

# Inequality, Opportunity, Mobility

**Sheldon Danziger**

President, Russell Sage Foundation

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# Outline

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

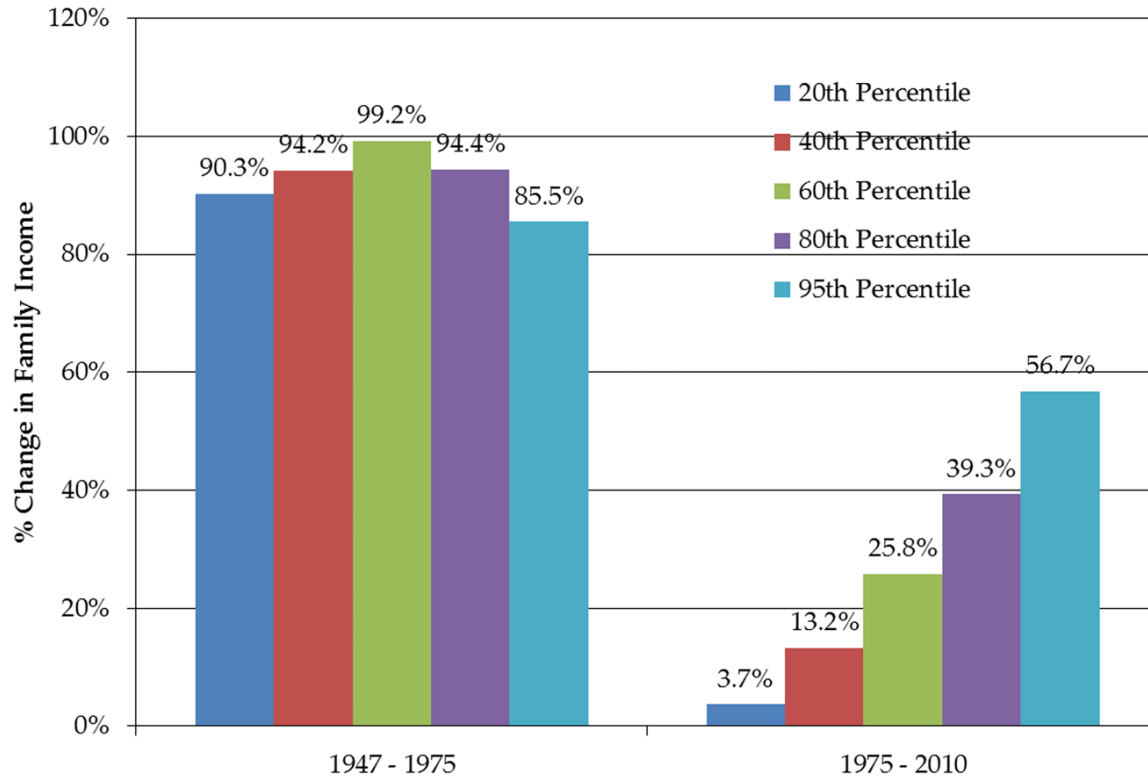
- Official poverty rate rises above 15% during severe recessions of early 1980s, milder recession in early 1990s, and Great Recession of 2007-09
- Poverty falls during recoveries, but not to the 1973 level
- Less-educated workers & median male worker no longer benefit much from economic growth; productivity 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

# 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:

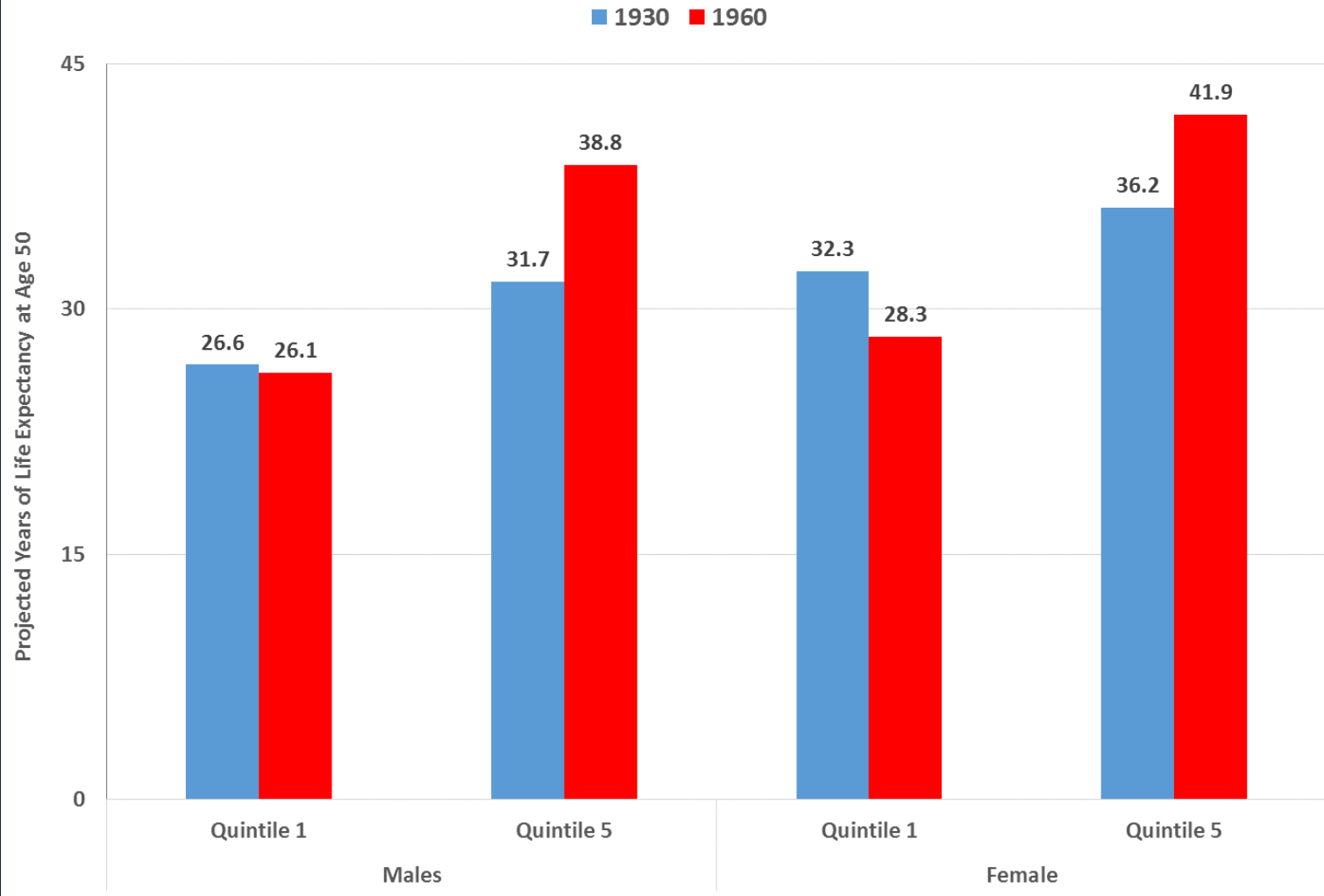
- Skill-biased technological changes
- Globalization of markets
- Decline in unionization; changes in employer practices
- Erosion of the inflation-adjusted minimum wage
- Declining progressivity of federal income tax
- Explosion of Executive Pay and the size of the financial sector

## Change in Family Income (inflation-adjusted) at Selected Points in the distribution



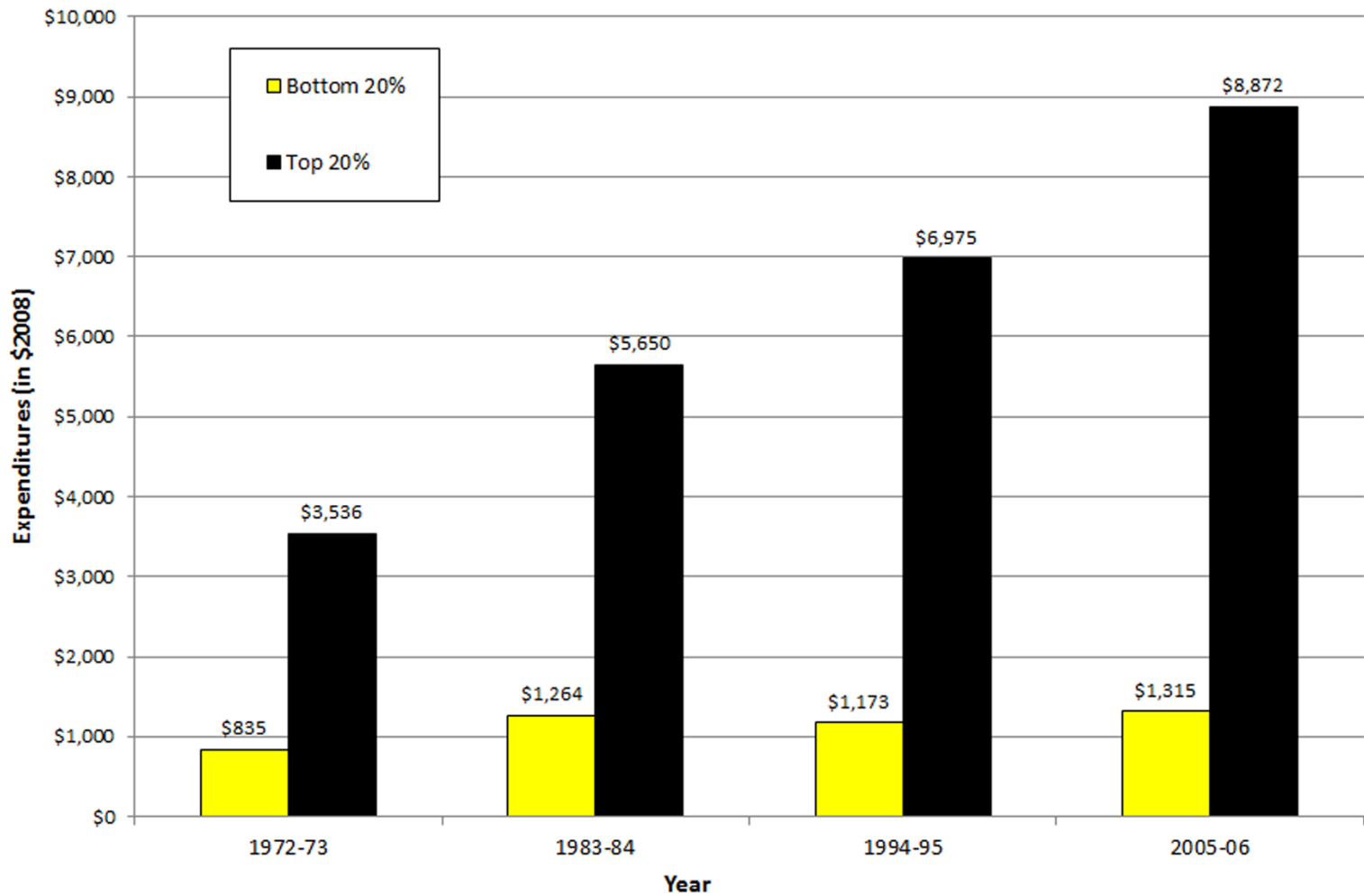
Source: U.S. Census Bureau (2011). Table F-1. Income Limits for Each Fifth and Top 5 Percent of Families, from Historical Income Tables. Retrieved from: <http://www.census.gov/hhes/www/income/data/historical/index.html>

## Growing Inequality in Life Expectancy by Income Quintile



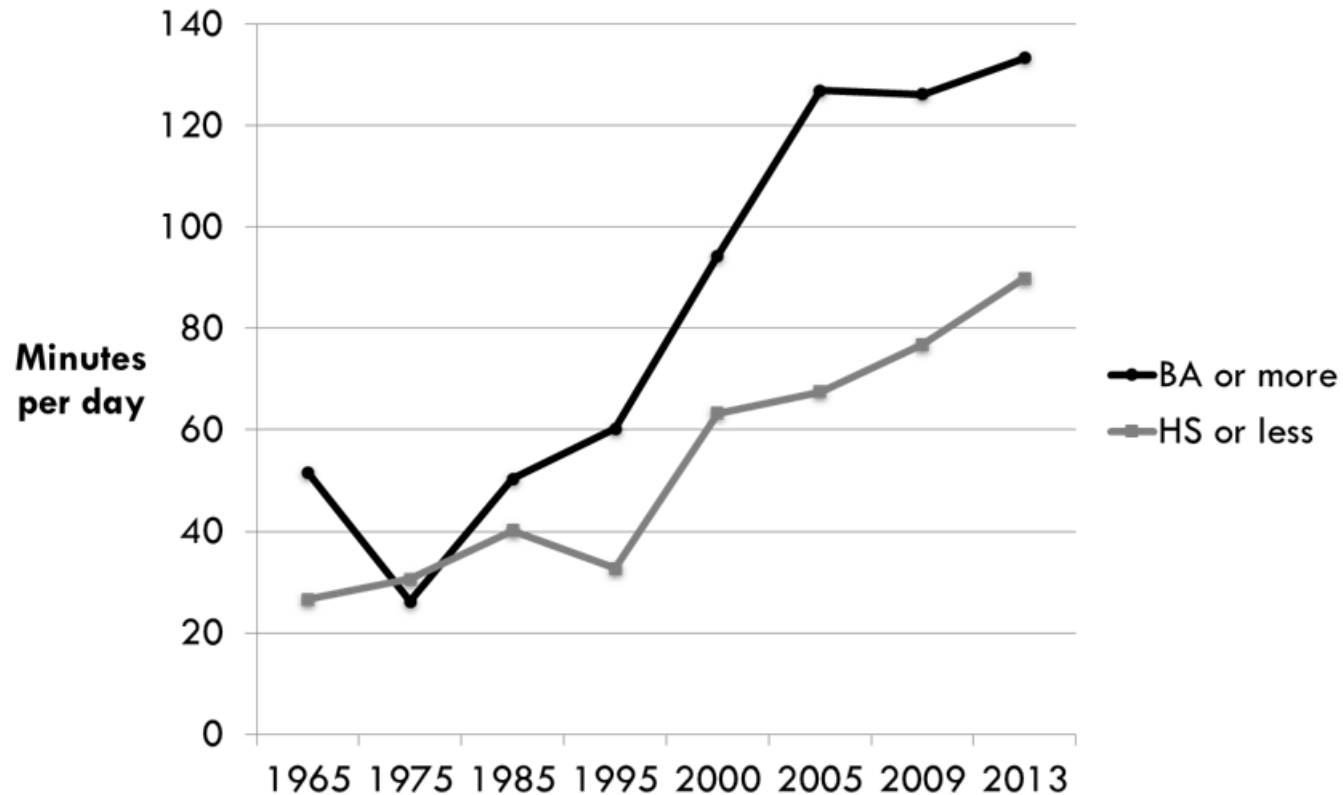
Source: National Academy of Sciences, "The Growing Gap in Life Expectancy by Income Implications for Federal Programs and Policy Responses" (2015).

### Enrichment Expenditures on Children (in \$2008), 1972-2006, Top vs. Bottom Income Quintiles.



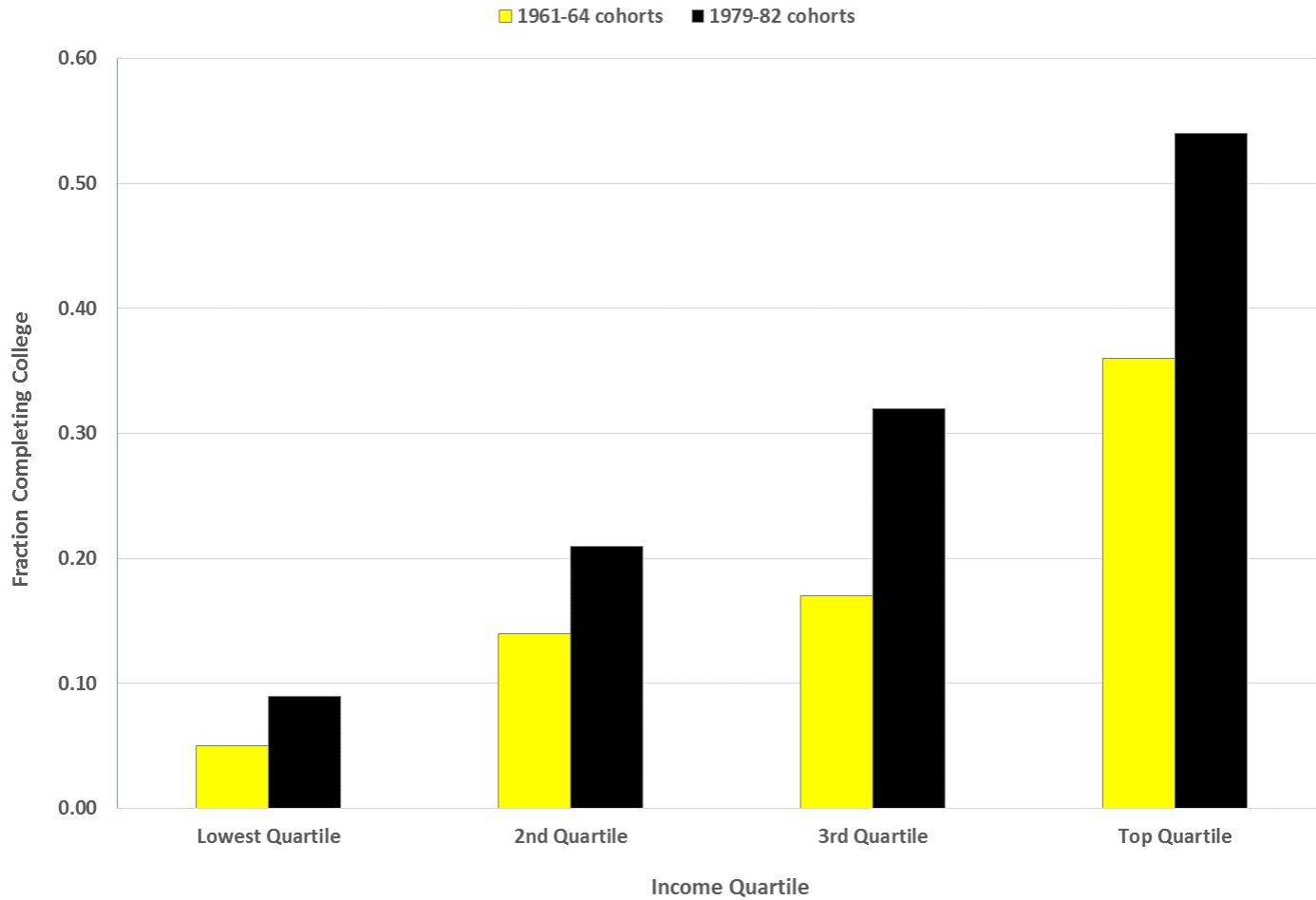


## Time Spent by Both Parents in Developmental Childcare, Children Aged 0-4, 1965-2013



Robert Putman, 2015, *Our Kids*.

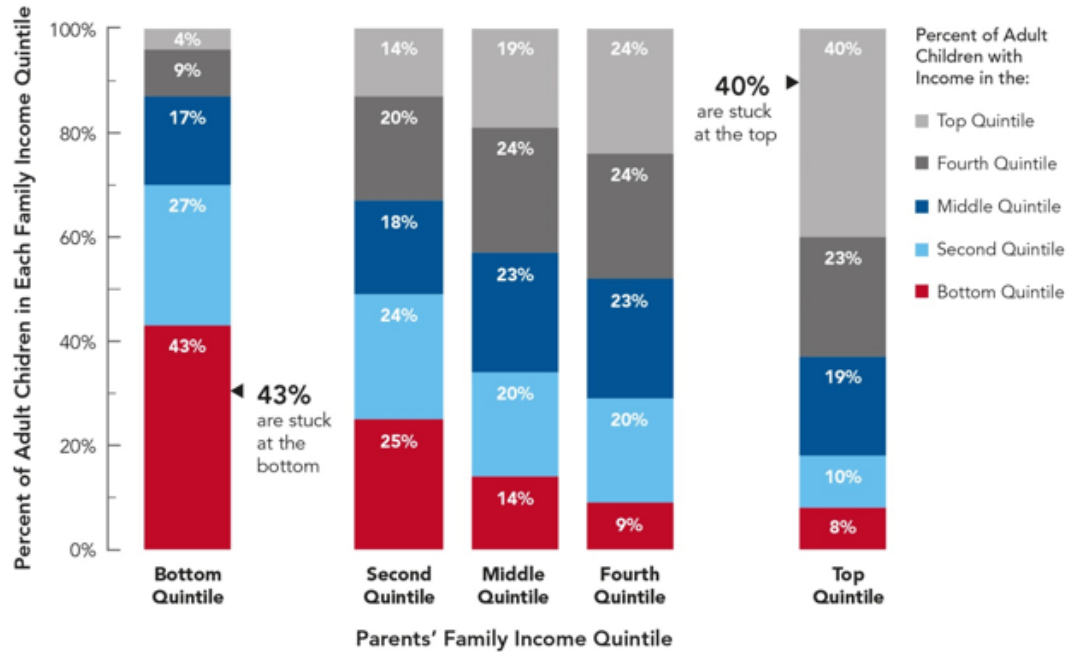
### Fraction of Students Completing College, by Income Quartile and Birth Year



Source: Authors' calculation based on data from National Longitudinal Survey of Youth, 1979 and 1997 (U.S. Bureau of Labor statistics 2010a, 2010b).

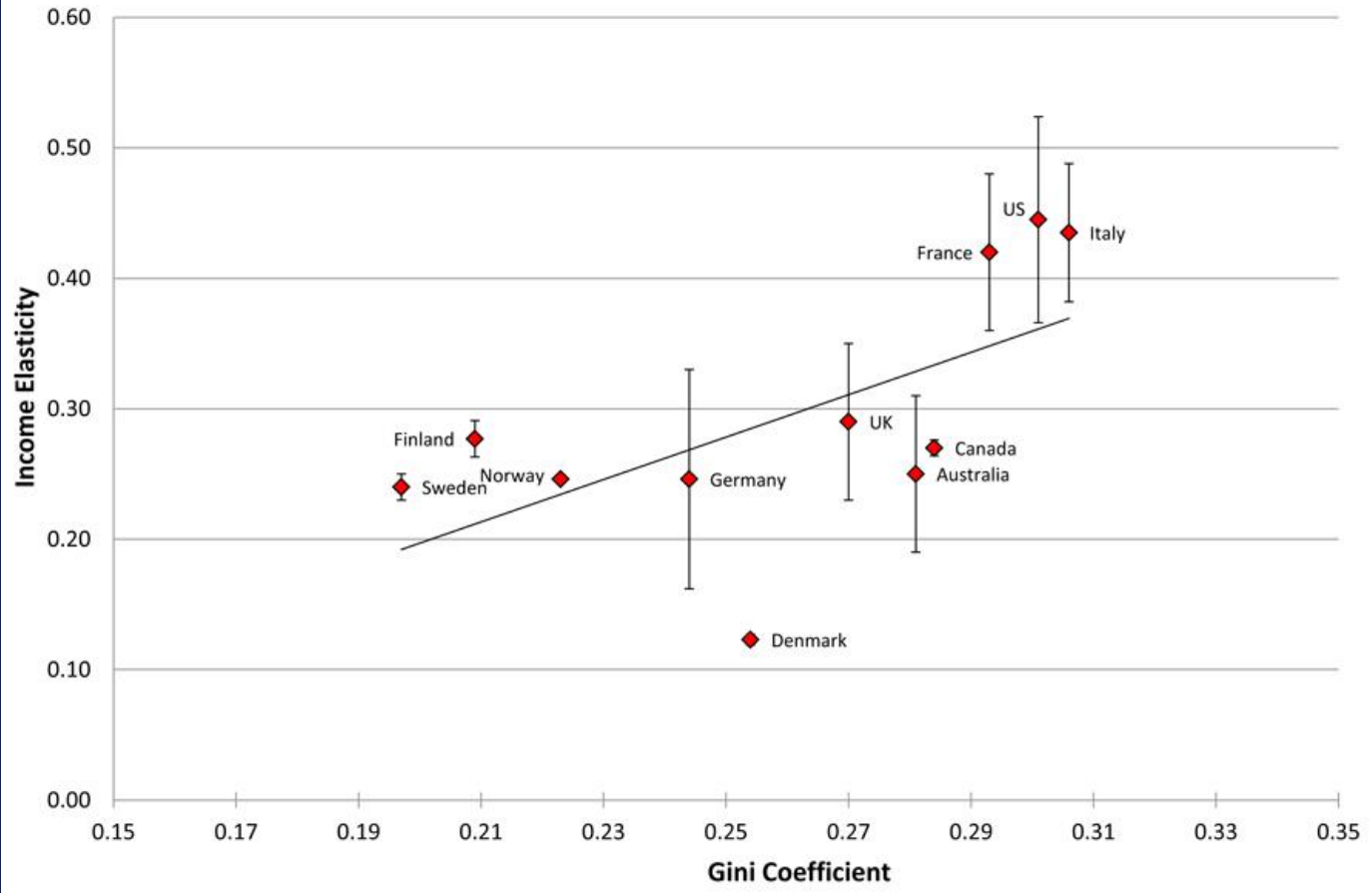
# Income Quintile of Children When They Grow Up Relative to Their Parents' Income Quintile

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



Note: Numbers are adjusted for family size.

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



Ermisch, John, Markus Jantti, and Timothy Smeeding. 2012. *From Parents to Children: The Intergenerational Transmission of Advantage*. New York, NY: Russell Sage [Figure 1, Chapter 1].

## 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*.