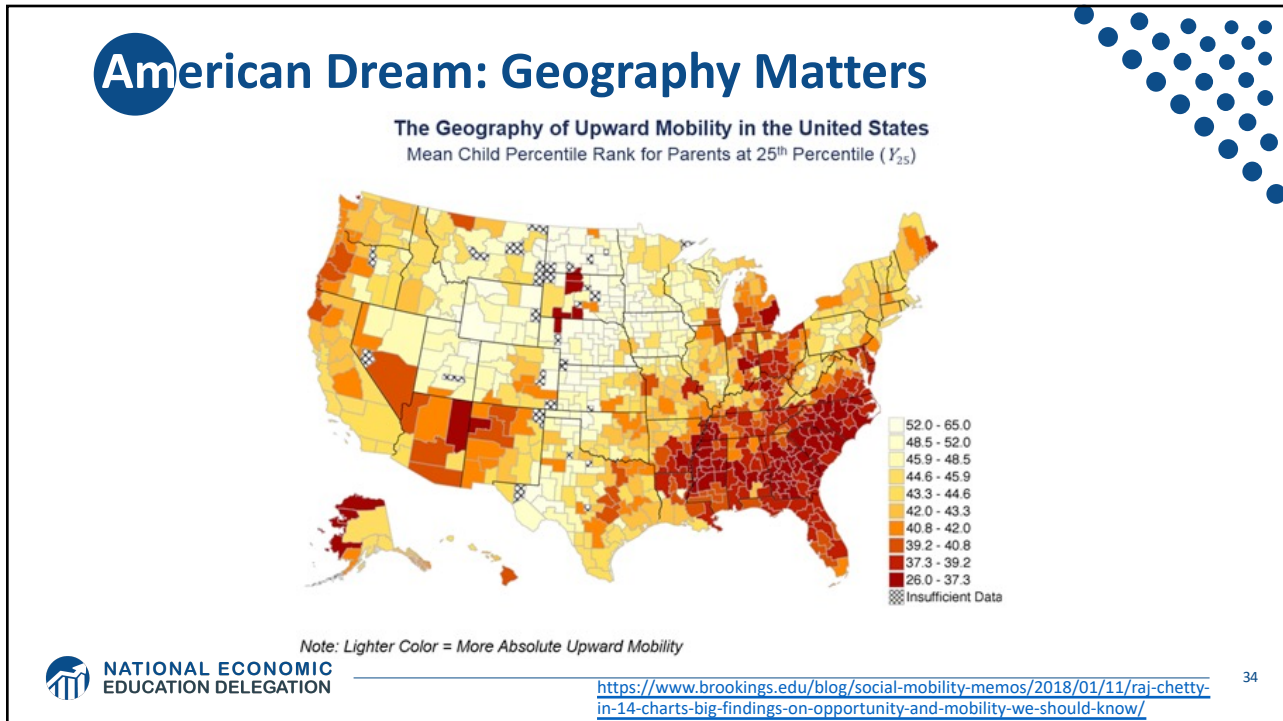


Source: <https://equitablegrowth.org/research-paper/are-todays-inequalities-limiting-tomorrows-opportunities>

32



33



34

Summary of Empirical Patterns

- Absolute economic mobility in the United States has been in decline since the 1940s
 - Half of people born in the mid-1980s have not outperformed their parents in terms of income
- Relative mobility is lower in the United States than many developed countries
 - Income is especially “sticky” at the bottom and the top of the income distribution
- Geography matters – there is tremendous variation in mobility within the United States

35

III. What is the desired level of economic mobility?

Economically what is optimal? What do people think is optimal?
Mobility and Inequality

36

Absolute or Relative Mobility?

- Upward *absolute* mobility of the whole population is unambiguously desirable (it's hard to defend *not* wanting everyone to be better off!).
 - The fact that half the population is treading water should worry us.
- But, *relative* mobility is a *zero-sum game*: for some people to rank higher than their parents did, others have to rank *lower*.

37

The “Right” Level of Relative Mobility

- **Efficiency**

- Want to provide incentives in order to get economic growth.

- **Equity**

- Want a system that is “fair”.

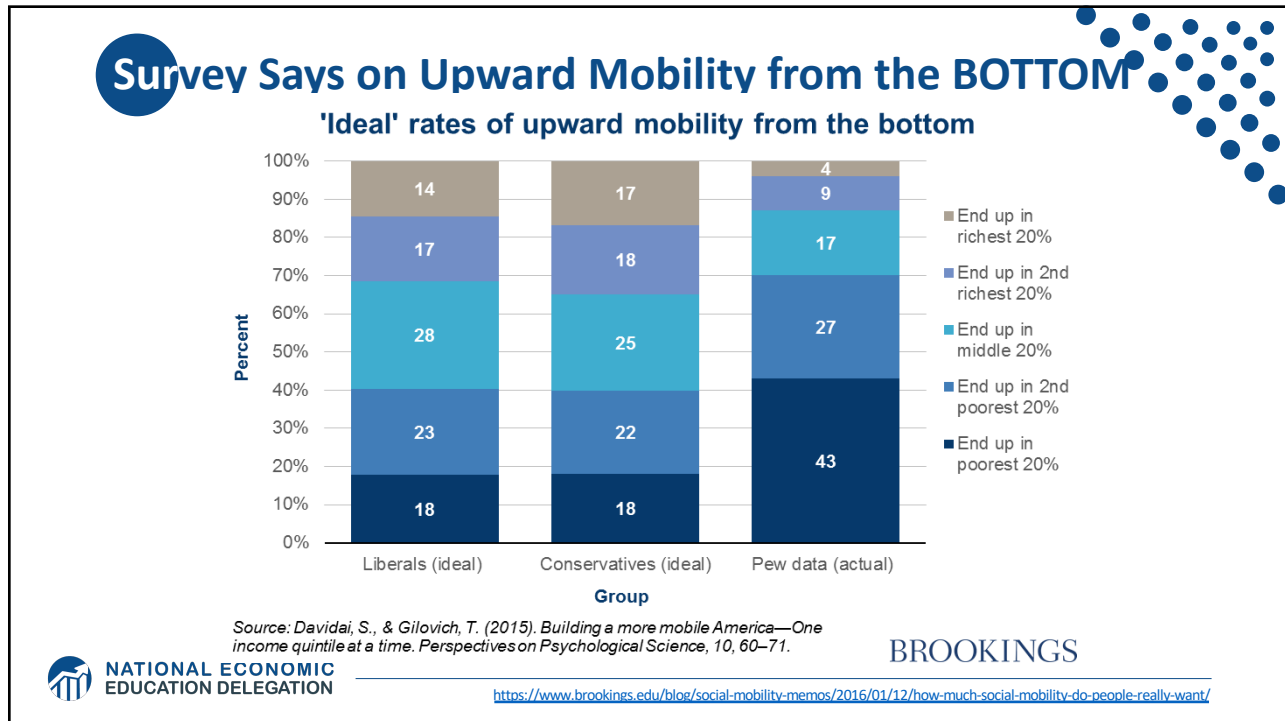
What is the *optimal* level of relative mobility?

This is a hard question, one which we may not be able to answer or agree on.

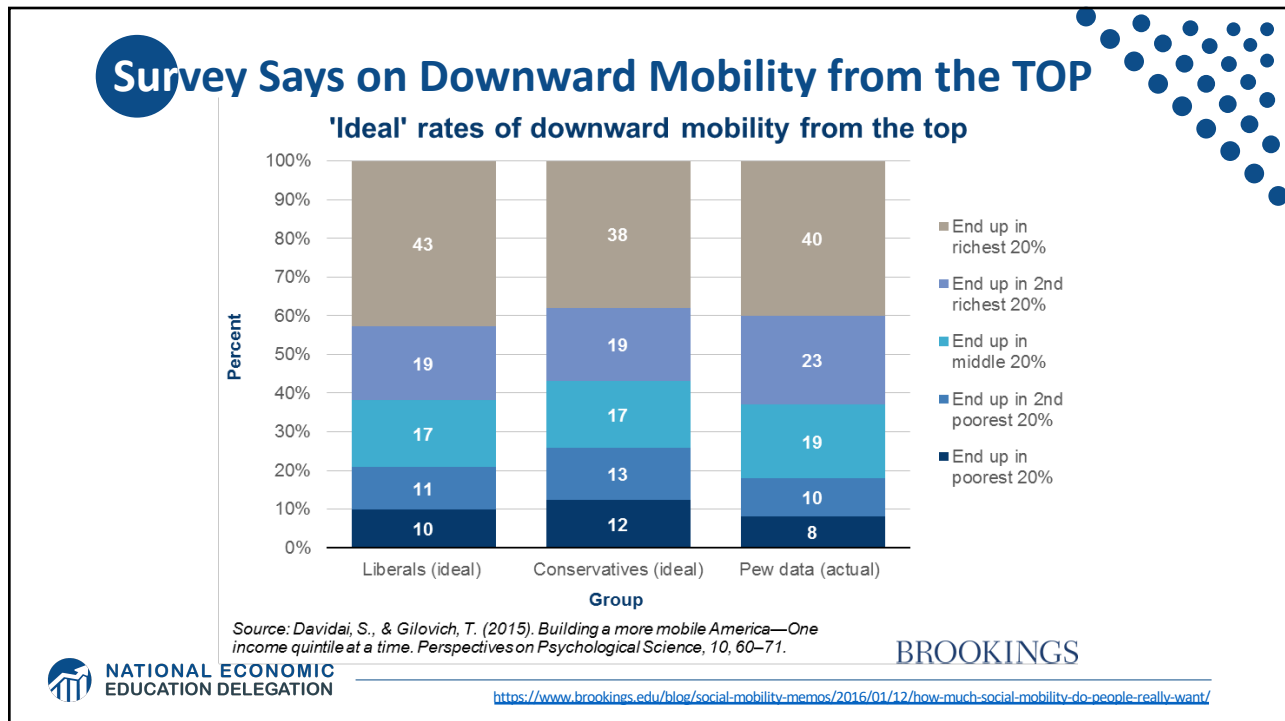
Is current relative mobility too low (or too high)?

The answer would suggest the best incremental steps to take towards a better outcome, and policy changes are best done in incremental steps in any case.

38



39



40

Preferences hit Awkward Truth: Math

- **Again: relative mobility is a zero-sum game**
 - There are only so many spots in the top quintile (only 20% of population can be there)
 - Preferences want:
 - 43% of them for kids born into the top
 - 16% for those born into the bottom
 - Leaves about 14% for each of the other 3 quintiles
 - Preferences are inconsistent
 - Greater upward mobility for the bottom than the middle?
- **Results are intuitive:**
 - Stickiness at the top
 - Mobility from the bottom
- **...but inconsistent:**
 - What about the middle?

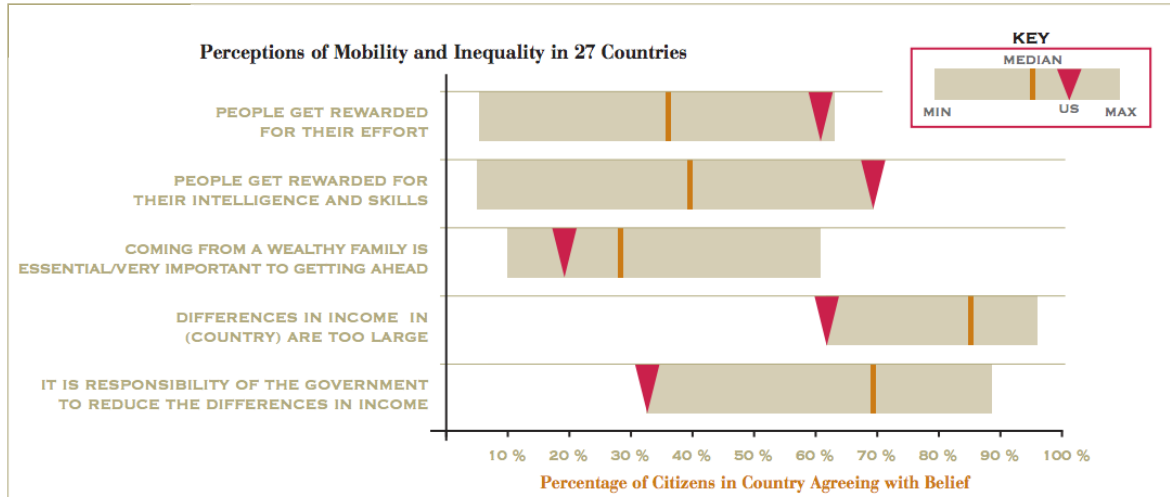


Public Perception and Sentiment

- **Perception: “American Dream” vs “Old World”**
 - General belief is that the U.S. has *greater mobility* than elsewhere.
 - Fewer explicit barriers – no nobility titles.
 - More meritocratic – “rags to riches”, Heratio Alger
 - The American Dream plays a significant part in national identity.
- **Reality: Overestimate of actual mobility**
 - Common perception is incorrect.



The "American Dream" Shapes Perceptions



Source: Brookings tabulation of data from the International Social Survey Program, 1998-2001.



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https://www.brookings.edu/wp-content/uploads/2016/06/02_economic_mobility_sawhill.pdf

43

43

IV. Exploring channels/barriers to upward mobility and policy options

Focus on Education and Career Opportunities



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44

44

Barriers to Upward Mobility

- **Key Question:**

What are the factors that might prevent someone born in a low-income household from doing as well as their richer counterpart?

- **Answers:**

- Birth Lottery
- Structural barriers



Barriers to Upward Mobility – Birth Lottery

- **Early advantages**

- *Innate (genetic) advantages:*
 - Inherited ability, medical conditions, psychological traits
- *Environmental factors:*
 - **In utero:** pre-natal care, mother's nutrition, exposure to abuse or stress.
 - **Home environment** which promotes healthy development, transmission of family values
 - Availability of **role models**, mentors, neighborhood effects.
 - Availability of **good educators**, facilities, peers

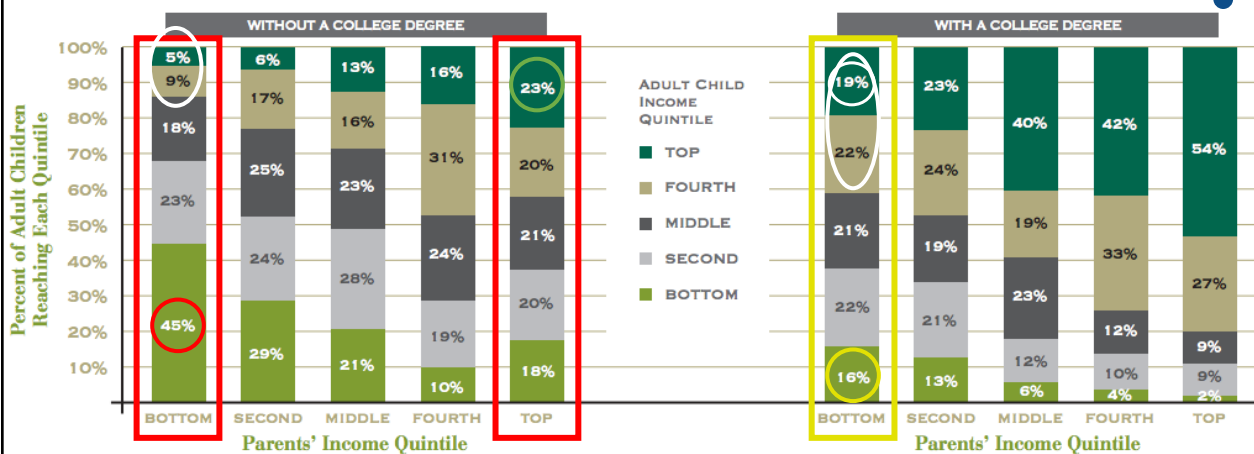


Barriers to Upward Mobility – Structural

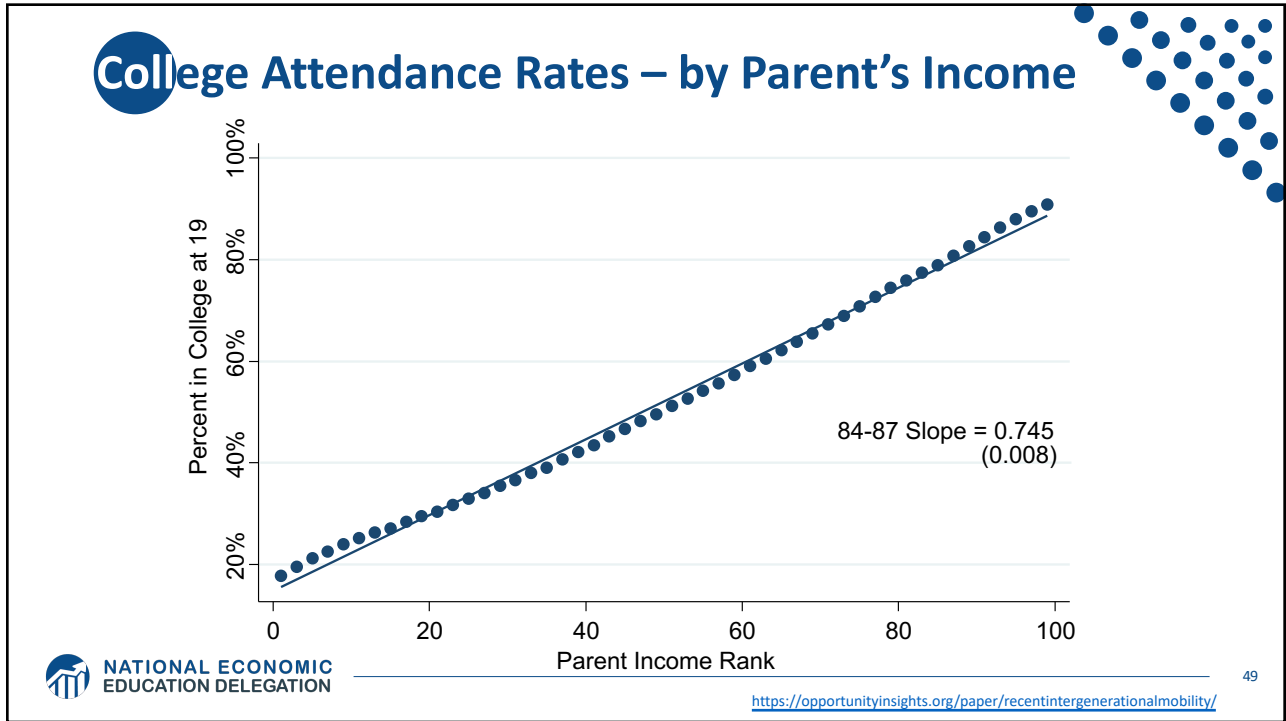
- **Selective access to quality higher education**
 - Preferential admission for legacy and donor families.
 - Expectation of extra-curricular activities, AP classes, etc.
- **Effective access to family planning (sex ed, contraceptives, abortion)**
 - Teen births reduce outcomes for both mother and child.
- **Access to lucrative employment**
 - Reliance on personal connections, homophily, racism, sexism...
- **Access to entrepreneurship and invention**
 - initial capital and insurance against negative shocks, social networks.
- **Direct transmission of income-earning assets**

47

Education: an Avenue and Barrier to Mobility



48



49

Career Opportunities: an Avenue and Barrier to Mobility

- Business Ownership
- Inventions
- Job Networks

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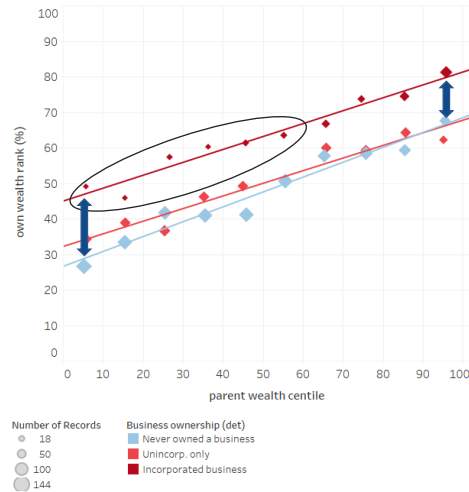
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50

Career Opportunities – Business Incorporation

- Ownership of a business is a big indicator of wealth accumulation
- Children from a wealthy family are more likely to incorporate a business

Average outcome rank by parent wealth decile - by business ownership

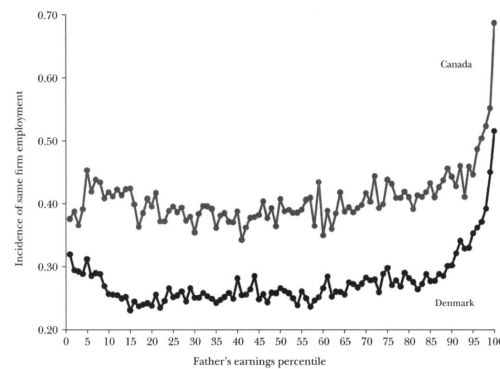


51

Career Opportunities – employment networks

- 2 out of 3 sons of the top earners in Canada get access to their father’s employer.
- Much less access at lower levels of parental earnings.

Proportion of Sons Currently Employed or Employed at Some Point with an Employer their Father had Worked for in the Past: Canada and Denmark (by father’s earnings percentile)

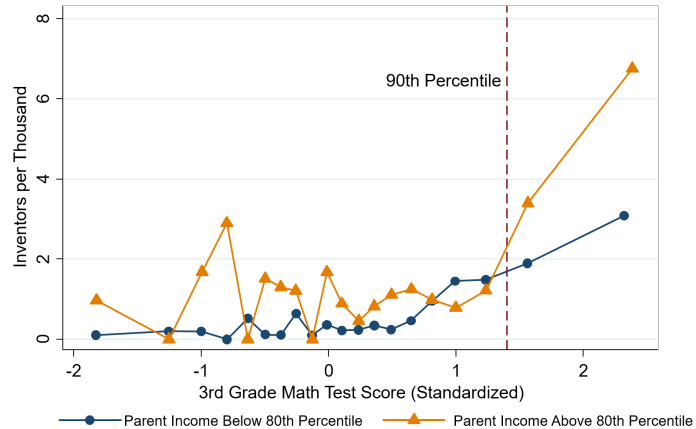


52

Career Opportunities – Inventions

High math-ability 3rd graders go on to become inventors *if* their family is well-off.

(Also if they grow up in high-innovation areas)



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53

Graph from Bell et al (2018)

53

Policy Options

- **Investments in education**
 - Make preparedness for college more universally available.
- **Entrepreneurship**
 - Introduce children to it at an early age and seek to reduce barriers to starting a business.
- **Housing vouchers, public housing, zoning laws**
 - Help underprivileged children grow up in neighborhoods conducive to mobility.
- **Implement policies to reduce inequality.**



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54

54

Summary: Economic Mobility

I. What do we mean by economic mobility?

- Absolute vs Relative Mobility

II. Empirical patterns of economic mobility

- Absolute mobility is in decline
- Relative mobility is much lower in the U.S. than elsewhere.
 - o Brings into question the notion of the “American dream”.

III. What is the desirable level of economic mobility?

- Absolute: concern that 50% of kids are treading water or falling behind.
- Relative: not as much as people seem to think there is.

IV. Exploring channels/barriers to upward mobility and policy options

- Often what is an avenue to mobility at the individual level may be a barrier at the societal level due to structural factors (i.e., Education and Career Opportunities)
- There are plenty of levers to pull to increase mobility.



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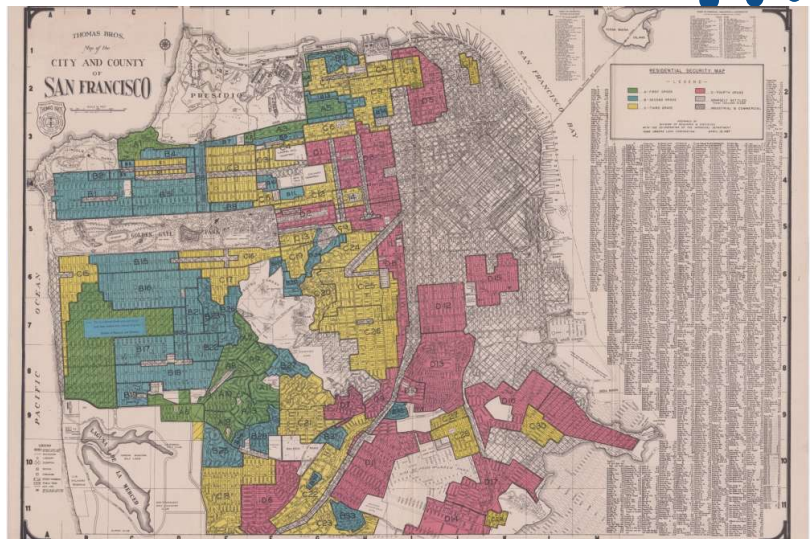
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Misguided Past Policies: Redlining

Red areas were largely Black communities, and considered to be too risky for new home loans.

Yellow areas also suffered from discrimination resulting from FHA guidelines.

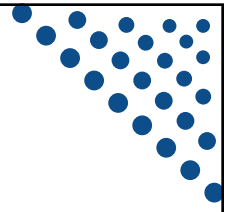


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56

Thank you!

Any Questions?



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