

Osher Lifelong Learning Institute - Berkeley

Contemporary Economic Policy Issues

Fall, 2020

Jon Haveman, Ph.D.
National Economic Education Delegation



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National Economic Education Delegation

- **Vision**

- One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.

- **Mission**

- NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.

- **NEED Presentations**

- Are **nonpartisan** and intended to reflect the consensus of the economics profession.



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Who Are We?

- **Honorary Board: 52 members**

- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 6 Chairs Council of Economic Advisers
 - o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
 - o Akerlof, Smith, Maskin

- **Delegates: 520+ members**

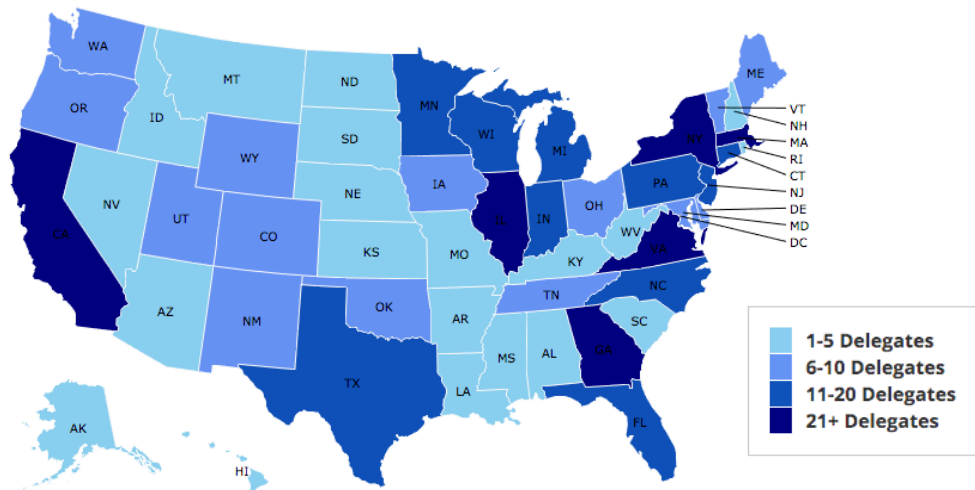
- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

- **Global Partners: 45 Ph.D. Economists**

- Aid in slide deck development



Where Are We?



Available NEED Topics Include:

- Coronavirus Economics
- US Economy
- Climate Change
- Economic Inequality
- Economic Mobility
- Trade and Globalization
- Trade Wars
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- 2017 Tax Law
- Autonomous Vehicles
- US Social Policy



Course Outline

- **What Economists Know About Important Policy Issues**
 - Week 1 (9/21): Coronavirus Economics
 - Week 2 (9/28): Economic Mobility (Oana Tocoian, UCSD)
 - Week 3 (10/5): Economics of Immigration
 - Week 4 (10/12): Racially Discriminatory Policies
 - Week 5 (10/19): Racial Inequities
 - Week 6 (10/26): Health Economics (Veronika Dolar, SUNY, Od Westbury)
 - Week 7 (11/2): Infrastructure Economics (Mallika Pung, Univ. New Mexico)
 - Week 8 (11/9): Autonomous Vehicles





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Economic mobility

Oana Tocoian, Ph.D.

Webinar

Sept 28th, 2020



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Outline

- I. What do we mean by economic mobility?**
- II. What are the facts? Broad patterns**
- III. Potential channels of upward mobility**
- IV. Drilling down into the main dimensions of US disparities in mobility**
- V. Summary and tentative conclusions**



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I. What do we mean by economic mobility?

Definition and motivation



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Economic Mobility – Defined

- **Economic Mobility – Our working definition:**

- Ability to advance beyond the status of your parents.

- **More broadly:**

- The ability to improve your socioeconomic class.

- **Variety of measures:**

- Income
- Wealth
- Education level
- Occupation
- Home ownership



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Absolute and Relative Mobility

Consider *intergenerational mobility* in INCOME.

There are two basic concepts:

- **Absolute mobility:** the difference in income from one's parent.
 - It is possible for *everyone* to experience upward absolute mobility.
- **Relative mobility:** the change in income rank from one's parent.
 - Increased relative mobility requires both upward and downward movement.



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Absolute vs Relative: Escalator Analogy

- **Absolute Mobility**
 - You're moving up the escalator.
- **Relative Mobility**
 - You're moving up the escalator and passing other people.

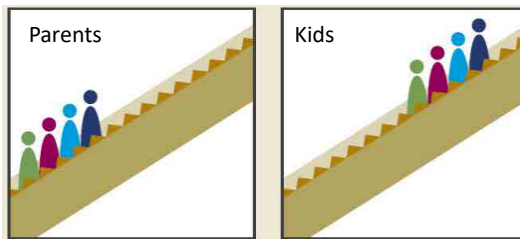


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More on Absolute vs Relative Mobility

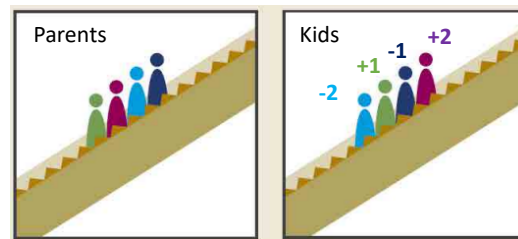
- **Can there be absolute mobility with NO relative mobility?**

- Yes: if everybody experiences the same increase in income.



- **Can there be relative mobility with NO absolute mobility?**

- Yes: There can be a dramatic reshuffling of the distribution without a change in the average.



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Economic Growth and Mobility

- **Economic growth should drive absolute mobility**

- If the gains are distributed to all.

- **Economic growth can coexist with zero *relative* mobility**

- However, low mobility can lead to sluggish growth

- **High inequality is more easily tolerated if mobility is high**

- But does high inequality allow for high mobility in practice?



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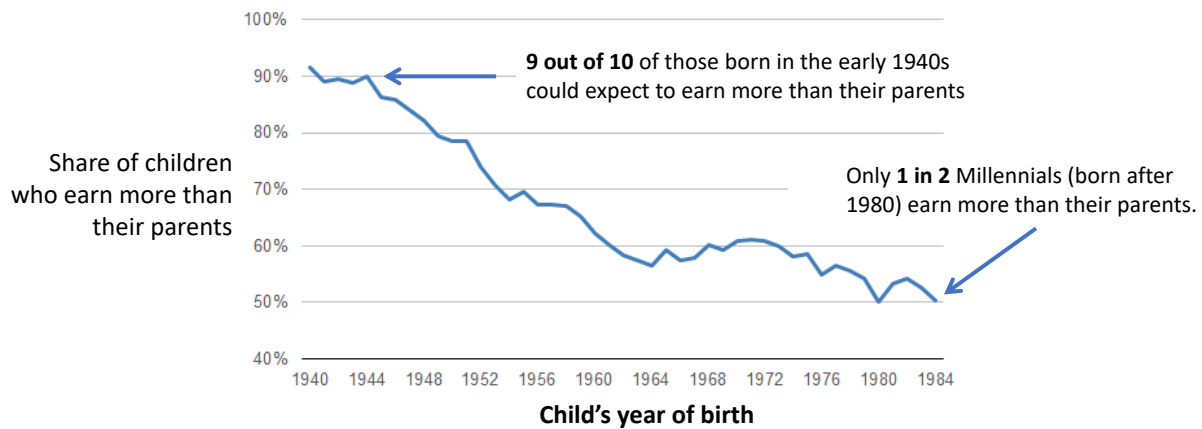
II. What are the facts? Broad patterns

What are observed levels of mobility?

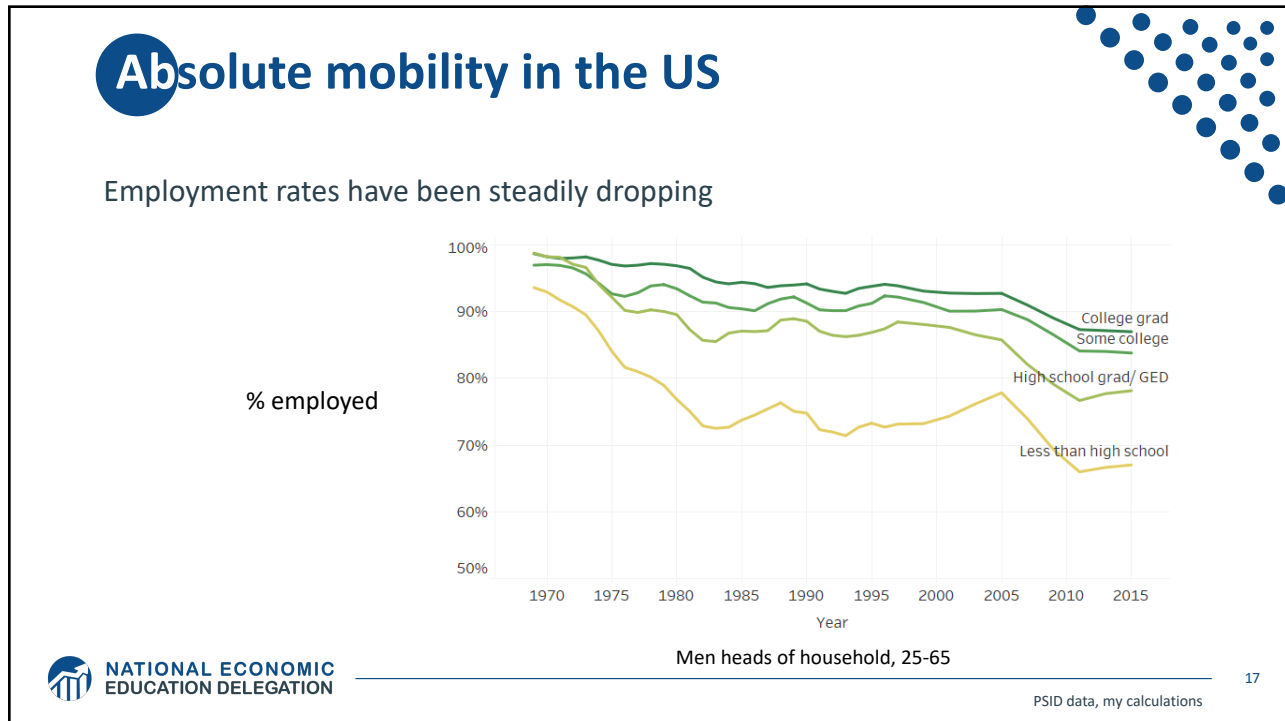
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Absolute mobility in the US

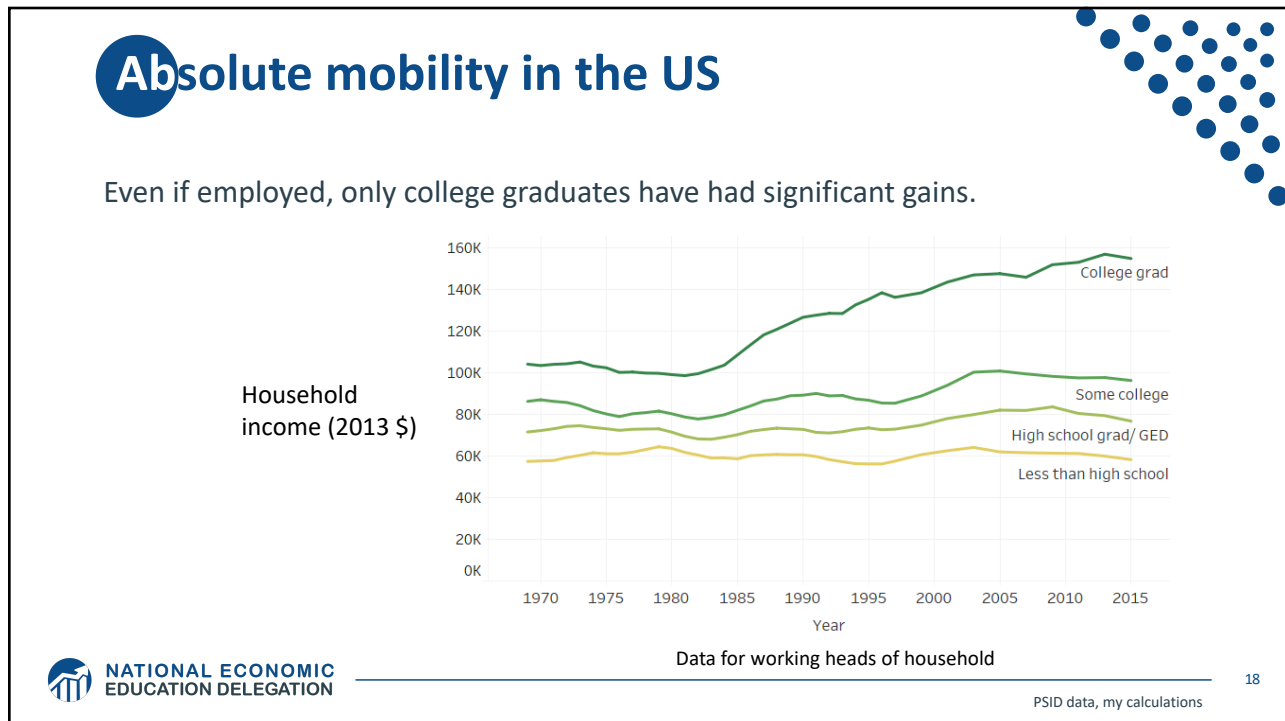
The fading American dream?



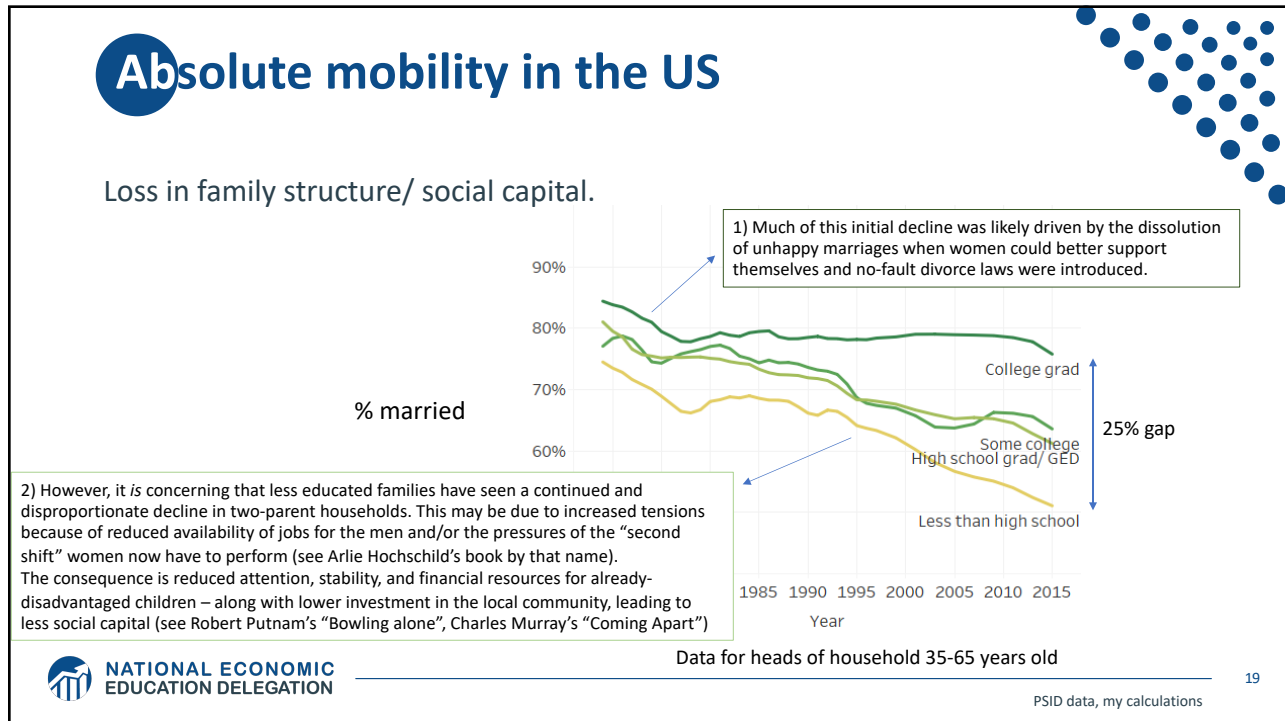
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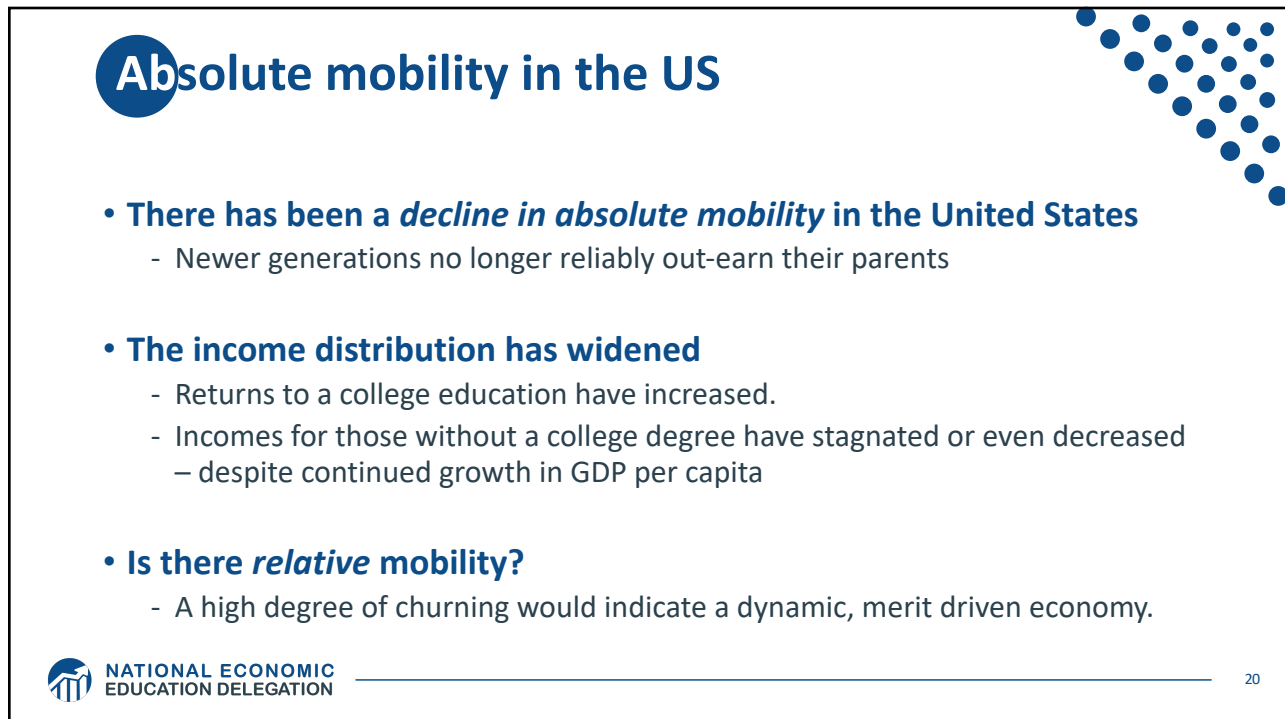
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Relative mobility – measurement

Two main ways to measure relative mobility:

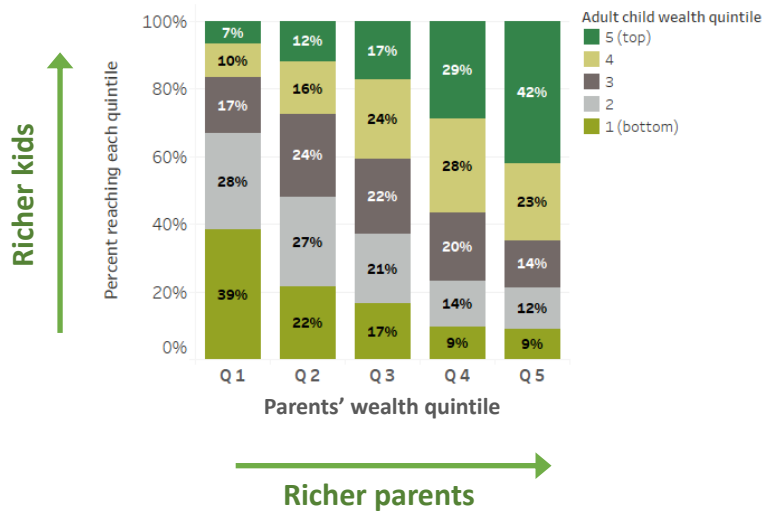
1. Transitions across quintiles in the income/wealth distribution.
 - E.g., what share of children born in poor families (bottom 20%) become well-off (top 20%)?

2. Correlation between income/wealth rank across generations
 - On average, how much higher in the distribution is a child if her parents are 1 decile higher?
 - The higher the correlation, the less mobility there is.

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Measuring relative mobility: wealth transition chart

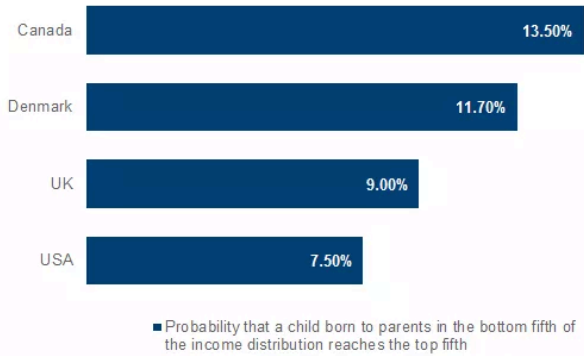
(added slide)



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The American Dream

... is in much better shape in Canada



Sources: Chetty et al., "Where is the land of opportunity? The geography of intergenerational mobility in the United States" (USA); Blanden and Machin, "Up and down the generational income ladder in Britain: Past changes and future prospects" (UK); Boserup, Kocuzuk, and Krainer, "Intergenerational Wealth Mobility: Evidence from Danish Wealth Records of Three Generations" (Denmark); Corak and Heisz, "The intergenerational earnings and income mobility of Canadian men: Evidence from longitudinal tax data" (Canada)

BROOKINGS



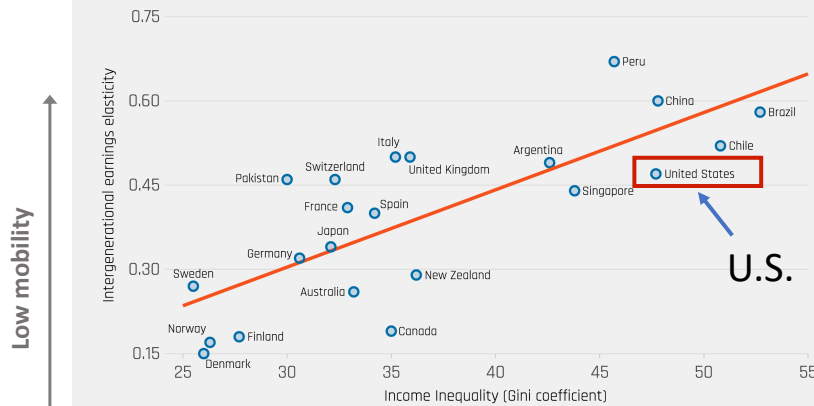
<https://www.brookings.edu/blog/social-mobility-memos/2018/01/11/raj-chetty-in-14-charts-big-findings-on-opportunity-and-mobility-we-should-know/>

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The Great Gatsby Curve: high inequality tends to mean low mobility

More inequality is associated with less mobility across generations



Source: Miles Corak, "Income Inequality, Equality of Opportunity, and Intergenerational Mobility," Journal of Economic Perspectives 27 (3): 79-102; "All the Ginis," available at <http://www.worldbank.org/en/research/brief/all-the-ginis> [last accessed 9/28/2018]



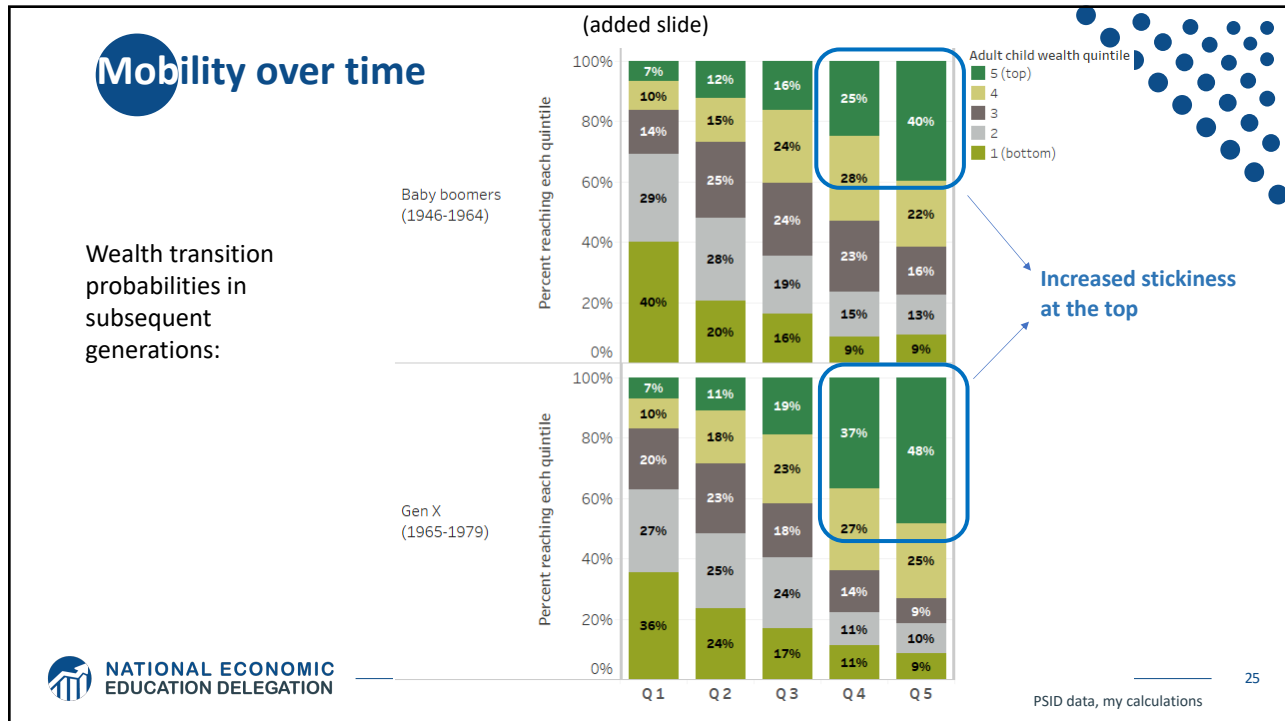
High inequality



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

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Relative mobility – comparisons

Questions:

- **How does the US compare to other developed countries?**
 - Not favorably: kids from low income households in Denmark, Norway, Canada are almost twice as likely to rise than in the US
 - Low mobility is correlated with high income inequality (the Great Gatsby curve)
- **Has relative mobility changed over time? (Are things improving?)**
 - Not significantly: income mobility appears stable (at a low level)
 - I find some evidence of increased wealth persistence at the top

Next: what determines mobility?

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III. Potential channels of upward mobility; evaluating popular beliefs

Theoretical considerations and empirical evidence



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Channels to Upward Mobility

Healthy *development* takes many ingredients:

- *Birth lottery and early advantages:*
 - Genetic and epigenetic traits; pre-natal care
 - Clean water and air; nutritious food
 - Early and K-12 education – teachers matter
 - Mentors and role models
 - Social capital (networks, trust)
- *Access to **higher education***
 - Merit-based admission (?)
 - Affordable



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Channels to Upward Mobility, cont'd:

To flourish as an adult, a young person also needs:

- The basic support of an enlightened and fair society
 - o Effective access to family planning
 - o Freedom from harassment and arbitrary criminal prosecution
 - o Freedom from non-discretionary debt (school, medical)

- Access to lucrative employment or **business ownership**
 - o Availability of good jobs
 - o Nepotism-free and unbiased internships, networking, hiring and promotion
 - o Access to initial capital to start a business

- Access to wealth-building assets and strategies
 - o Financing to buy a house; tax-deferred accounts



Entrepreneurship and higher education as channels for mobility

Two archetypes that politicians like to speak of:

- The entrepreneur who – regardless of background, and through sheer determination and hard work – starts and grows a business. He “pulls himself up by his bootstraps” and makes it to the top, building a legacy for his children.
 - o Republican favorite, goes back to Horatio Alger

- The student who – regardless of background, and through sheer determination and hard work – pursues higher education and fully realizes their potential. (This vision is also inclusive of women & minorities)
 - o More recent Democratic favorite



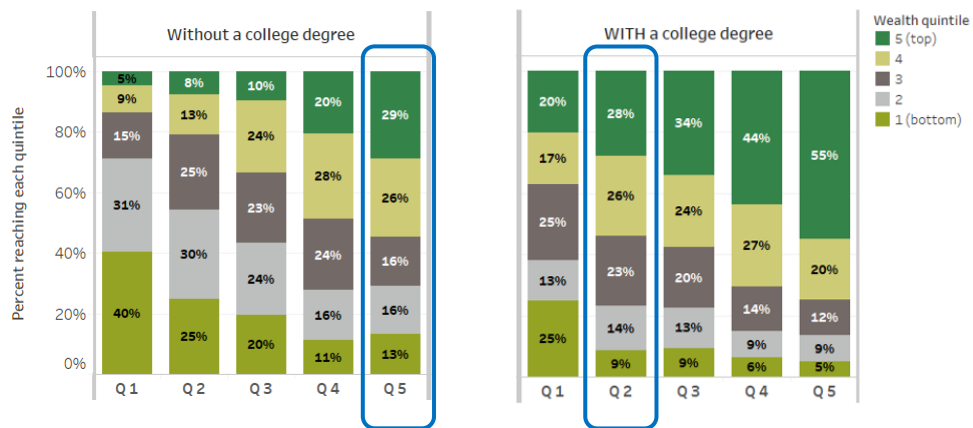
Entrepreneurship and higher education as channels for mobility

Are these myths or realities?

- How might we go about answering this?
 1. Do children from poor/low income families who go to college or own a business **move up** in rank?
 2. Do children from poor/low income families have **access** to college/ business ownership?
- What do you expect we'll find?

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Mobility by education



A college diploma is a wealth equalizer

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Entrepreneurship and higher education as channels for mobility

1. Do children from poor/low income families who go to college **move up** in rank?
 - For someone from the bottom quintile and without a college degree, the odds of getting to the top quintile = 5%
 - *With* a college degree, the odds are 20%



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Entrepreneurship and higher education as channels for mobility

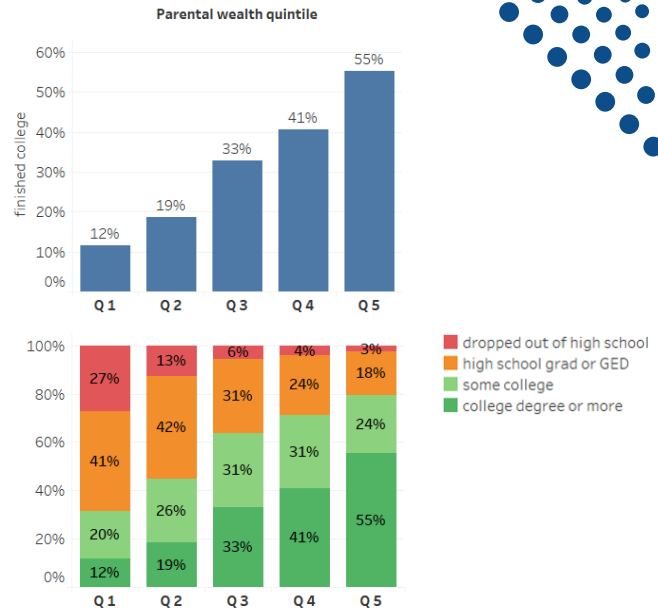
2. Do children from poor/low income families have **access** to college/ business ownership?
 - Not unless their parents also went to college/ owned a business.
 - Parental know-how and connections matter, not just their financial resources.



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Higher education access

- Is access to college meritocratic?
- Probability of earning a 4-year college degree, by parental wealth:
- Or, for more detail, here is the percent of children with different educational achievements:

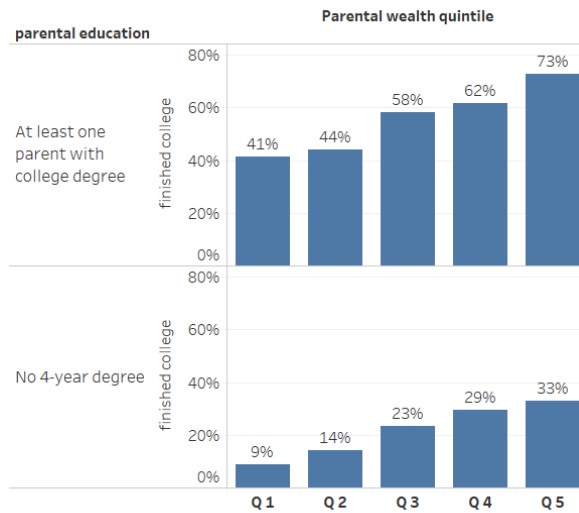


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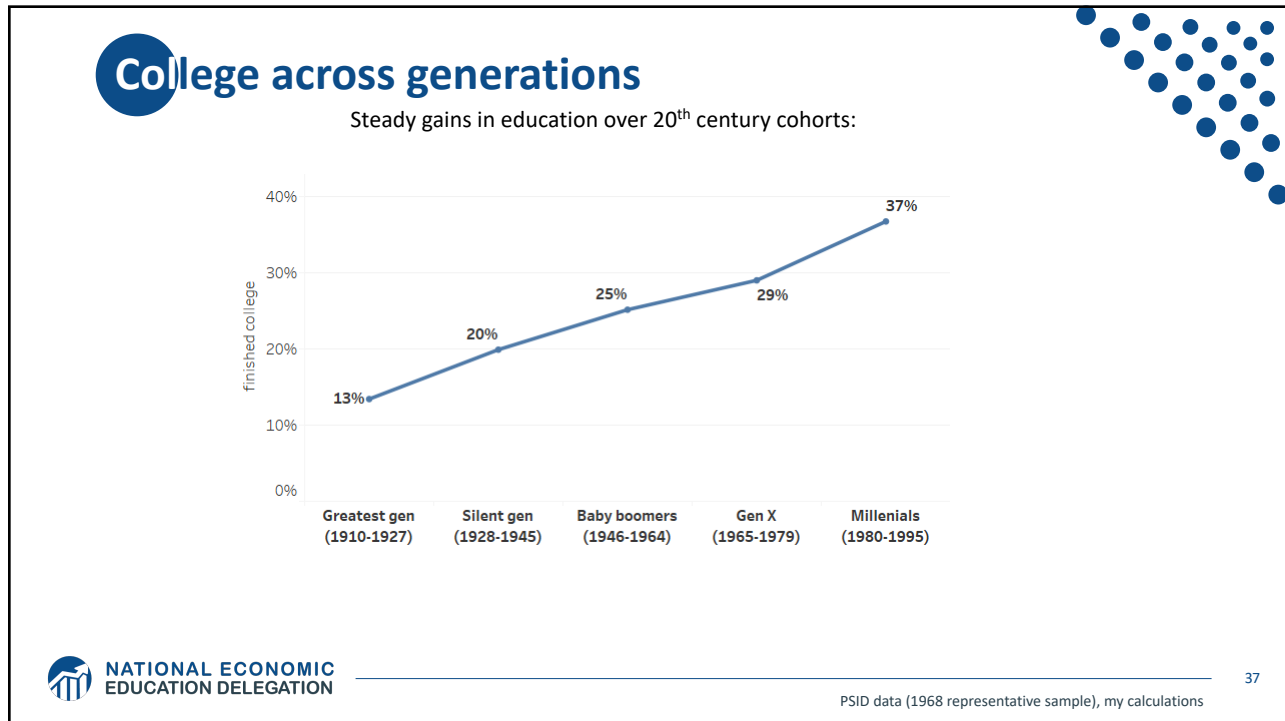
Higher education access, by parental education

Parental education matters more than wealth!

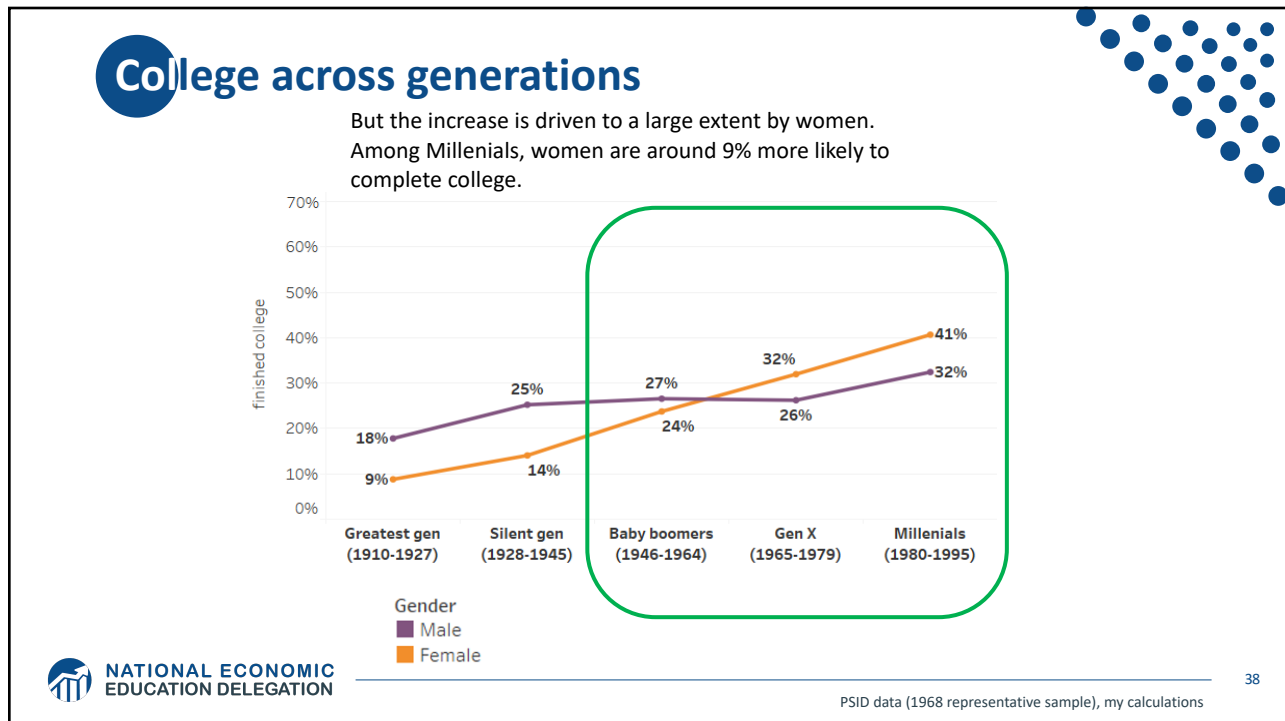
What does this say about meritocracy in higher education?



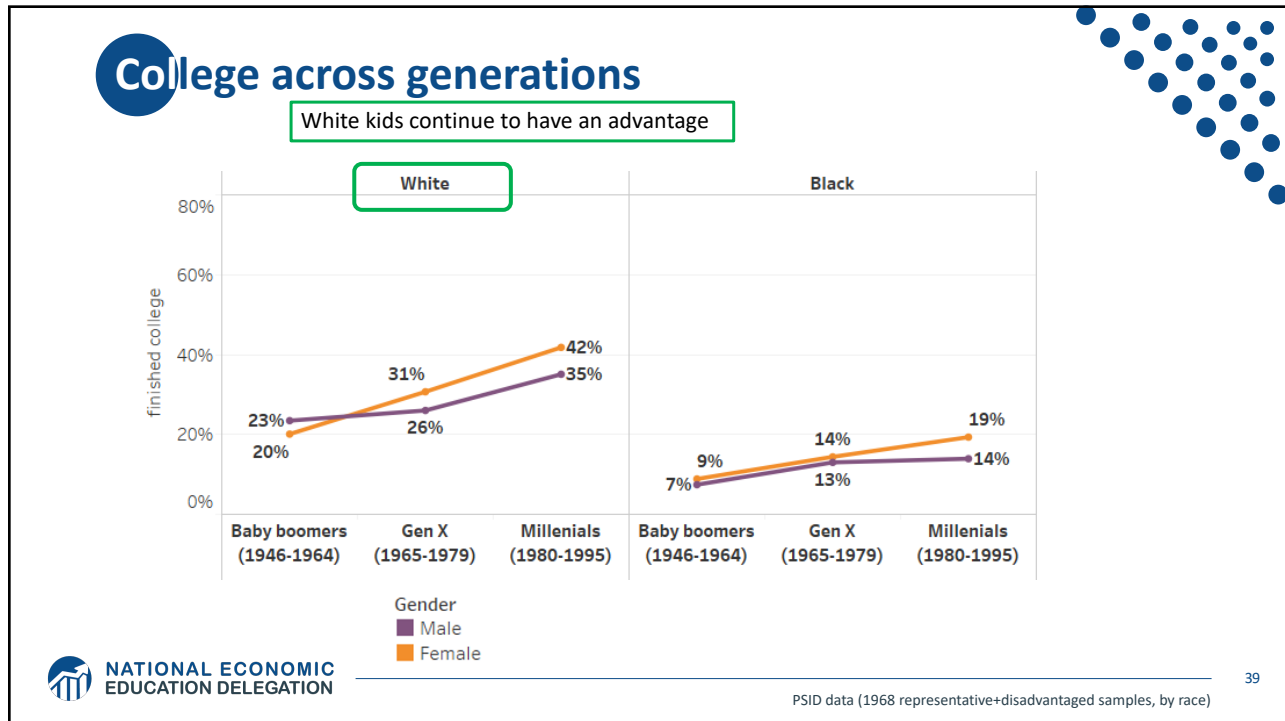
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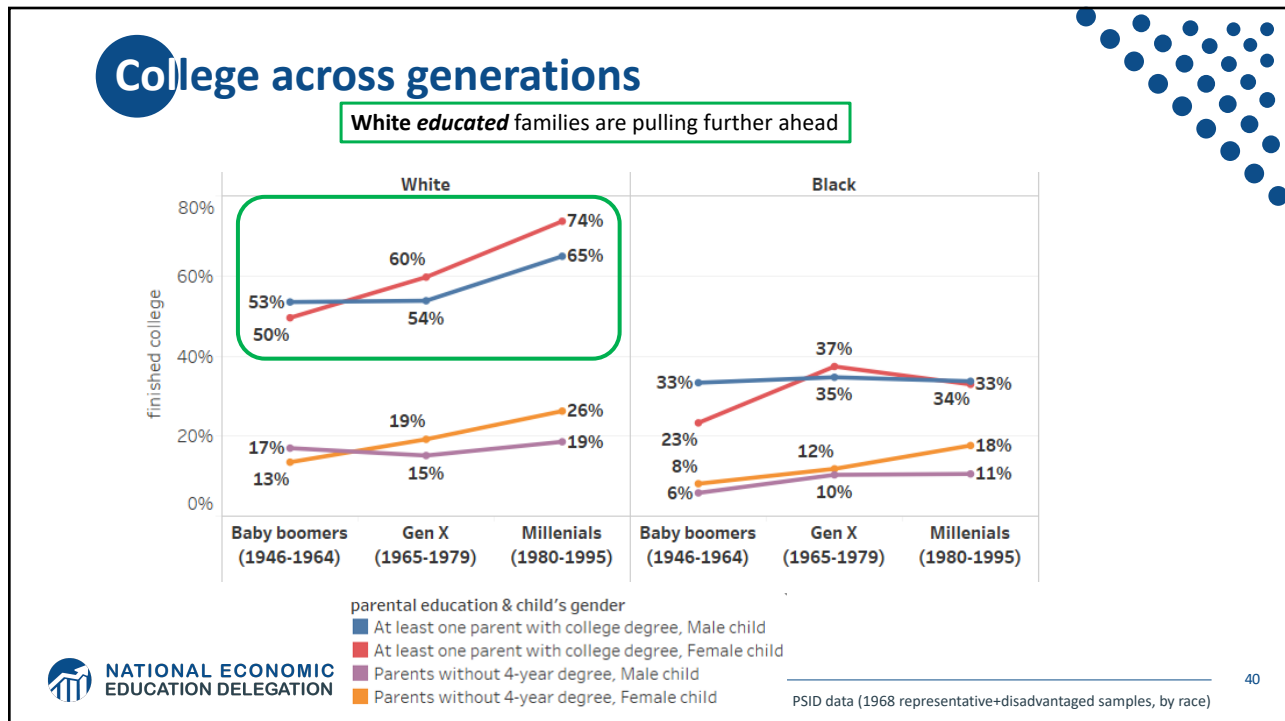
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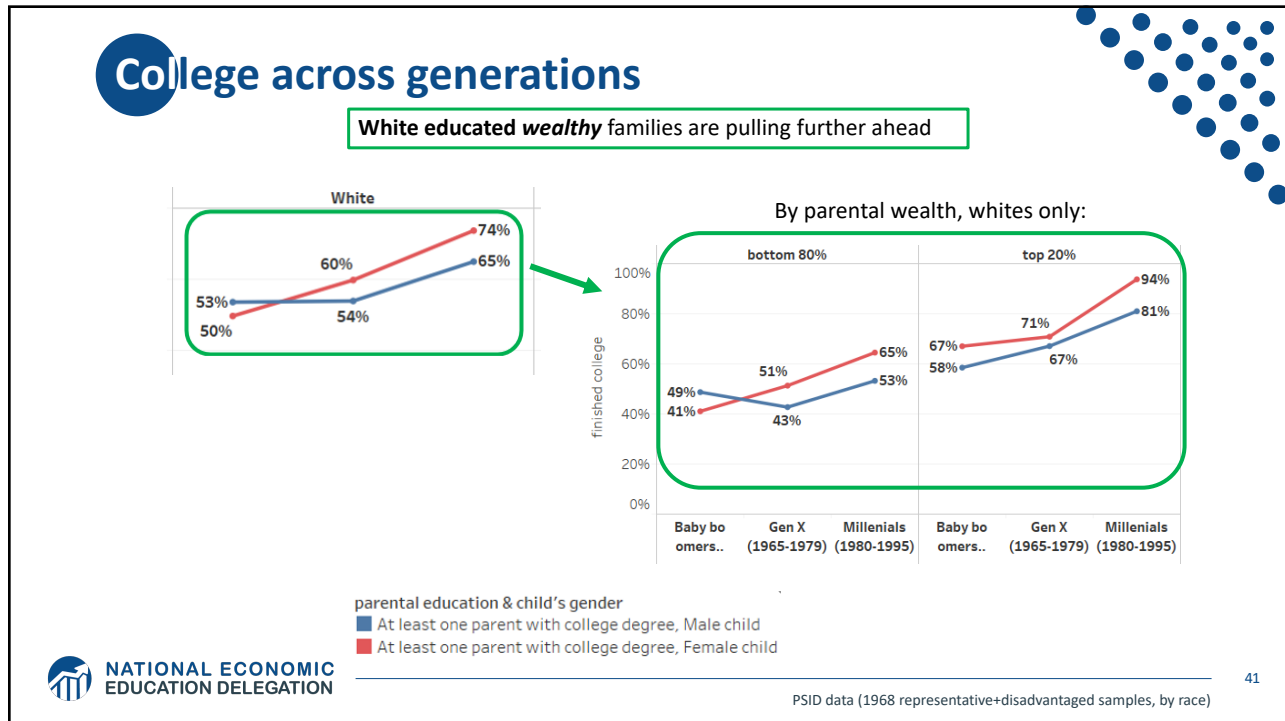
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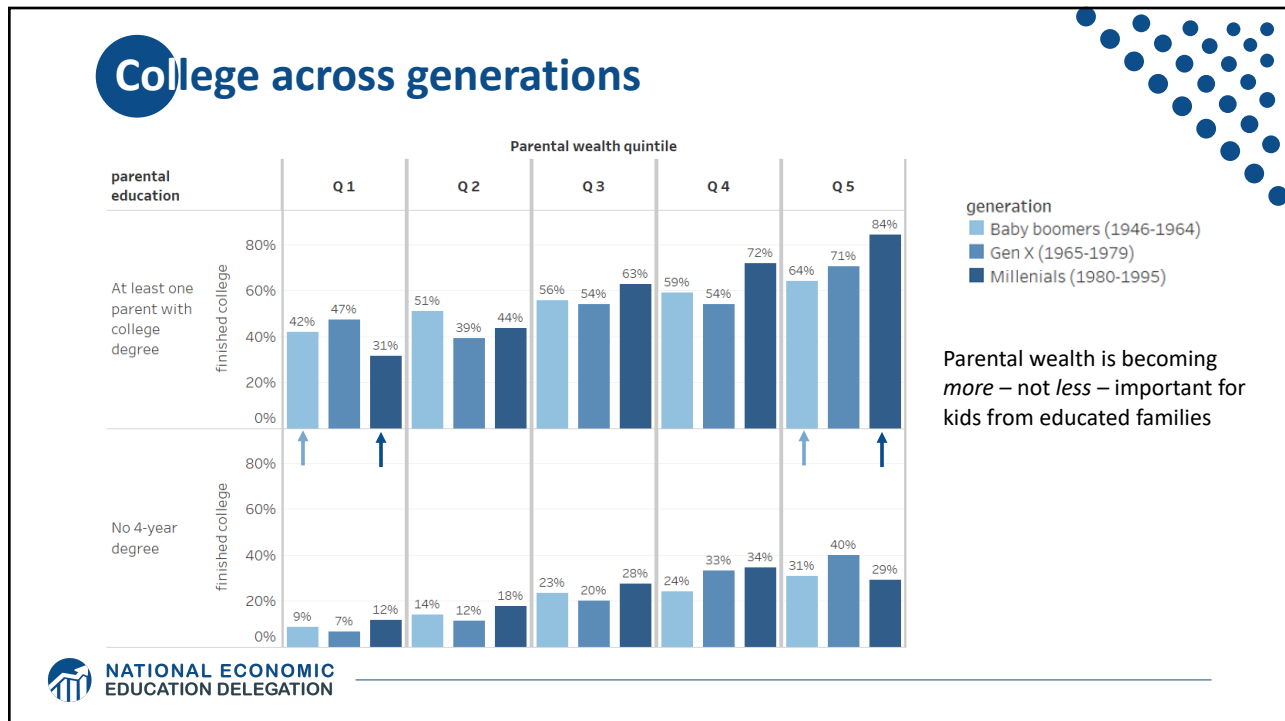
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Mobility through education? Conclusion

- Is there *increasing* access to higher education?

- Across the board, only for women
- Low parental achievement continues to be a barrier
 - o Working class whites were “left behind” and now match the trajectory of disadvantaged minorities
 - o Class unity?
- There are inequalities *within* inequalities:
 - o Educated white families from the top decile almost *all* send their kids to college
 - o Educated white families from the top 1% almost *all* send their kids to a *selective* college



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Mobility through business ownership?

- What about *entrepreneurship* as a path to the American Dream?

We find the same pattern as with education:

- Business ownership helps (incorporated business)
- But access is highly contingent on parental experience and wealth

Conclusion?

- The rhetoric that “you can make it if you try” is deceptive

- *Some* do make it, but it is a narrow corridor
- “Meritocratic” path of higher education leads to an increasingly unequal society



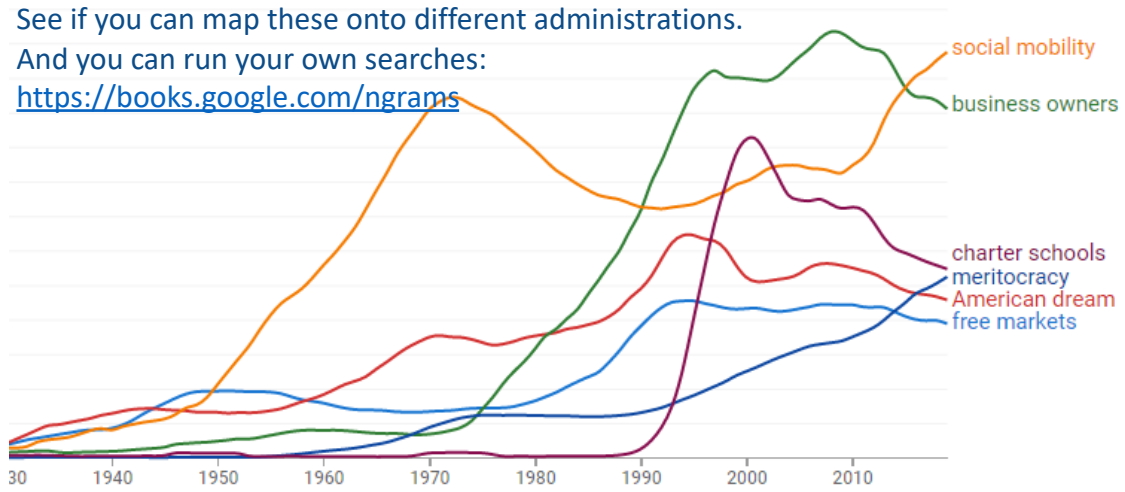
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Tracking the rhetoric with Google Ngrams

See if you can map these onto different administrations.

And you can run your own searches:

<https://books.google.com/ngrams>



IV. Drilling down into the main dimensions of US disparities in mobility

Dimensions of disparate mobility

Aside from education, the most significant dimensions of inequality in mobility remain:

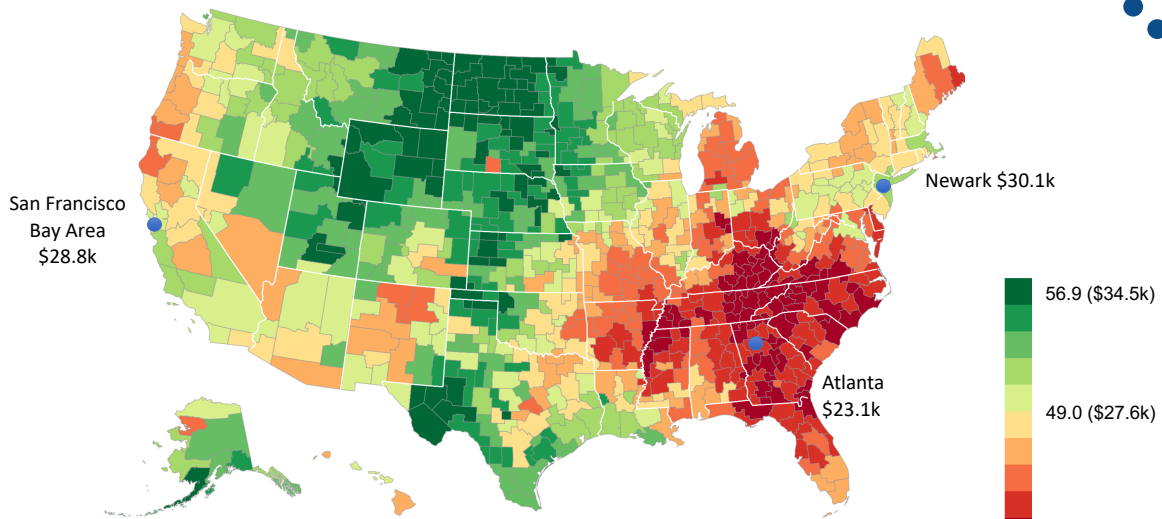
- **Race**
- **Geography (at all levels)**

These are interconnected, and they both correlate with access to higher education, business ownership, environmental pollution, access to jobs, etc.

On the next two slides, you will see the average incomes for people from poor families (parents' income is held fixed). Note the strong variation by region and county, and the even stronger variation across race.

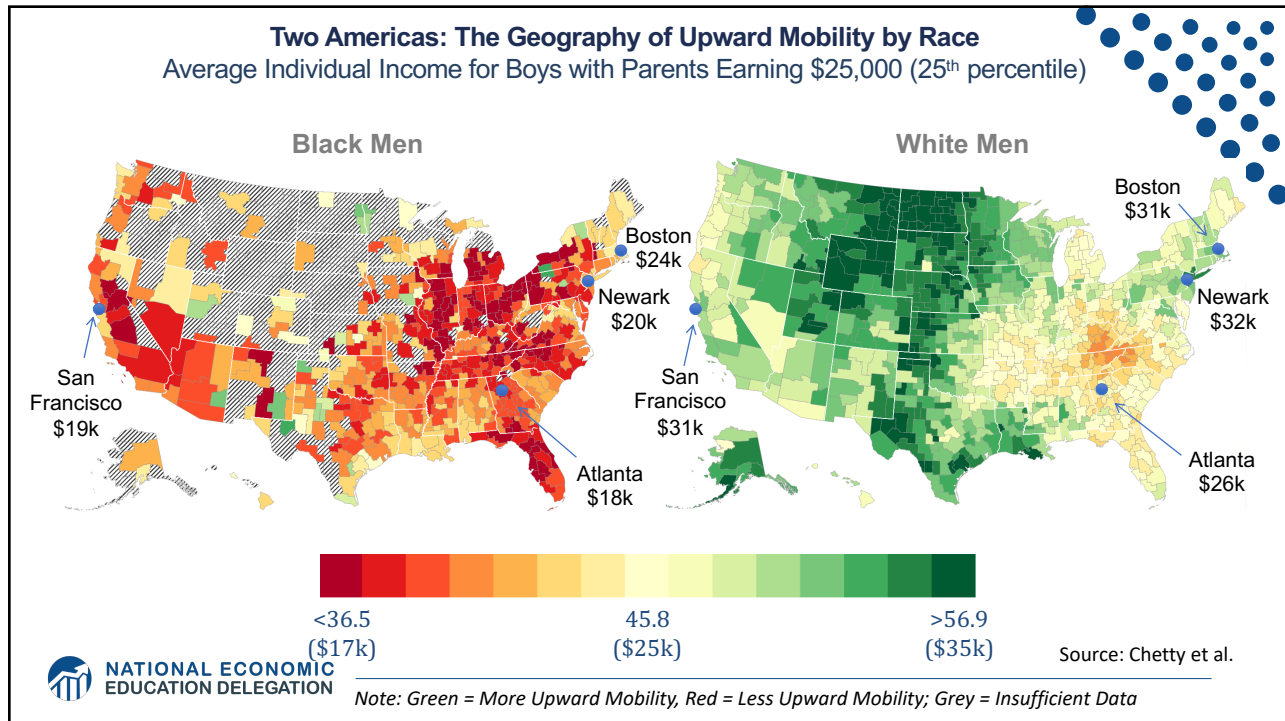


The Geography of Upward Mobility in the United States
Average Individual Income for Males with Parents Earning \$25,000 (25th percentile)

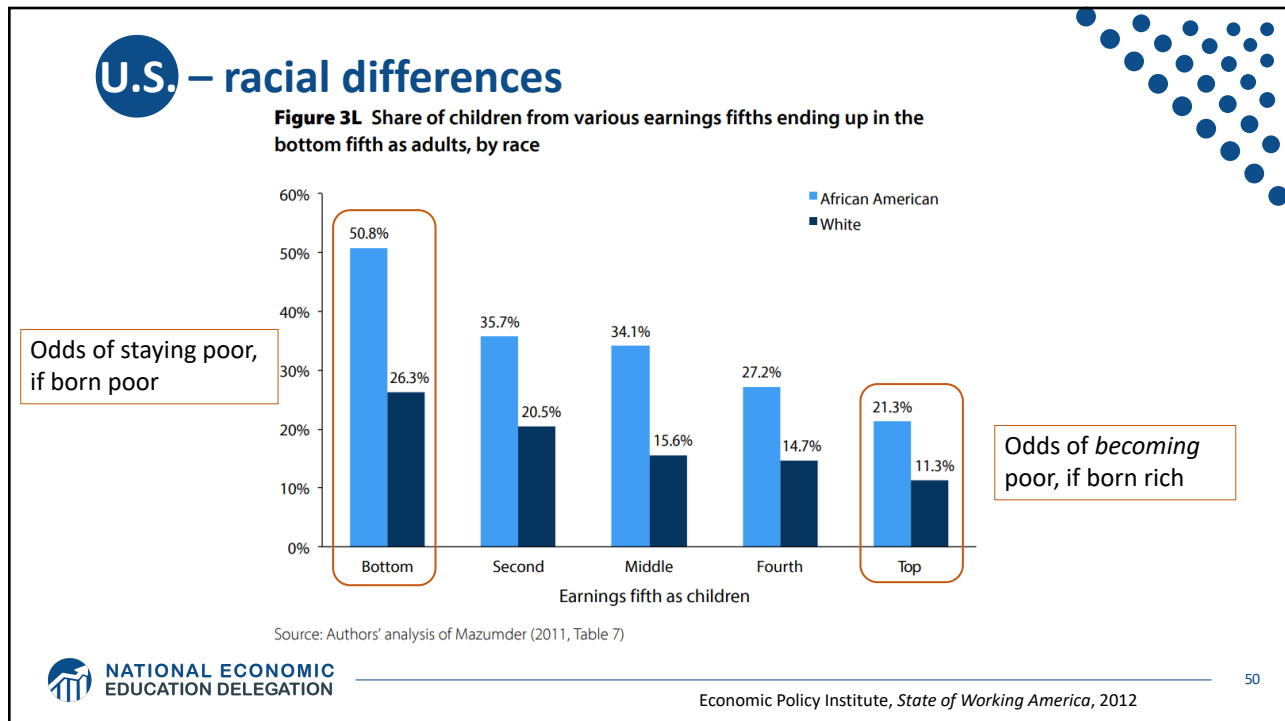


Source: Chetty et al.

Note: Green = More Upward Mobility, Red = Less Upward Mobility



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Black families are not catching up

- A history of state-sponsored discrimination in housing and the labor market have established large disparities in wealth between Whites and Blacks (Other minorities form a more complex story.)

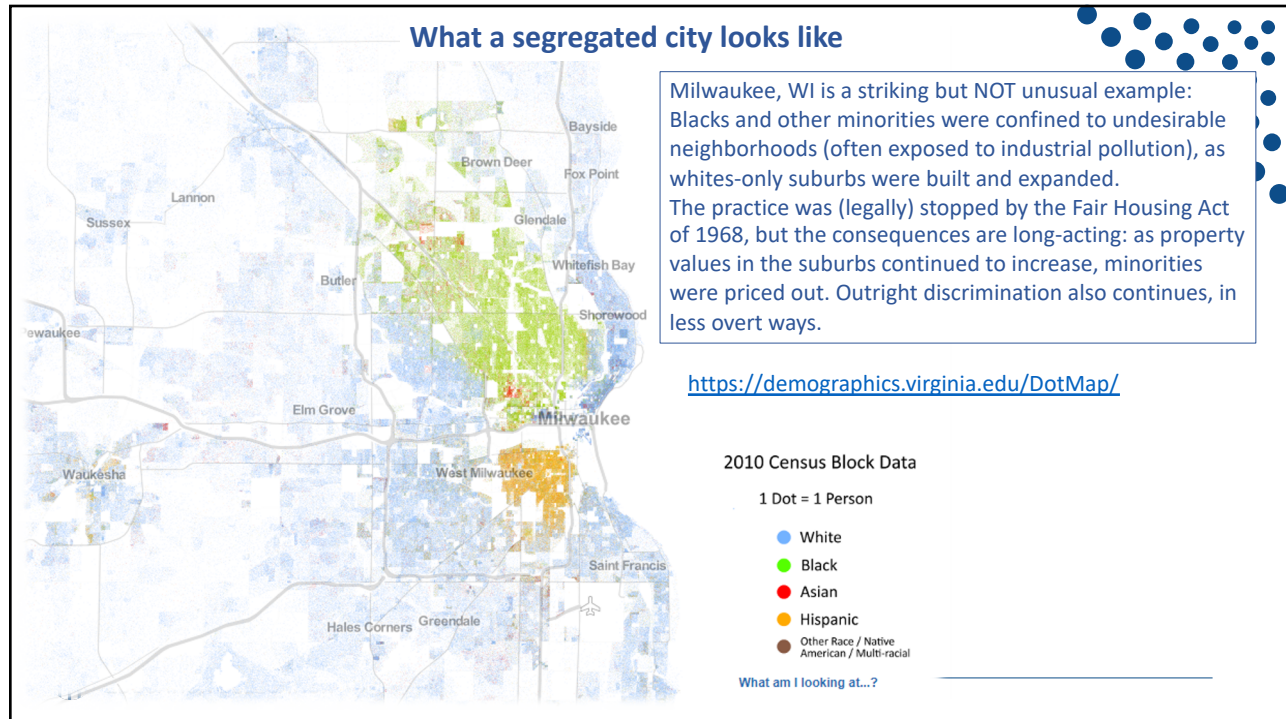
- Short video on redlining: <https://www.youtube.com/watch?v=O5FBJyqfoLM>
- Race color-coded map of the US: <https://demographics.virginia.edu/DotMap/> (see also the next slide)

- The War of Drugs took over once overt race-based discrimination was no longer possible



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What a segregated city looks like

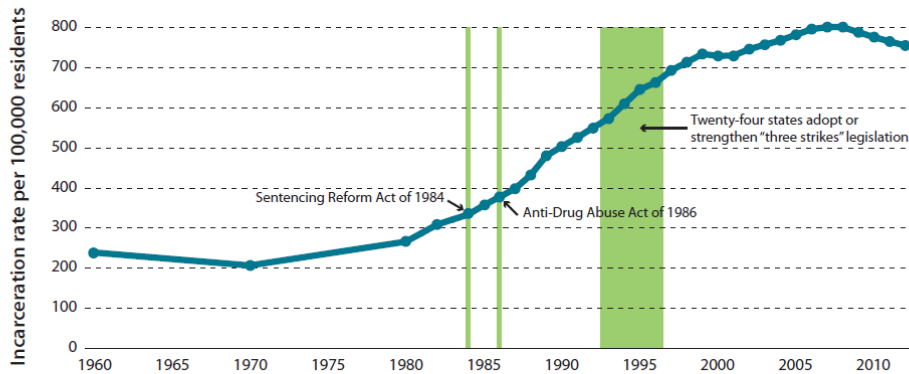


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The rate of incarceration in the US nearly quadrupled from 1970 to 2010...

Incarceration Rate in the United States, 1960–2012

Federal policies, such as the Sentencing Reform Act, and state policies, such as the “three strikes” legislation, were major contributing factors to the 222 percent increase in the incarceration rate between 1980 and 2012.

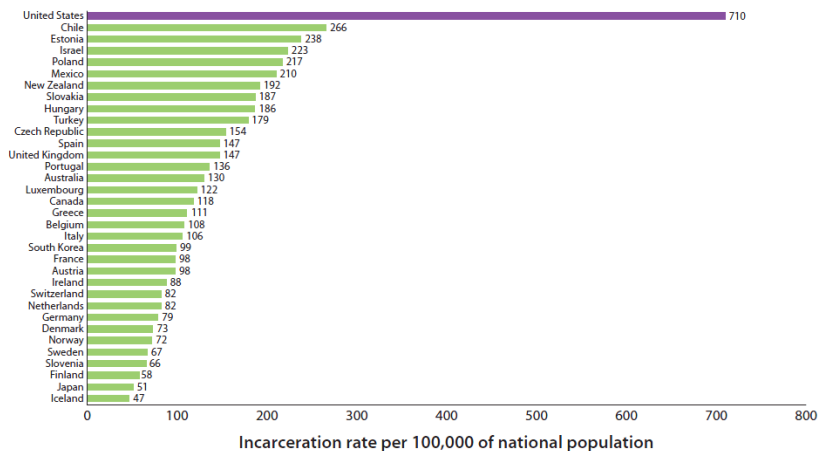


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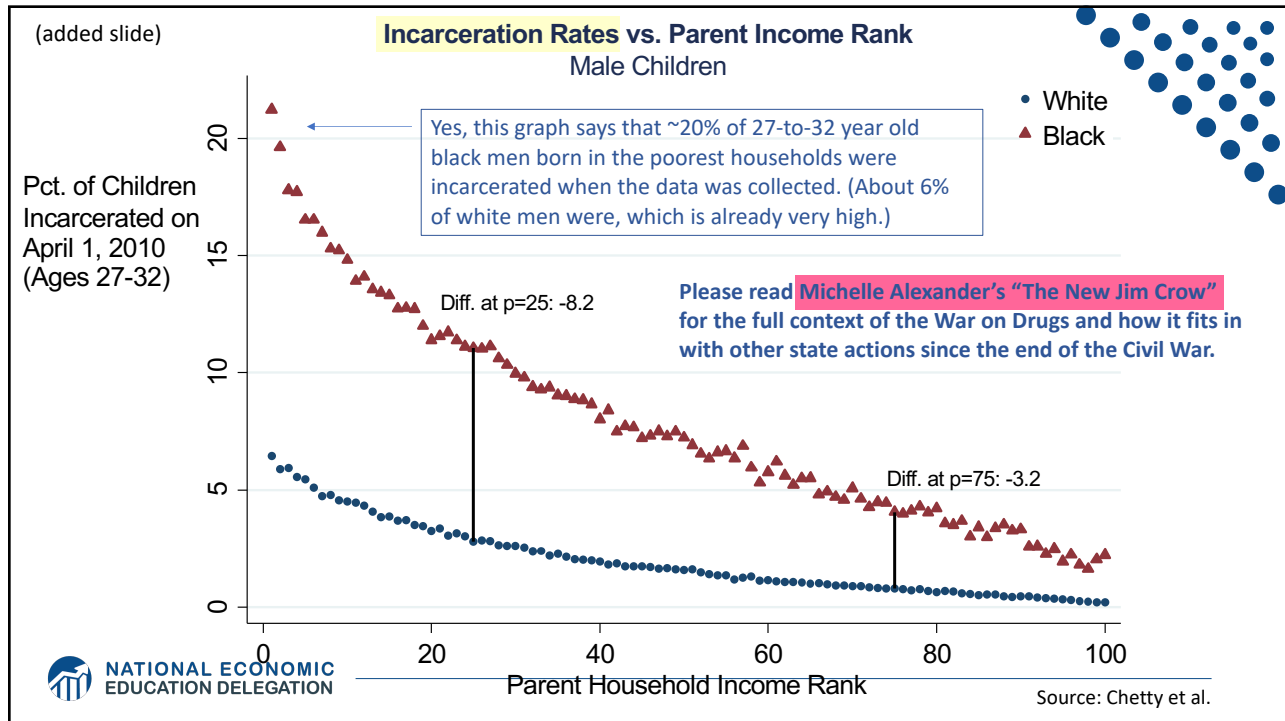
... and is far higher than that in other countries

FIGURE 6. Incarceration Rates in OECD Countries

With an incarceration rate of 710 inmates per 100,000 residents, the United States stands in stark contrast to the typical incarceration rate of 115 among OECD nations.



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Summary and conclusions

Notable take-aways:

- **On higher education and entrepreneurship**
 - [...]
- **Urgent problem of mass incarceration**
 - Need to change police and judicial practices and find ways to undo the harm perpetrated through sustained government action over the past century.

• **To think about:**

- How might we go about desegregating neighborhoods?
- What might be barriers to criminal justice reform?
- How can we insure higher availability of good jobs for those without a college degree (regardless of race)

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(added slide)

Summary and conclusions, II

Some proposed ideas:

How might we go about desegregating neighborhoods & schools?

- There are many possible interventions, varying in cost, speed, and impact.
 - o As a bold example, Rothstein suggests that the government could purchase homes in suburbs as they go on the market for sale, and make them available to black households at the price for which they were initially sold to white households (adjusted for inflation).
 - o Even what should be straightforward and low cost interventions have met with resistance from white homeowners – for instance changing zoning laws which currently prevent apartment buildings and smaller homes from being built in suburbs with good schools. Or re-draw school district lines.
 - Much of this opposition comes from parents who want to ensure schools maintain very high standards, so their kids can get into top colleges and universities. So decreasing inequality at the top, or even just changing the admissions process, would have the helpful secondary effect of decreasing white resistance to integration.
 - o Increasing public awareness of the history of discriminatory state actions seems key.



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(added slide)

Summary and conclusions, III

Some proposed ideas:

What might be barriers to criminal justice reform?

- There are commercial interests invested in the current system (the Prison Industrial Complex), which exert active lobby pressure
- The current system of incarceration leads to disenfranchisement of African Americans, which is politically advantageous to certain p
- Popular prejudice against felons (regardless of the type or severity of the crime), stoked by decades of cynical politically-motivated propaganda
- The fear that white jobs will be further threatened (recall already low levels of employment)
 - o Class solidarity is likely to yield better results than conflict along either racial lines or the Left-Right political divide. A majority of Whites and nearly all Blacks (and Hispanics) have been excluded from the economic gains of the past 50 years. Jointly they could yield immense political power.



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(added slide)

Summary and conclusions, IV

Some proposed ideas:

- **How can we insure higher availability of good jobs for those without a college degree (regardless of race)?**
 - There are policy rules which can be tweaked. For example:
 - Promote worker unionization, in order to match employers' outsized bargaining power (especially for service jobs which can't be offshored). Break up large companies.
 - Change fiscal incentives (current taxes on capital are lower than on labor, which promotes automation)
 - Demand that labor standards be respected by foreign trade partners (to prevent a race to the bottom in which Americans lose their jobs to exploited foreign workers)
 - Government could also take a more active role in labor markets and hire people directly, especially for large public projects which need to be implemented (Green New Deal)
 - We could empower workers (e.g. after layoffs) to start their own firms by providing starting capital and administrative guidance, following European models.
 - We currently provide fiscal incentives for firms to create jobs, without explicit conditions on their quality or duration.



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Thank you!

Any Questions?

www.NEEDelegation.org

Oana Tocoian; otocoian@ucsd.edu → Please send me your follow-up questions and suggestions.

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Citations and recommendations



This presentation draws heavily on the work done by the **Raj Chetty** group at Harvard. Their papers on [mobility trends](#) and the effects of [education](#), [race](#), and [neighborhood](#) are all at [OpportunityInsights.org](#), along with non-technical summaries and highlights (see also [opportunityatlas.org](#) and [policyinsights.org](#))

Other sources used and recommended:

- **Brookings Institute** – [Brookings.edu](#) (see their [report](#) on economic mobility)
- **The Washington Center for Equitable Growth** – [EquitableGrowth.org](#) ([report](#))
- **The Urban Institute** – [Urban.org](#)
- **The Economic Policy Institute** – [epi.org](#)
- **Pew Research Center** – [pewresearch.org](#)

Book recommendations

- **Michelle Alexander** – “**The new Jim Crow**”, **Richard Rothstein** – “**The color of law**”
- Peter Temin – “The vanishing middle class”
- Michael Sandel – “The tyranny of merit”; Daniel Markovits – “The meritocracy trap”
- Robert Putnam – “Our kids”; Richard Reeves – “Dream hoarders”
- Diane Ravitch – “Slaying Goliath” (on charter schools)

(These are all informative *and* engaging reads – no special qualifications or extra coffee needed!
Although, you *may* need a stiff drink on occasion...)