Inequality, Opportunity, Mobility

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1. From a golden age of shared prosperity to a gilded age of rising inequalities in earnings, family incomes and wealth
2. Some consequences: increased inequality of life expectancy, of parental inputs of time and money, of educational outcomes
3. Mobility is relatively low compared to that in other countries. The extent to which it might have increased has not been established
4. Thoughts on reducing the consequences of rising inequality
The Golden Age: A Rising Tide Lifts All Boats, 1947-73

- Rapid economic growth, modest recessions
- Rapid wage growth for all workers
- Spread of employer-provided health insurance & pensions
- Minimum wage rises relative to inflation
- Rapidly falling poverty
- Slowly falling income inequality
A Gilded Age of Rising Inequality 1973-present

- Official poverty rate rises above 15% during severe recessions of early 1980s, milder recession in early 1990s, and Great Recession of 2007-09

- Poverty falls during recoveries, but not to the 1973 level

- Less-educated workers & median male worker no longer benefit much from economic growth; productivity gains no longer translate into wage gains

- Inequality in earnings, incomes and wealth increase rapidly

- Effective safety net with cash benefits and health insurance only for elderly

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High Poverty Rate and Rising Inequality are due to Failure of Economy to Generate Shared Earnings Growth, not Safety Net

Real wages of median worker are no longer highly correlated with productivity increases due to:

- Skill-biased technological changes
- Globalization of markets
- Decline in unionization; changes in employer practices
- Erosion of the inflation-adjusted minimum wage
- Declining progressivity of federal income tax
- Explosion of Executive Pay and the size of the financial sector
Change in Family Income (inflation-adjusted) at Selected Points in the distribution


<table>
<thead>
<tr>
<th>Year</th>
<th>Bottom 20%</th>
<th>Top 20%</th>
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<tbody>
<tr>
<td>1972-73</td>
<td>$835</td>
<td>$3,536</td>
</tr>
<tr>
<td>1983-84</td>
<td>$1,264</td>
<td>$5,650</td>
</tr>
<tr>
<td>1994-95</td>
<td>$1,173</td>
<td>$6,975</td>
</tr>
<tr>
<td>2005-06</td>
<td>$1,315</td>
<td>$8,872</td>
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Time Spent by Both Parents in Developmental Childcare, Children Aged 0-4, 1965-2013

Robert Putman, 2015, Our Kids.
Fraction of Students Completing College, by Income Quartile and Birth Year

Income Quintile of Children When They Grow Up Relative to Their Parents’ Income Quintile

Americans Raised at the Top and Bottom Are Likely to Stay There as Adults
Chances of moving up or down the family income ladder, by parents’ quintile

Percent of Adult Children with Income in the:
- Top Quintile
- Fourth Quintile
- Middle Quintile
- Second Quintile
- Bottom Quintile

40% are stuck at the top

43% are stuck at the bottom

Note: Numbers are adjusted for family size.

www.russellsage.org
Estimates of Intergenerational Income Elasticities for Fathers and Sons Plotted with Gini Coefficients for Eleven Developed Countries During the Early 1980's.

Current Economic Climate

- Unemployment is finally getting back to normal 6 1/2 years into recovery. Despite many months of good job growth, it may take several more years to reach 2007 labor force participation rate.

- Real wage growth is very unlikely for less-educated workers without policy interventions.

- Income & wealth inequalities are at very high levels and are unlikely to change without policy interventions.

- Many states still cutting social programs and public sector jobs.

- Deficit Mania threatens safety net as we know it; inability to increase public spending, even on infrastructure.
Thoughts on Moving Forward

1. “The First Theorem of Welfare Economics says that an economy will run efficiently and that any intervention like redistribution will make it less efficient, so there’s a tradeoff. But, …if you start…with a world in which firms have monopoly power, it’s not clear that there is any such trade-off.” Anthony Atkinson, interviewed about *Inequality: What Can Be Done?*

2. “Our institutionalist approach is based on two simple economic observations: rules matter and power matters….institutions and rules are required to force markets to behave competitively…” Joseph Stiglitz, *Rewriting the Rules of the American Economy.*