

American Society and Public Policy

Fall 2020

Lecture 2

September 9, 2020

What should we care about?

- Wealth Inequality
- Income Inequality
- Poverty
- Economic and Social Mobility
 - Equality of opportunity or result
 - Absolute or relative opportunity
- Inequality and Demographic Characteristics (next week)
 - Race, Ethnicity, Gender, Region, Age

Historical Trends in Income Inequality

- Peak Income Inequality in the 1920s
- Then the Depression Hit 1929-1941
- The Great Compression—1941-1973
- The Great Divergence—1973-2020

1970s as a pivotal decade

- Rise in social equality and rise in economic inequality
 - Social equality, inclusiveness. Extending the civil rights revolution.
 - Rising influence of free market principles in shaping public policy. “Neoliberalism”
- This is also the decade when immigration really started to transform the racial and ethnic composition of the U.S.

Defining Poverty

- What are the different ways we could define poverty?

Defining Poverty

- What are the different ways we could define poverty?
 - Relative- European definition bottom 25%
 - Absolute—below a set amount
 - Subjective—do you feel poor

The Government Definition

- 1964 Definition. Based on 1955 data.
- Families spend $\frac{1}{3}$ income on food.
Thresholds set at 3 times the cost of the cheapest nutritionally sound food plan for a family of four.
- In 1969, the thresholds stay the same, but increases tied to the CPI (Includes goods other than food.)

Poverty Thresholds for 2019 by Size of Family and Number of Related Children Under 18 Years

Size of family unit	Related children under 18 years								
	None	One	Two	Three	Four	Five	Six	Seven	Eight or more
One person (unrelated individual):									
Under age 65.....	13,300								
Aged 65 and older.....	12,261								
Two people:									
Householder under age 65.....	17,120	17,622							
Householder aged 65 and older.....	15,453	17,555							
Three people.....	19,998	20,578	20,598						
Four people.....	26,370	26,801	25,926	26,017					
Five people.....	31,800	32,263	31,275	30,510	30,044				
Six people.....	36,576	36,721	35,965	35,239	34,161	33,522			
Seven people.....	42,085	42,348	41,442	40,811	39,635	38,262	36,757		
Eight people.....	47,069	47,485	46,630	45,881	44,818	43,470	42,066	41,709	
Nine people or more.....	56,621	56,895	56,139	55,503	54,460	53,025	51,727	51,406	49,426

Source: U.S. Census Bureau.

The Government Definition

- 1981. Eliminated the different thresholds for females and males. Eliminated separate farm/non farm thresholds.

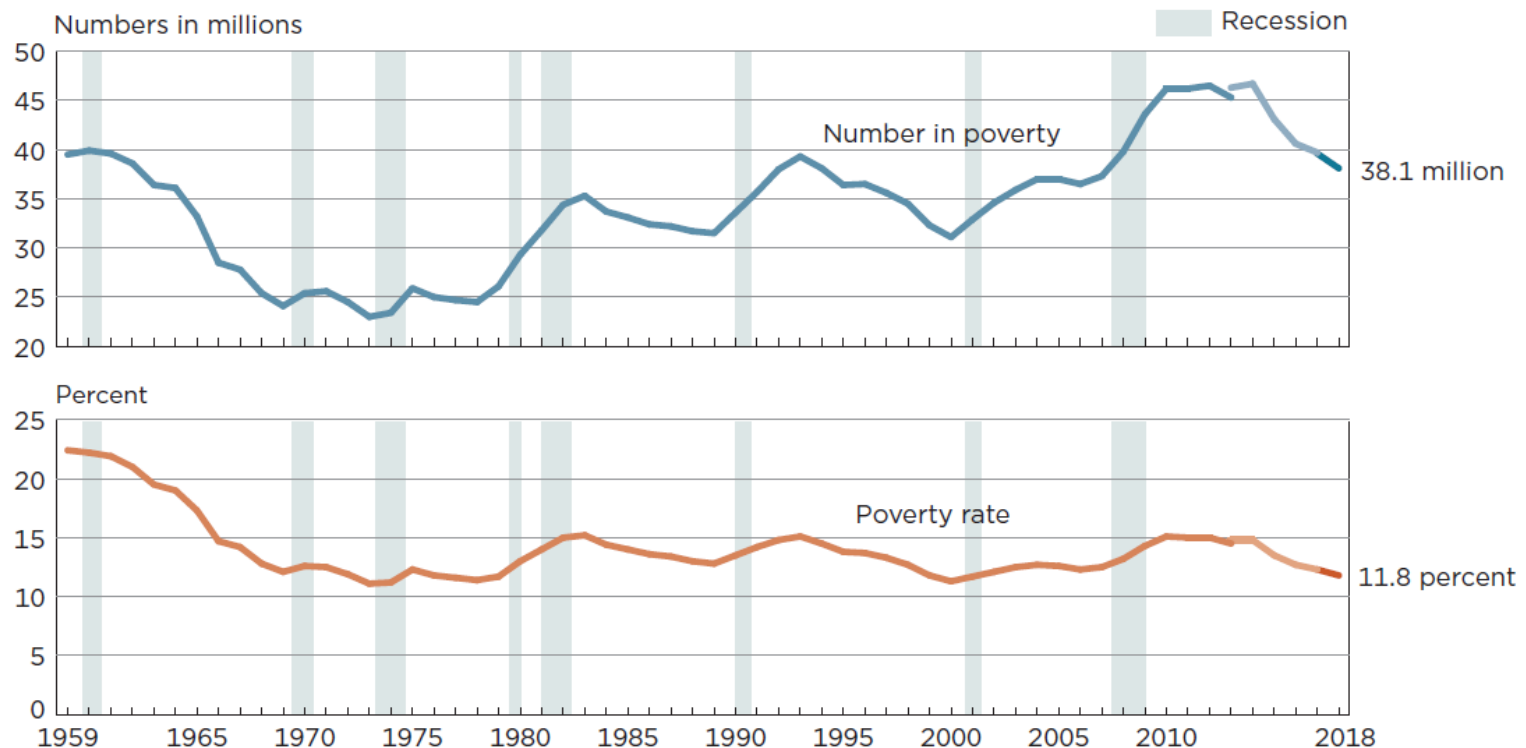
Alternative Definitions

- Medical Costs
- Costs Associated with Working
- After tax, not before tax, income
- Include noncash benefits (food stamps, housing subsidies)
- Take into account costs of clothing, shelter and utilities.
- Geographic variation.

Poverty

- Late 1950' s 22% of Americans were poor.
- 1973 Lowest rate 11.1% 23 million people
- 2002 Poverty Rate 12.1%, 34.6 million people.
- Poverty rose every year from 2000-2005, stable in 2005 and 2006 at 12.7% (37 million people).
- 2008 Recession rose to 15% and stayed there.

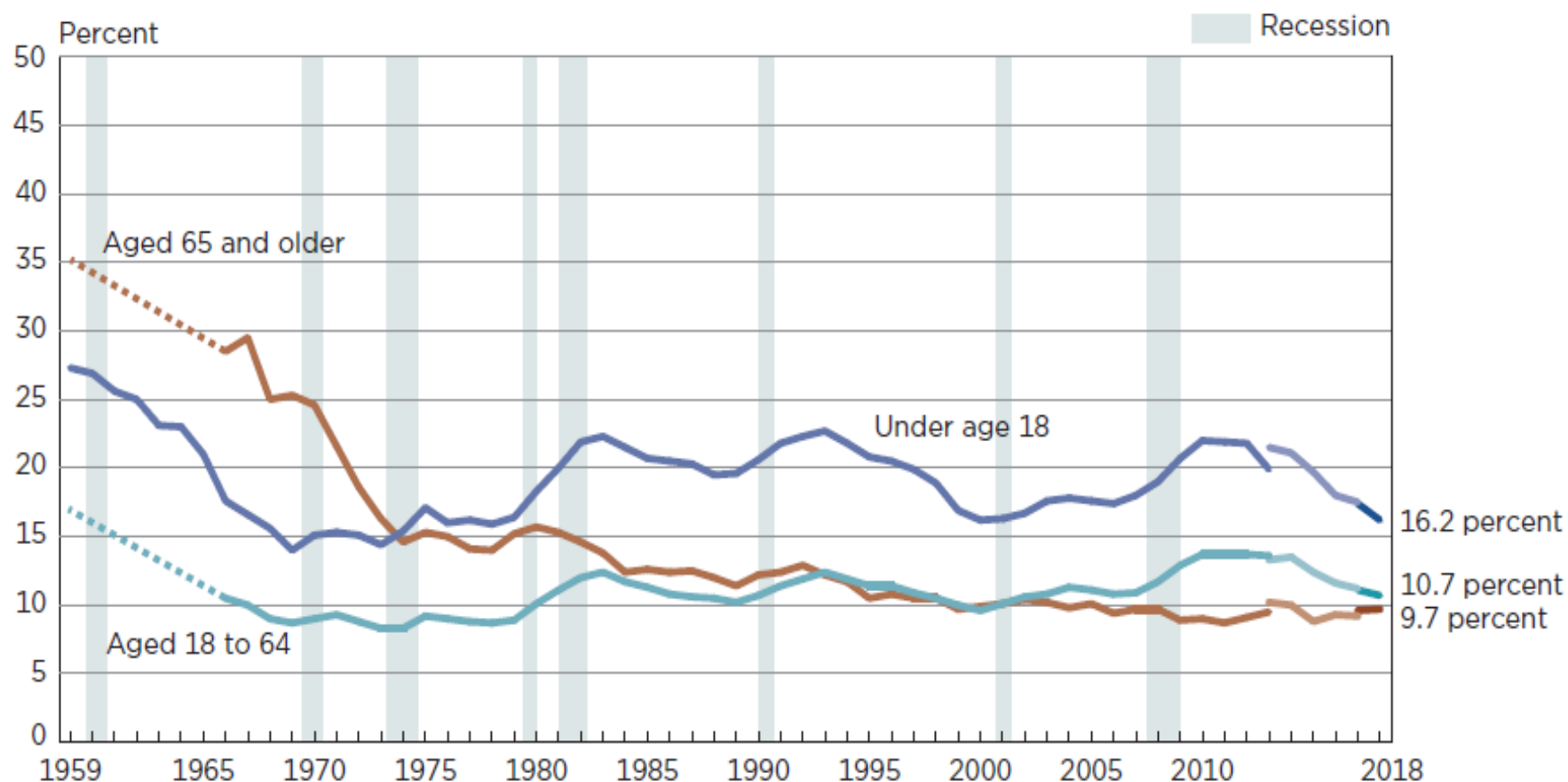
Figure 7.
Number in Poverty and Poverty Rate: 1959 to 2018



Note: The data for 2017 and beyond reflect the implementation of an updated processing system. See Appendix D for more information. The data for 2013 and beyond reflect the implementation of the redesigned income questions. The data points are placed at the midpoints of the respective years. For information on recessions, see Appendix A. For information on confidentiality protection, sampling error, nonsampling error, and definitions, see <<https://www2.census.gov/programs-surveys/cps/techdocs/cpsmar19.pdf>>.

Source: U.S. Census Bureau, Current Population Survey, 1960 to 2019 Annual Social and Economic Supplements.

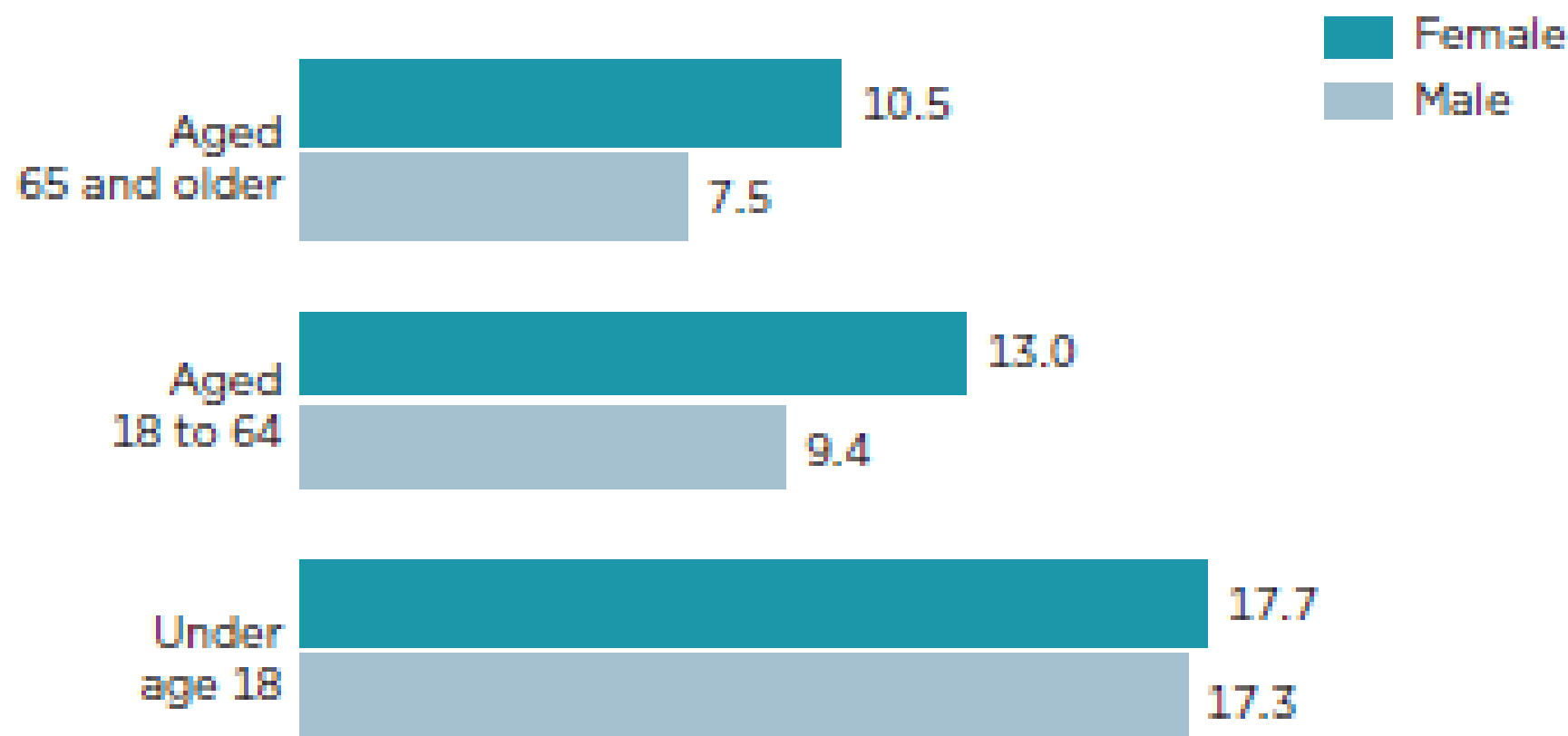
Figure 11.
Poverty Rates by Age: 1959 to 2018



Note: The data for 2017 and beyond reflect the implementation of an updated processing system. See Appendix D for more information. The data for 2013 and beyond reflect the implementation of the redesigned income questions. The data points are placed at the midpoints of the respective years. Data for people aged 18 to 64 and aged 65 and older are not available from 1960 to 1965. For information on recessions, see Appendix A. For information on confidentiality protection, sampling error, nonsampling error, and definitions, see <<https://www2.census.gov/programs-surveys/cps/techdocs/cpsmar19.pdf>>.

Source: U.S. Census Bureau, Current Population Survey, 1960 to 2019 Annual Social and Economic Supplements.

Figure 5.
Poverty Rates by Age and Sex: 2017
(In percent)



Note: For information on confidentiality protection, sampling error, nonsampling error, and definitions, see <www2.census.gov/programs-surveys/cps/techdocs/cpsmar18.pdf>.
Source: U.S. Census Bureau, Current Population Survey, 2018 Annual Social and Economic Supplement.

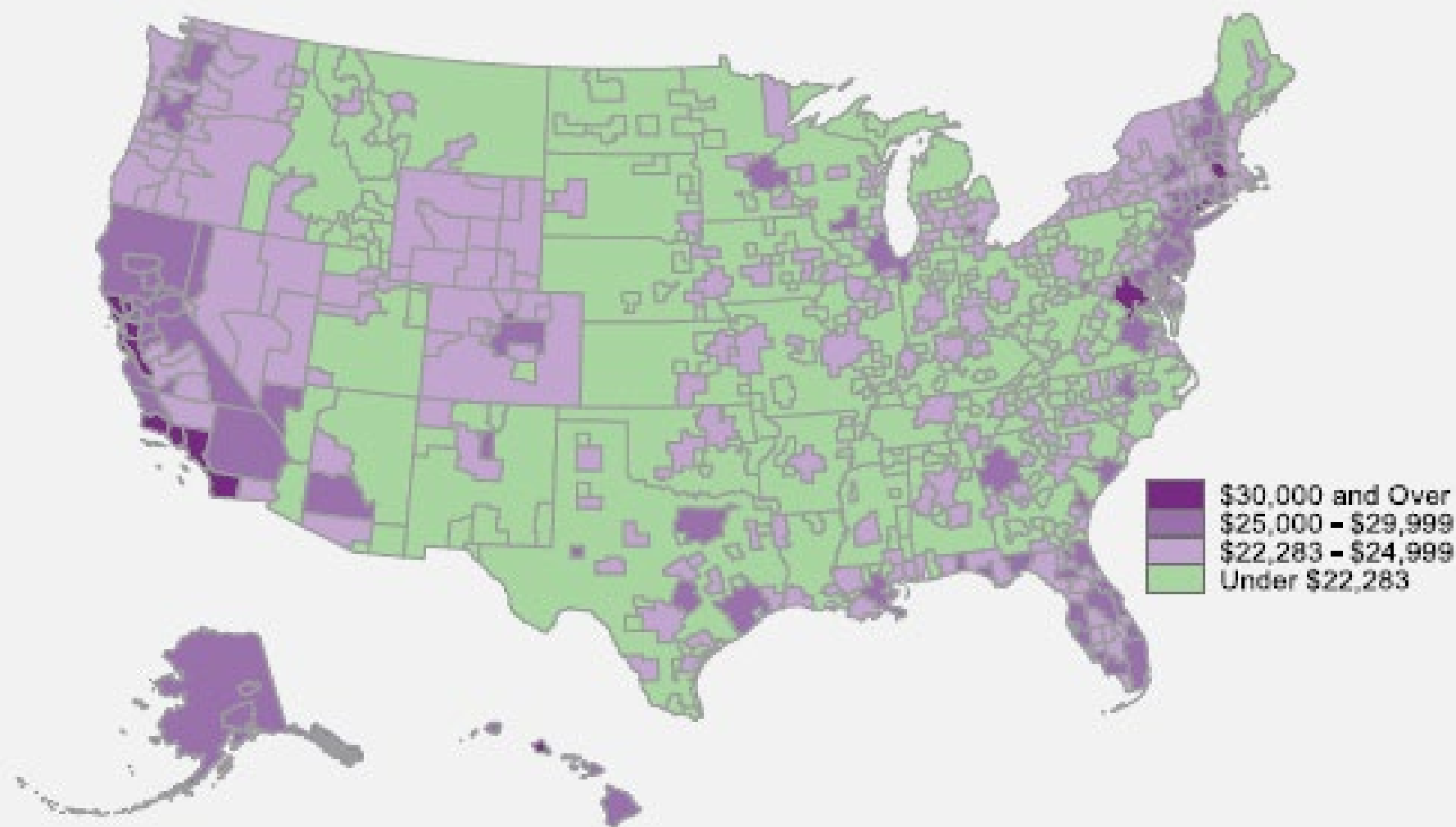
Supplemental Poverty Measure

- When the original poverty measure was calculated, the average family spent $\frac{1}{3}$ of its annual budget on food.
- Now, it is $\frac{1}{7}$ as the cost of food has gone down, and the cost of housing, child care and health care have risen.

Supplemental Poverty Measure

- Expenses: FSCU (food, shelter, clothing, utilities).
- Based on expenditures of families with 2 children (including 2 parents and 1 parent families) who are at the 33 percentile of the distribution of spending households.
- Include in kind benefits—shelter, food.
- Adjust for price differences across geographic areas.

2012 SPM Poverty Thresholds for Renters (Two Adults and Two Children)



Sources: Geographic adjustments based on housing costs from the American Community Survey 2007-2011.
Base thresholds are from the Bureau of Labor Statistics <www.bls.gov/pir/spm/spm_thresholds_2012.htm>.

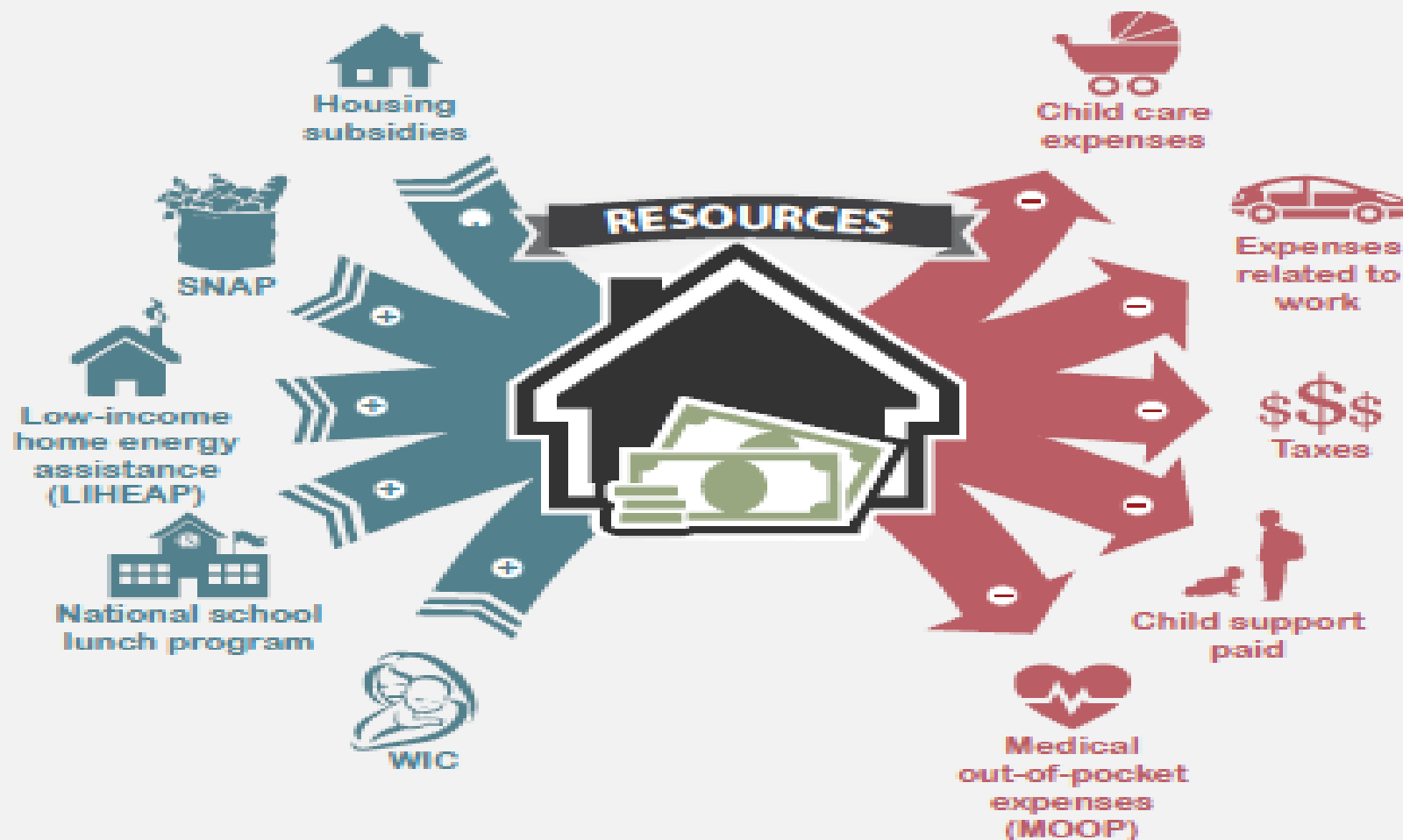
The SPM starts with cash income, then...

ADDING BENEFITS

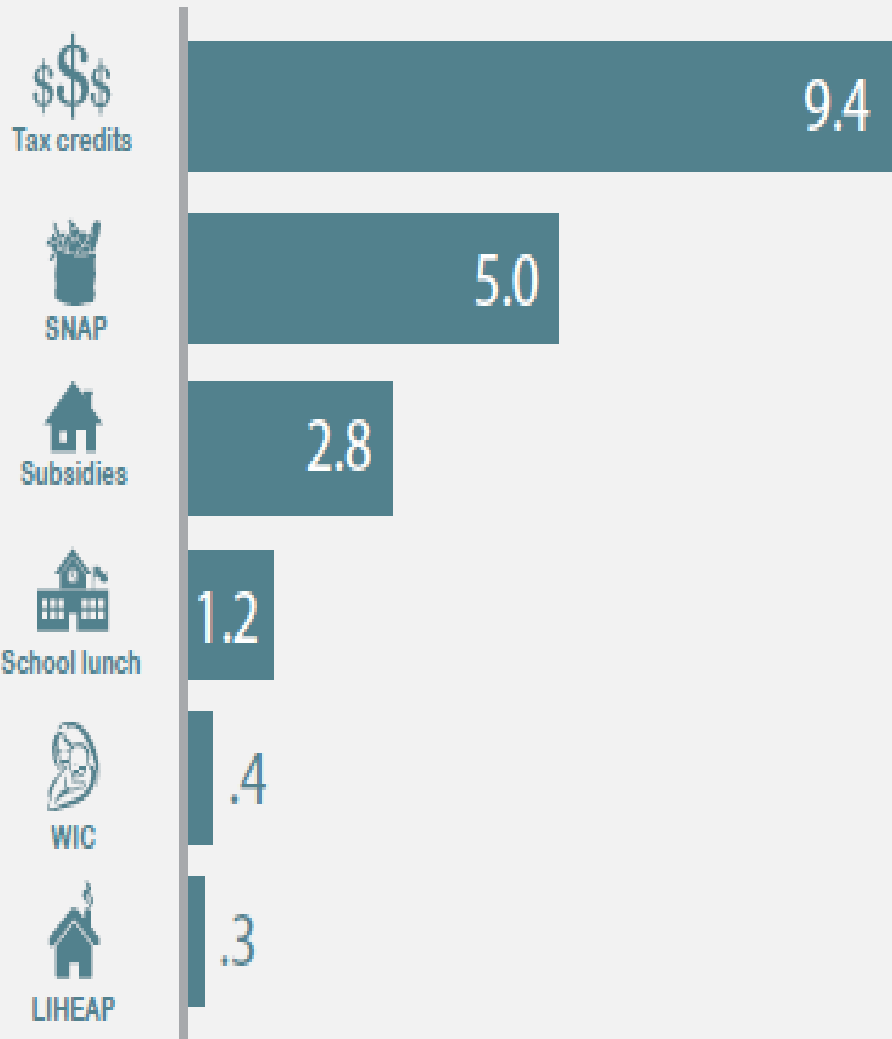
The SPM adds benefits from the government that are not cash but help families meet their basic needs.

SUBTRACTING EXPENSES

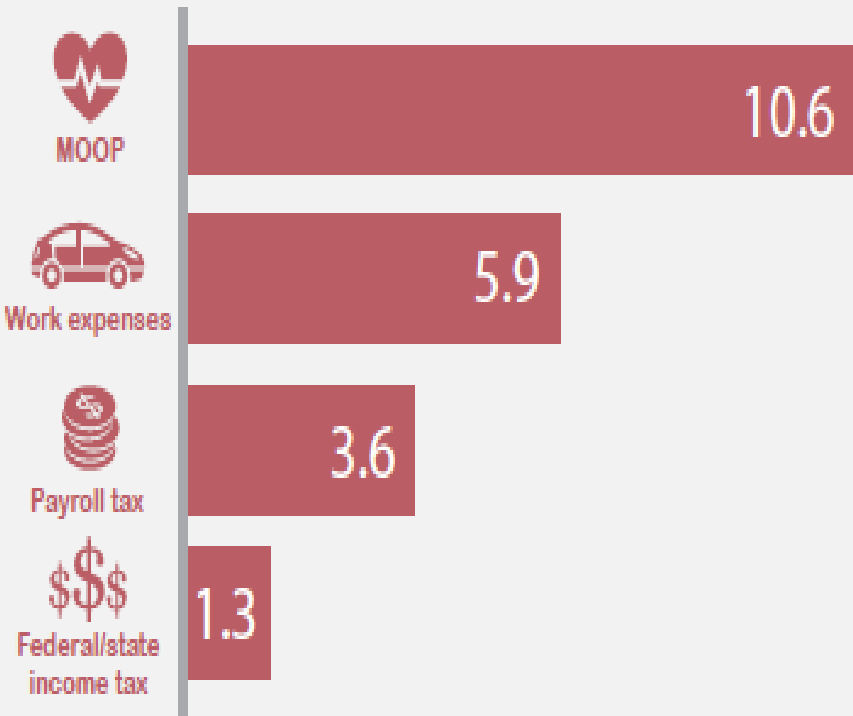
The SPM subtracts necessary expenses like taxes, health care, commuting costs for all workers, and child care expenses while parents work.



Keeping Millions of People Out of Poverty



Pushing Millions of People Into Poverty



Source: Current Population Survey, 2013 Annual Social and Economic Supplement.

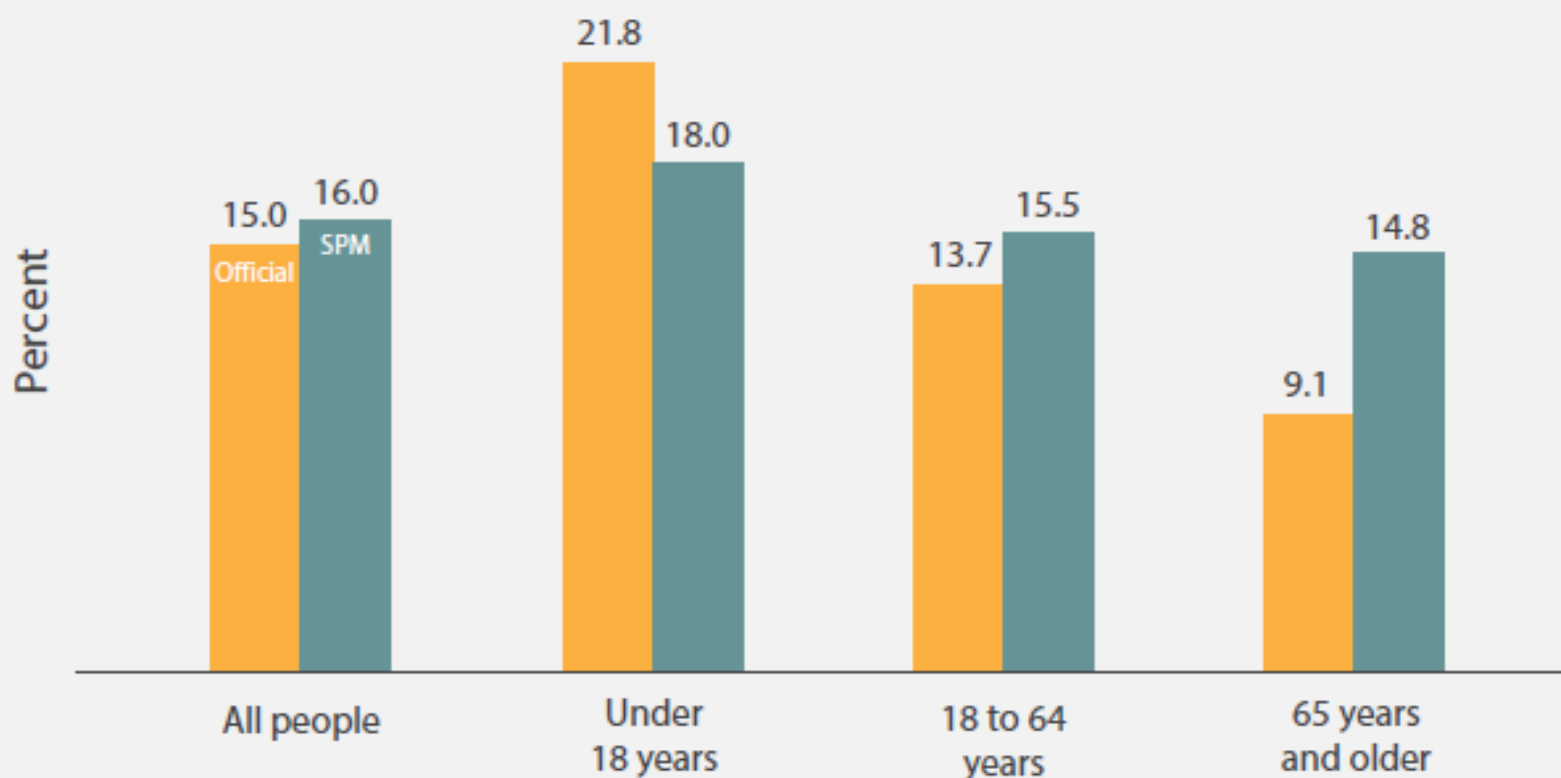
Which measure will find more
poverty?

The Supplemental Measure



There is now a second measure of poverty called the **Supplemental Poverty Measure (SPM)**. Every year since 2010, the Census Bureau has released a report describing the SPM. The SPM extends the official poverty measure by taking account of government benefits and necessary expenses like taxes that are not in the official measure. In 2012, the SPM rate was slightly higher than the official rate, identifying 49.7 million people as poor. This was 16 percent of the population.

2012 Poverty Rates by Age Group



Which Statistics to Use?

- Household vs. Family Income
 - Census defines a family as a group of two or more persons related by birth, marriage or adoption and residing together.
 - Families have higher incomes. Households have greater inequality in income because of the variety of types of households. Rise in non family households. Elderly and people living alone or with non relatives.

Which Statistics to Use?

- Wage Data or Benefits
 - For those who get benefits, they have become a greater part of their overall compensation package.
 - The fraction of working men who get benefits has been falling.

Which Statistics to Use?

- Mean or Median?
 - Who earns more, graduates of Harvard College or those who drop out without a degree?
- Pre Tax or Post Tax Income?
 - Post tax income is more equal.
- Starting Dates Matter. 1973 or 1968?

Inequality and Mobility

- Inequality=contemporary difference in wages, income and wealth at some point in time.
- Mobility=difference from one generation to the next in these and other standards of living.
- Perfect mobility=correlation between starting point and ending point is zero. Equality of opportunity.

Types of Mobility

- Absolute Mobility
 - How does your income compare to your parents at the same age?
 - Are you doing better or worse than your parents?
- Relative Mobility
 - Individuals fall or rise relative to one another. How do you rank in the American income distribution? How do your children rank?

A Historical Perspective on the American Dream

- Historically, American Dream has been defined as aspiration that children should have higher standards of living than their parents
 - When asked to assess economic progress, children frequently compare their earnings to their parents [Goldthorpe 1987]
 - Obama (2014): “People’s frustrations are partly rooted “in the fear that their kids won’t be better off than they were”
- What fraction of children earn more than their parents, and how has this changed over time?

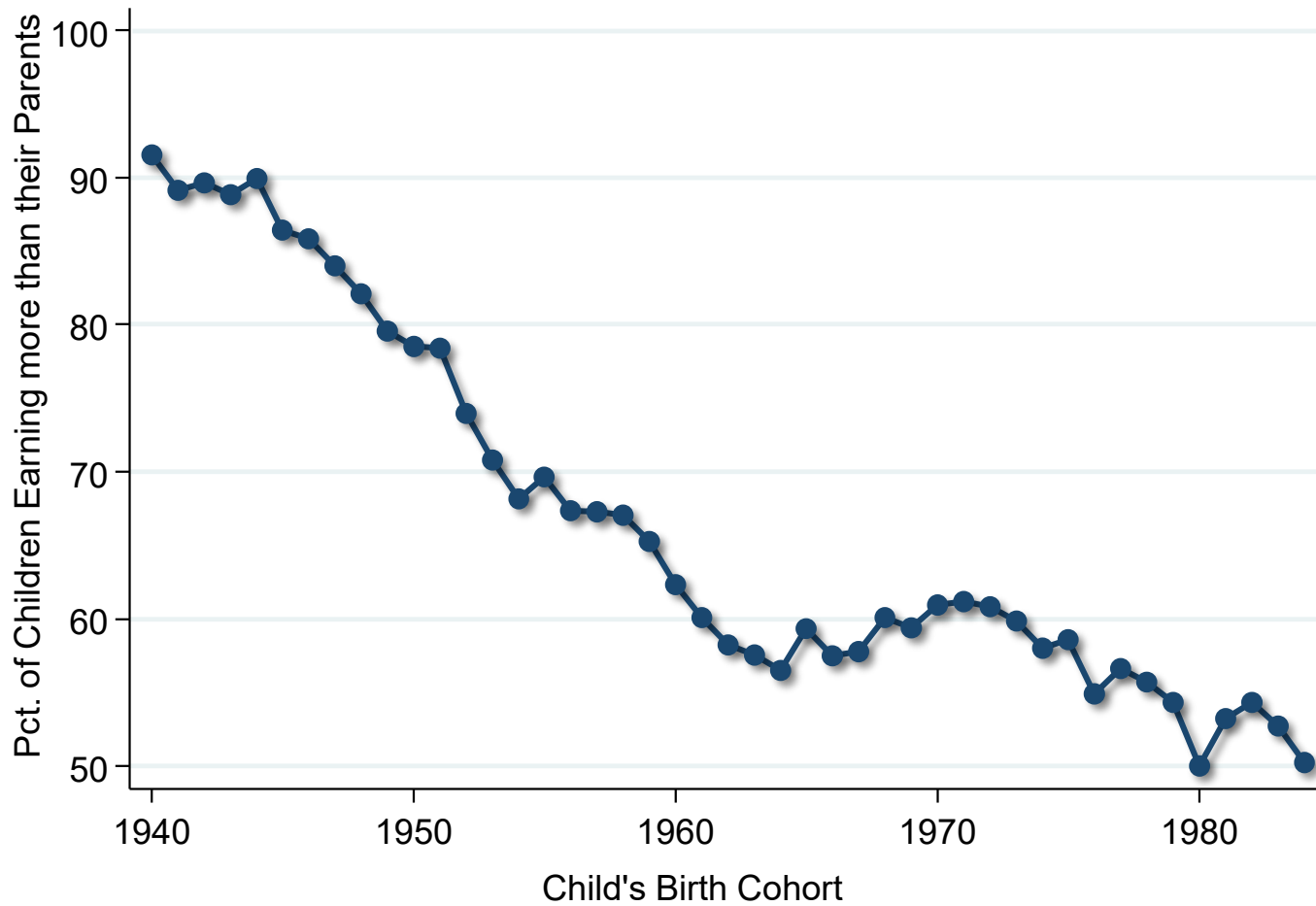
Reference: Chetty, Grusky, Hell, Hendren, Manduca, Narang. “The Fading American Dream: Trends in Absolute Income Mobility Since 1940.” *Science* 2017.

The American Dream

- Rates of absolute upward mobility have fallen from ~90% for 1940 birth cohort to ~50% for children entering labor market today
- Rates of relative upward mobility are flat, and have never been high, and are lower than most other developed countries.
- Belief in the American dream?

Absolute Mobility is declining

Percent of Children Earning More than Their Parents, by Birth Cohort



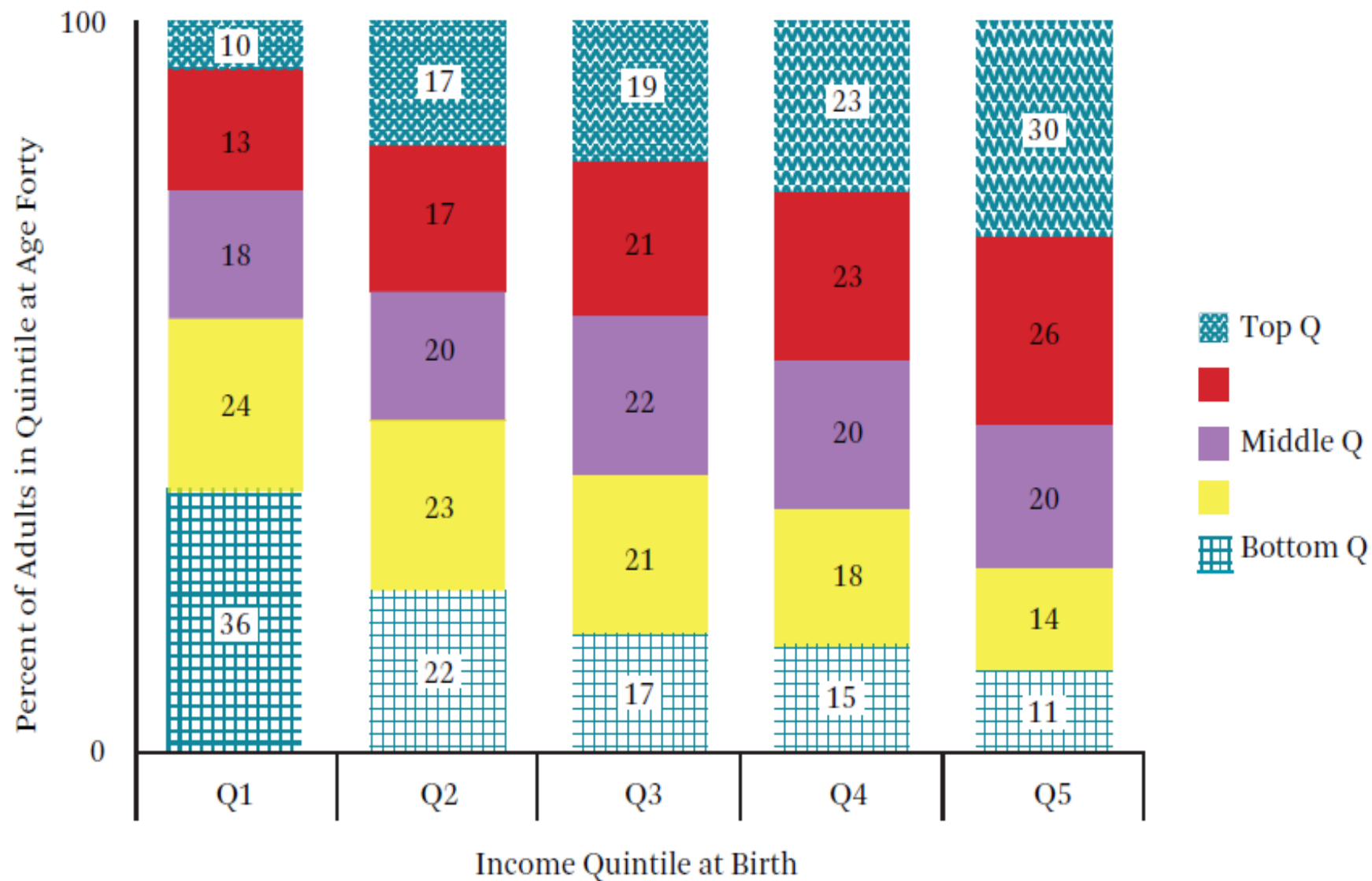
Relative Mobility

- Sticky at the top and the bottom.
- Lower in the U.S. than every other advanced country.
- Harder for African Americans to have social mobility than for whites.
- Recent work by Raj Chetty and colleagues shows it varies a great deal by location.

Relative Mobility

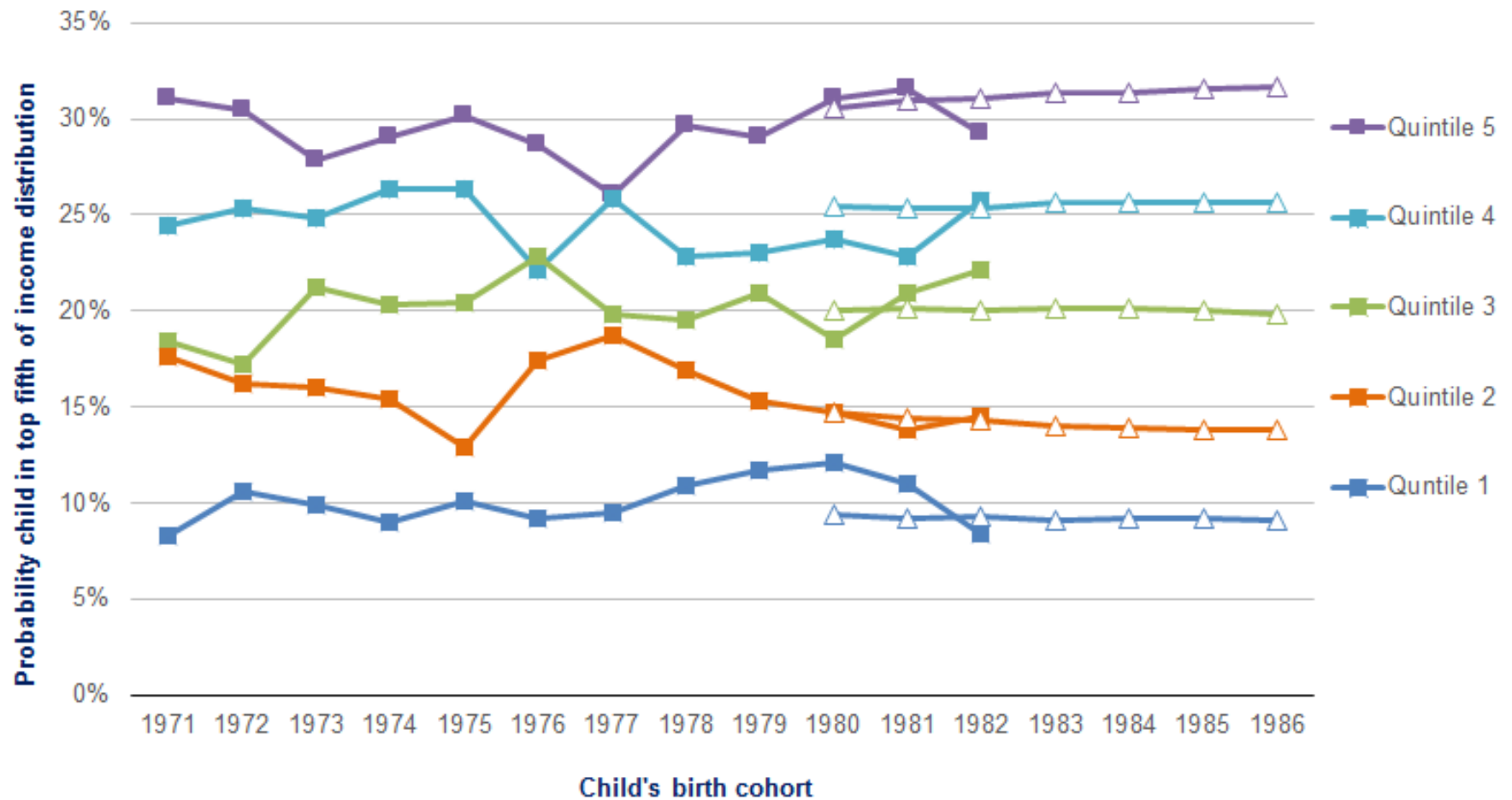
- Divide parents generation into quintiles.
- Divide childrens generation into quintiles
- If your parents income does not affect a child's income, then a child should end up in any of the quintiles regardless of parents income.
- So, of all the children who grow up in the bottom 20%, a fifth of them should end up in the bottom, the top, and everywhere in between.

Figure 2. Social Mobility Matrix, United States Overall



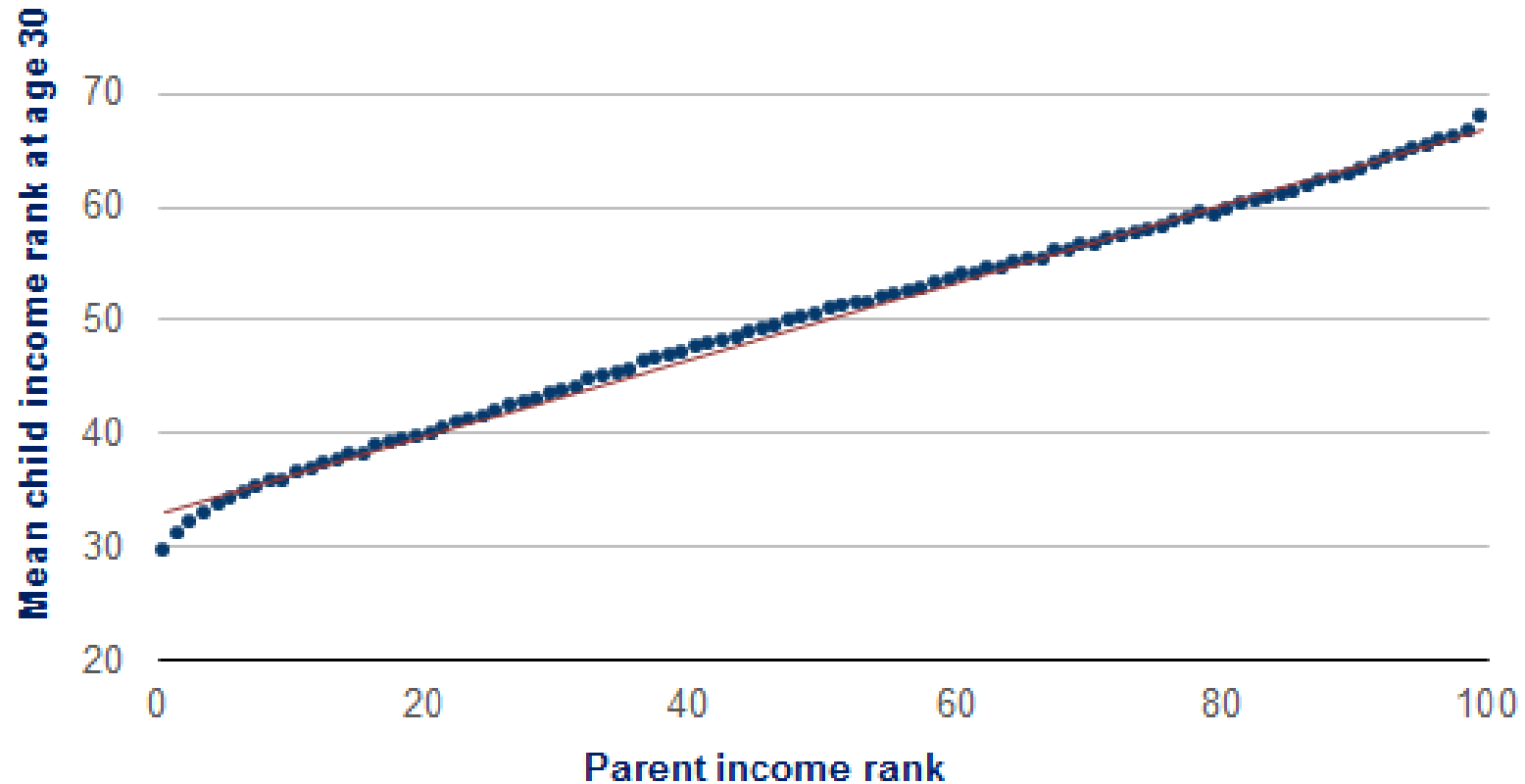
Source: Reeves 2014.

Relative mobility rates are flat



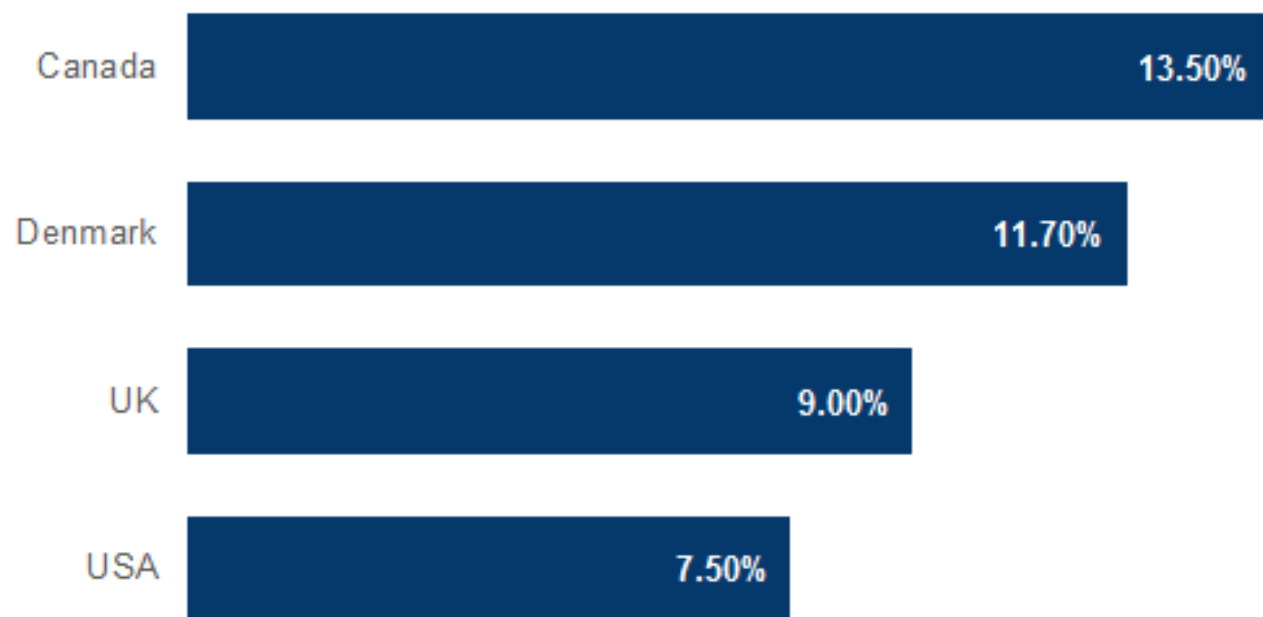
Source: Chetty et al., "Is the United States still the land of opportunity? Recent trends in intergenerational mobility," Figure 3; Series in squares use SOI sample for 1971-1982 cohorts, while triangles use population-based sample for 1980-1986 cohorts; Quintiles refer to parental quintile

The inheritance of income status



Source: Chetty et al., "Where is the land of opportunity? The geography of intergenerational mobility in the United States," Figure IIa: Association between children's and parent's percentile rank

Relative mobility is almost twice as high in Canada

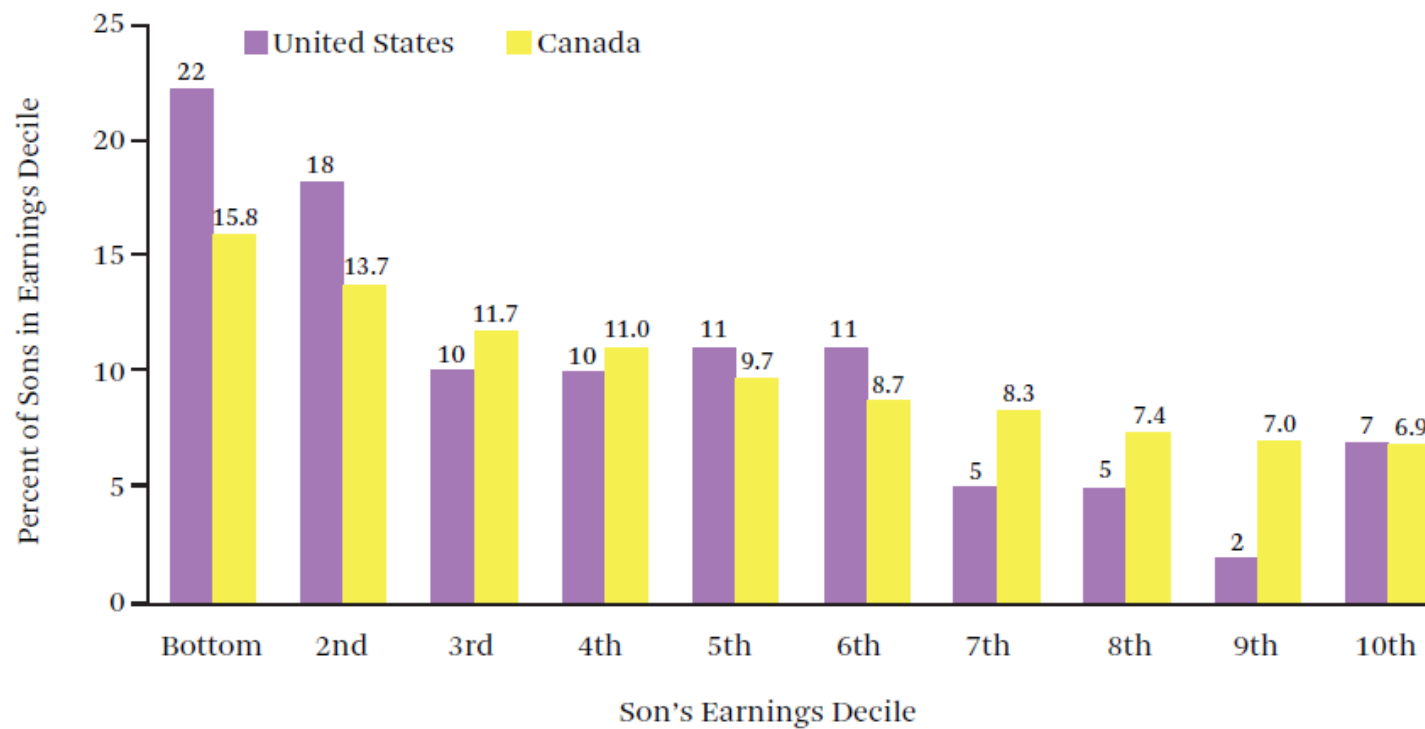


■ Probability that a child born to parents in the bottom fifth of the income distribution reaches the top fifth

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, Kopczuk, and Kreiner, "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)

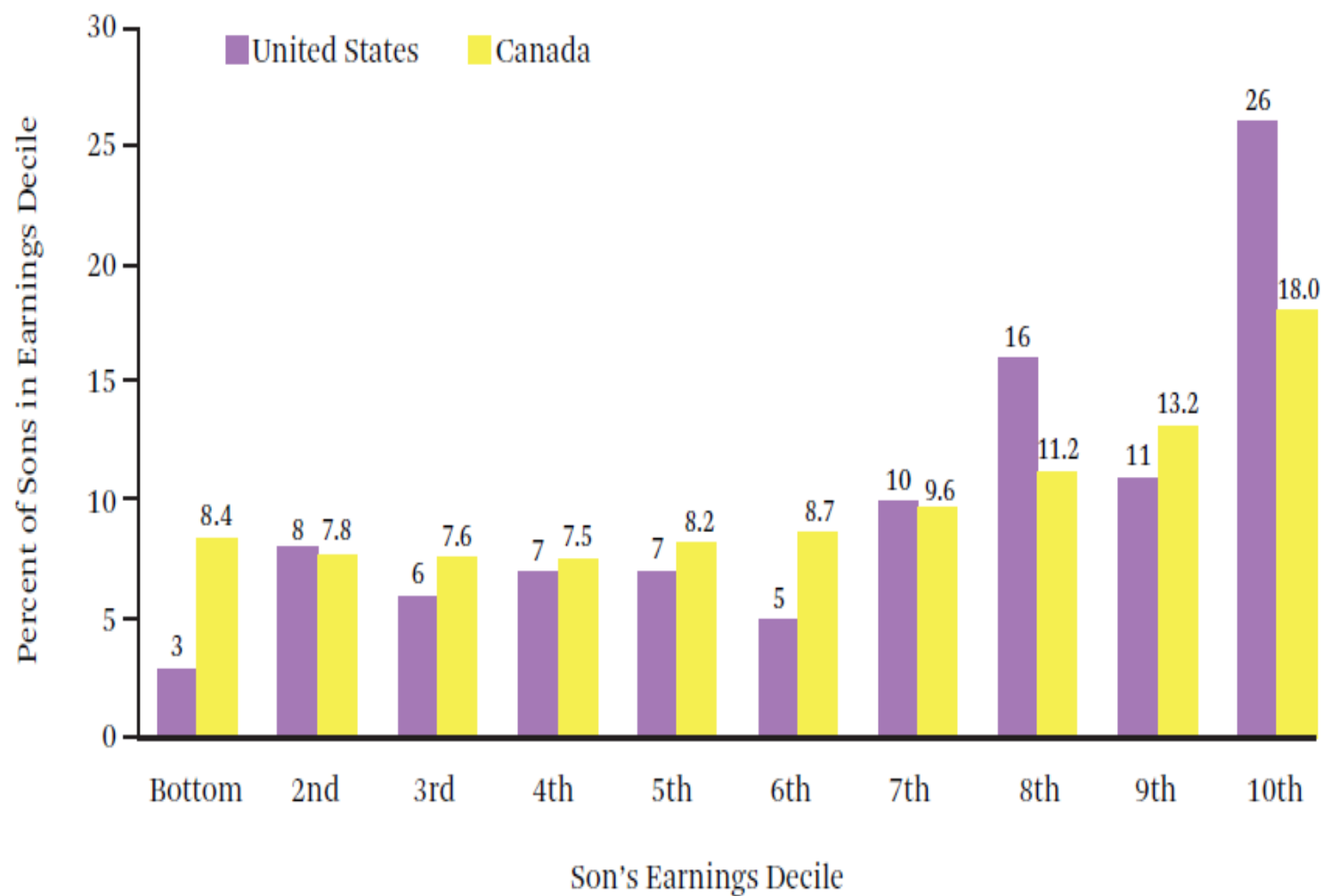
BROOKINGS

Figure 4. Earnings Decile of Sons born to Bottom-Decile Fathers



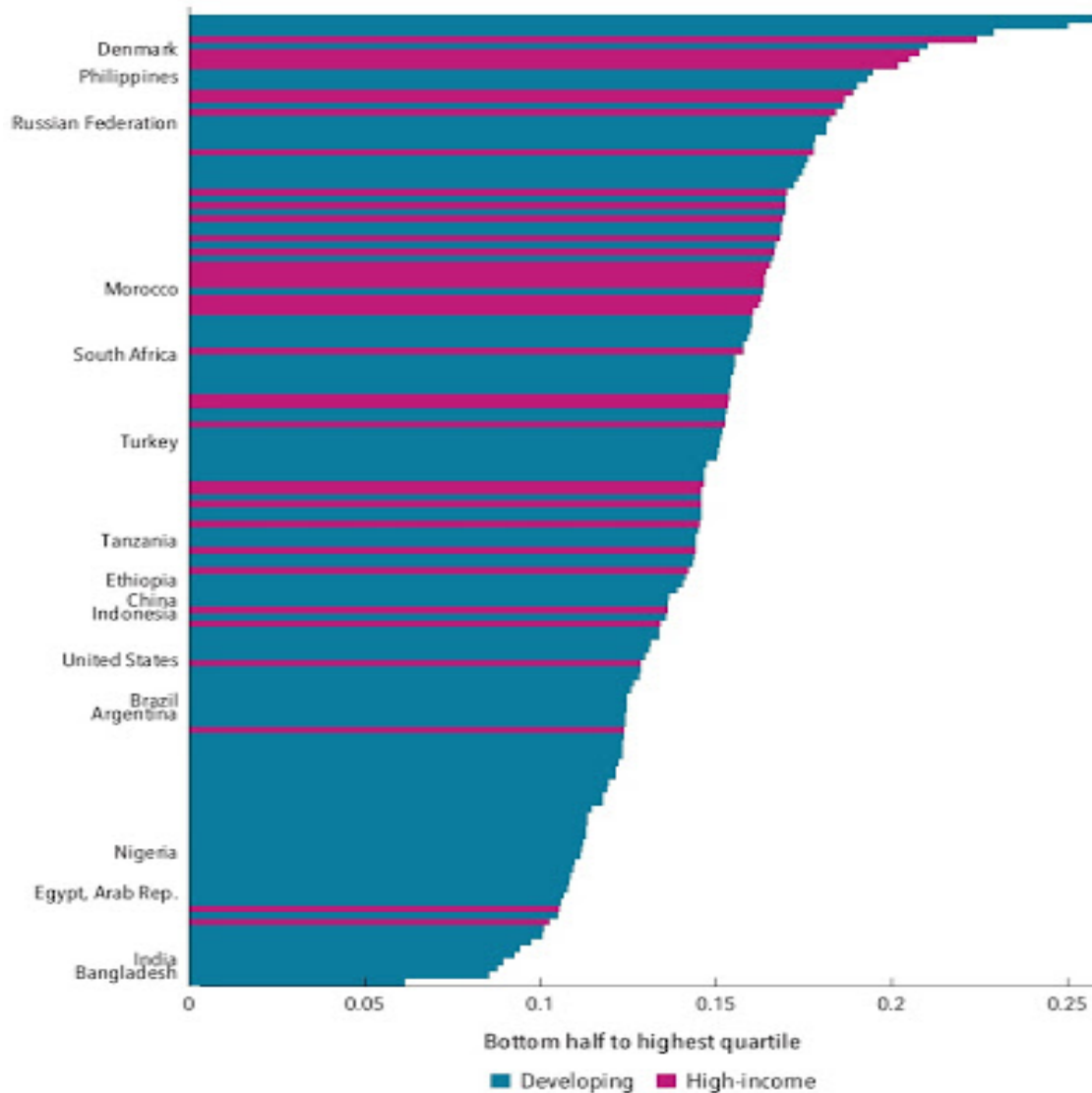
Source: Corak 2010.

Figure 3. Earnings Decile of Sons Born to Top-Decile Fathers



Source: Corak 2010.

FIGURE 3.6 Share of individuals in the 1980s cohort who are born into the bottom half and who have reached the top quartile



Source: Calculations based on data in the GDIM 2018.

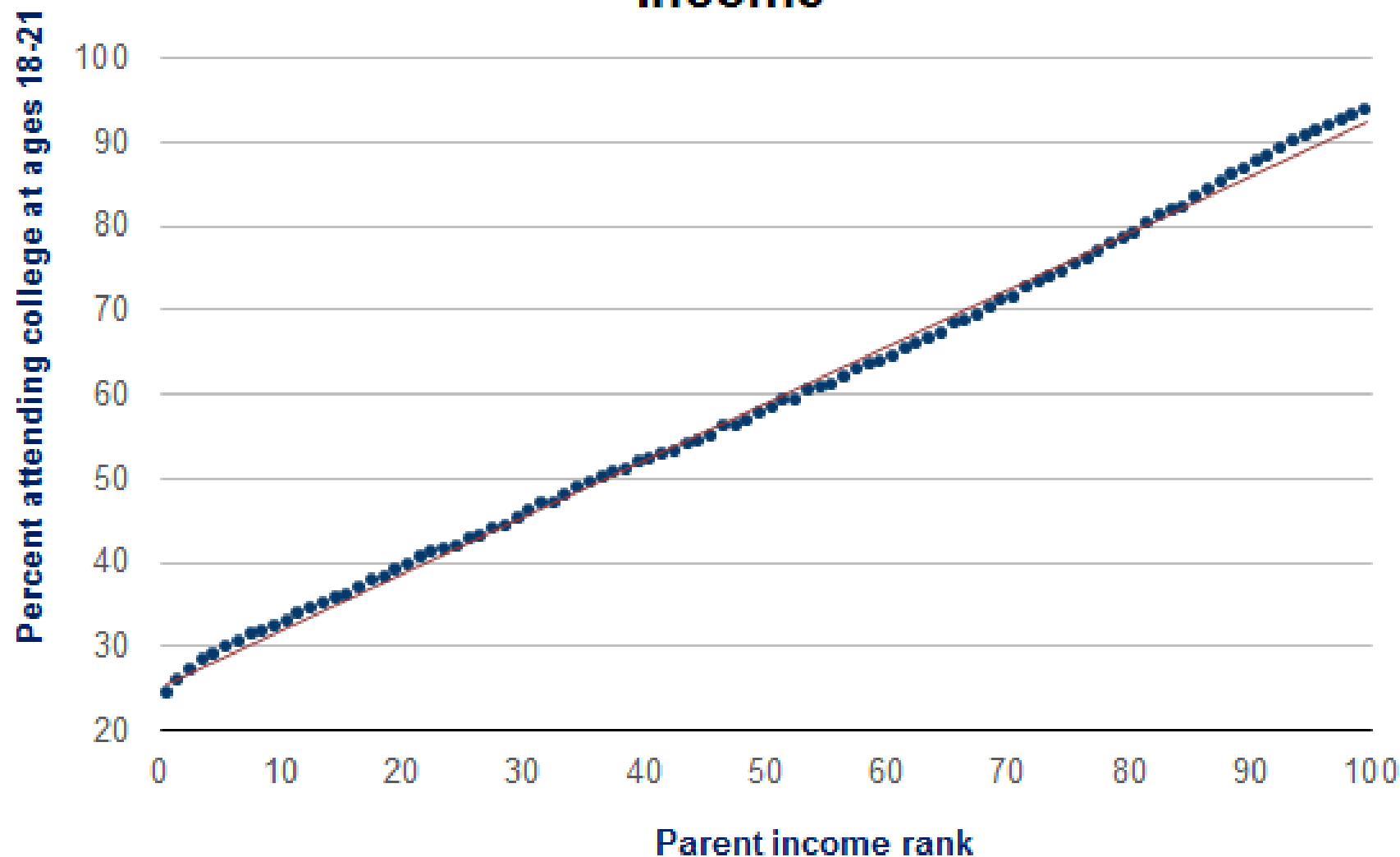
Note: 1980s cohort only. 146 economies; for illustrative purposes, only a few are named.

Source: <https://conversableeconomist.blogspot.com/2018/06/us-intergenerational-mobility.html>

Social Mobility

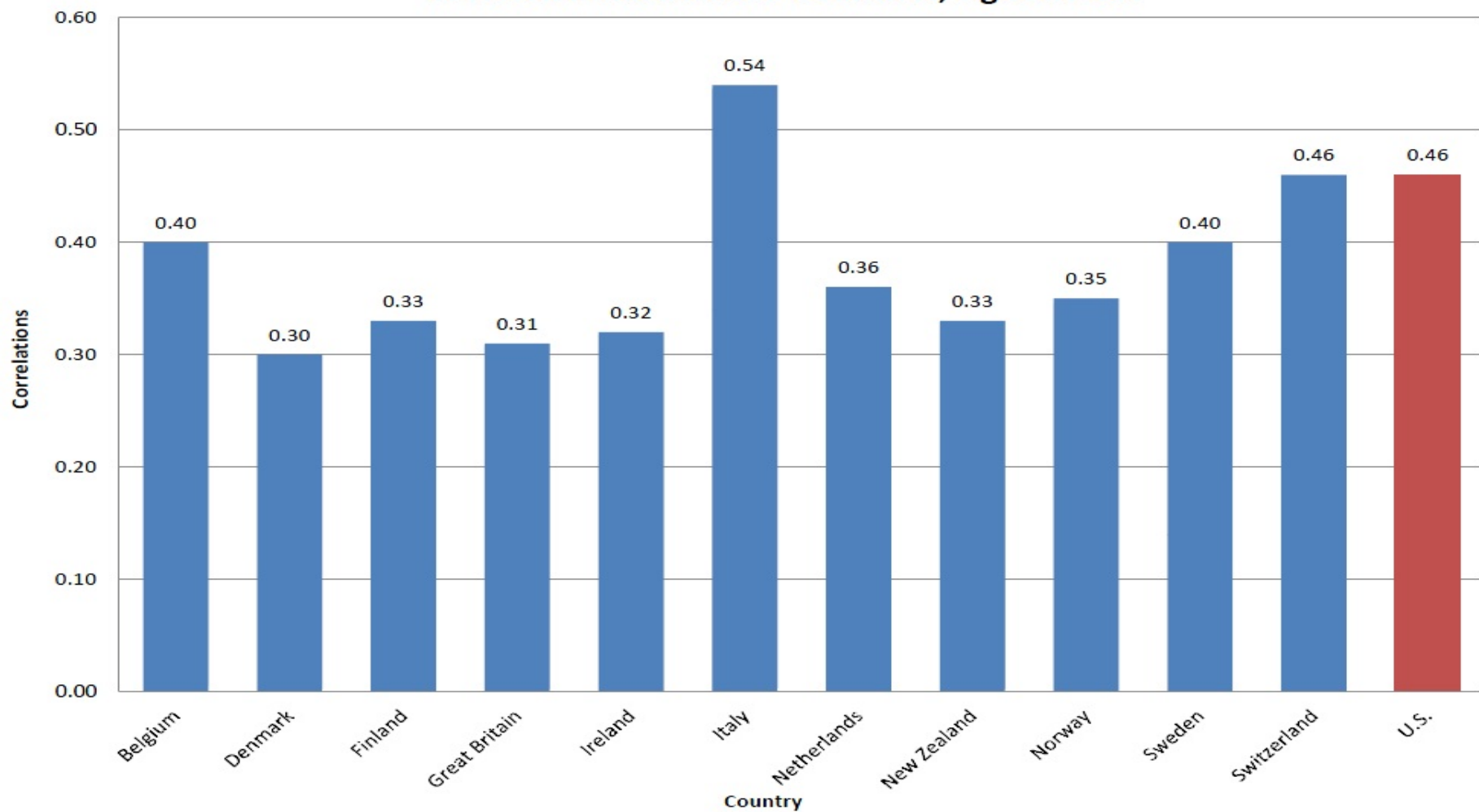
- Does income inequality lead to lower social mobility?
- Higher income inequality is correlated with lower social mobility if you compare countries.
- There is a very high correlation between parents' income and childrens' college attendance.

Headed to college? Depends on family income



Source: Chetty et al., "Where is the land of opportunity? The geography of intergenerational mobility in the U.S."

Educational Persistence: Average Parent-Child Schooling Correlation, Select Western Industrialized Countries, Ages 20-69.

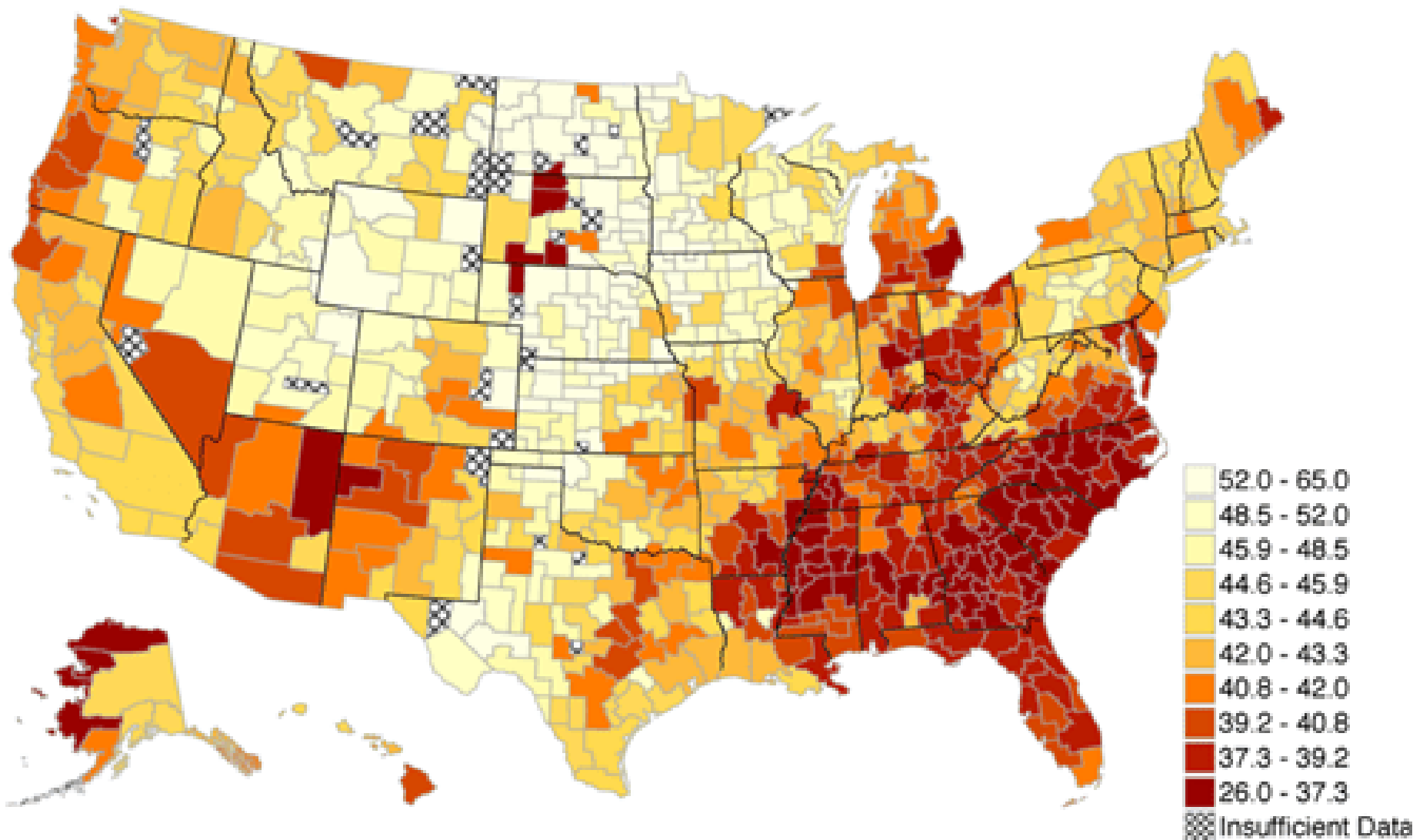


How does income affect opportunity?

- Children of the rich and the poor grow up with different investments in their future
- They increasingly also grow up in very different family types.
- They grow up in very different neighborhoods.
- Inequalities in early childhood affect people all their lives.

The Geography of Upward Mobility in the United States

Mean Child Percentile Rank for Parents at 25th Percentile (Y_{25})



Note: Lighter Color = More Absolute Upward Mobility

MTO Study

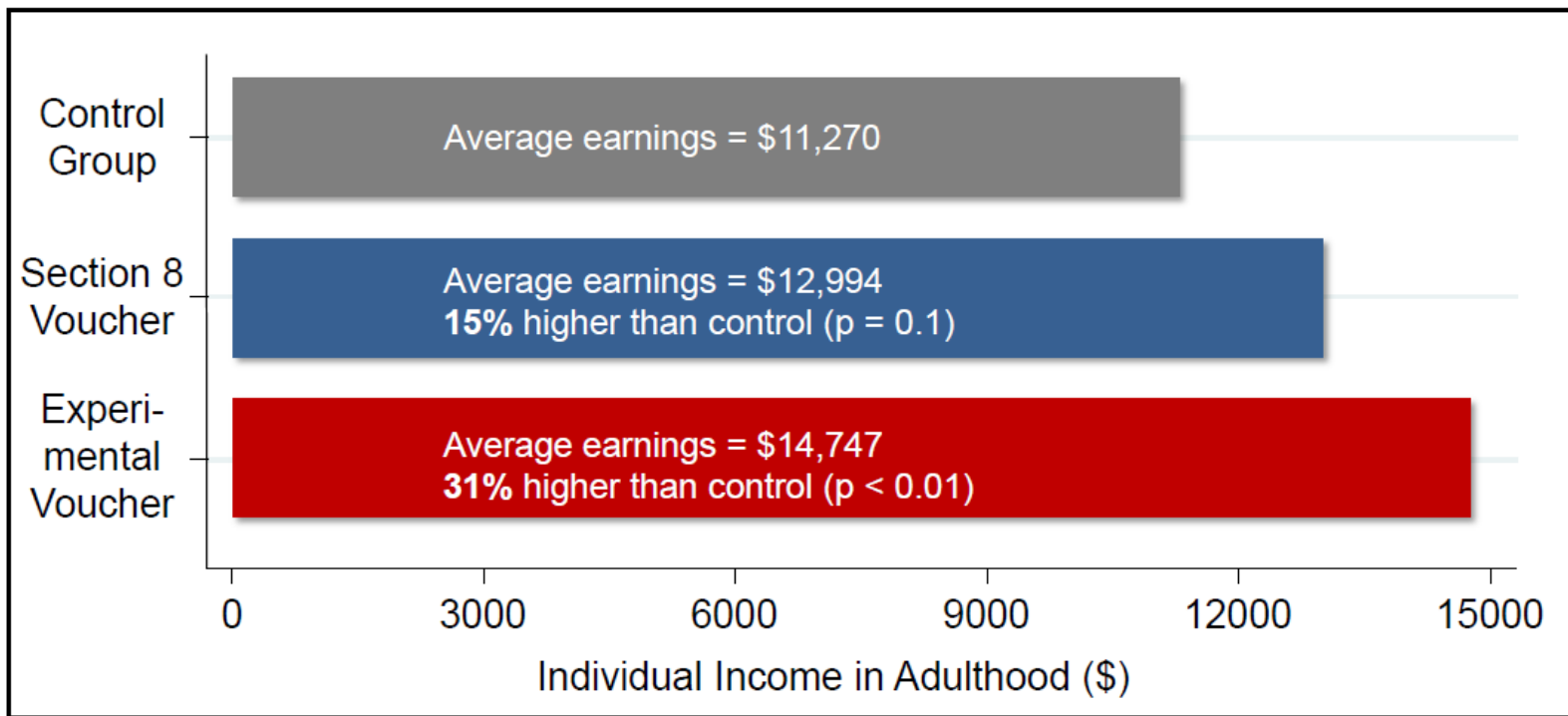
- 3 groups
 - Experimental group: Section 8 housing assistance and special assistance to move to neighborhoods with less than 10% poverty
 - Comparison group Section 8 housing vouchers under general program
 - Control group no vouchers, but received project based assistance.

Initial results for movers

- Average Poverty Rate of new neighborhood:
- Experimental group 13%
- Section 8 group 29%
- Control group 34%

2015 Chetty, Hendren and Katz

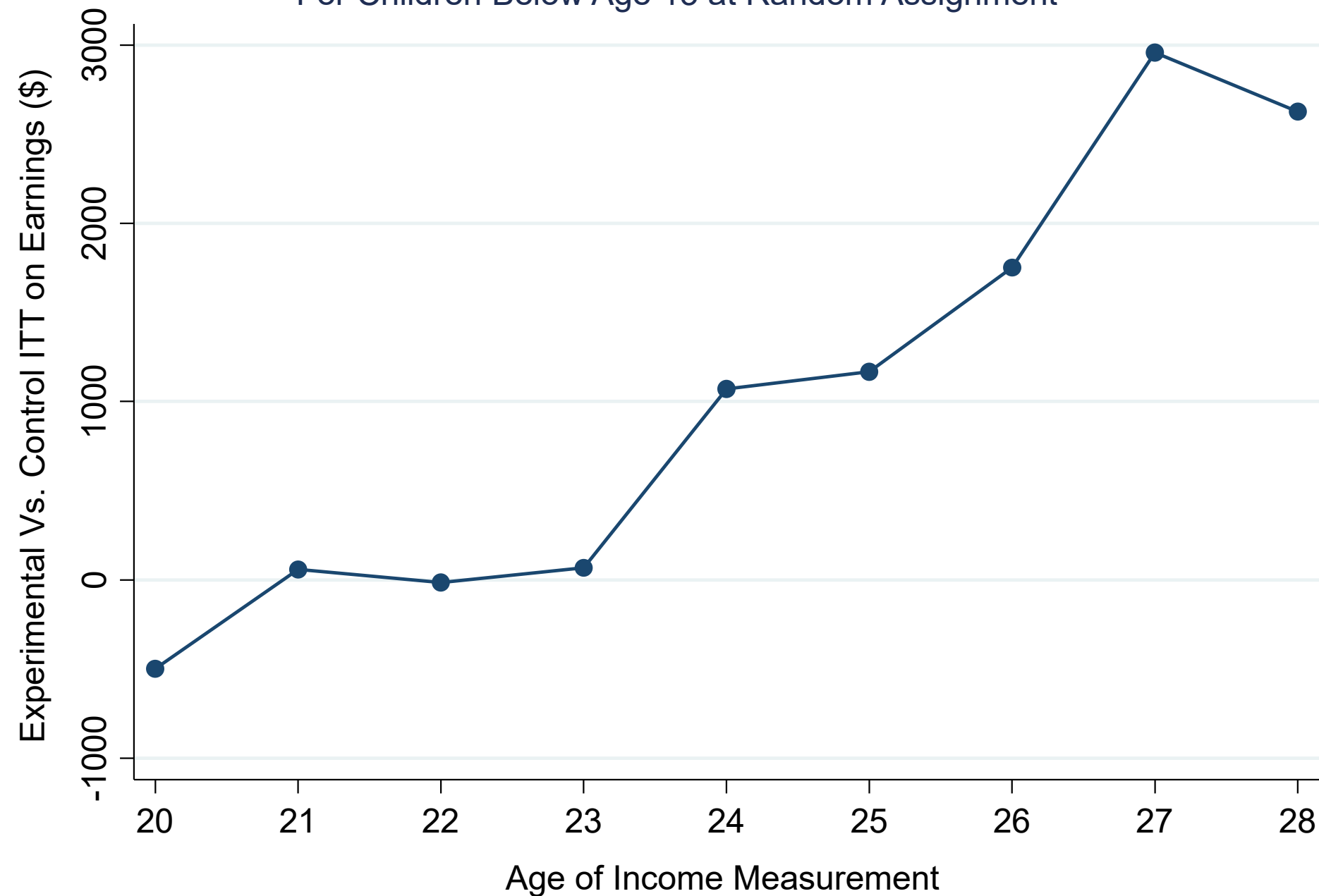
- Used tax data to look at kids in the experiment who are now adults.
- Compared kids who didn't move, and kids who were less than 13 at random assignment, kids who were age 13-18



Cost-Effective Policy: The MTO experiment increased the earnings of children who moved to low-poverty areas before age 13 by 31%

Impacts of Experimental Voucher by Age of Earnings Measurement

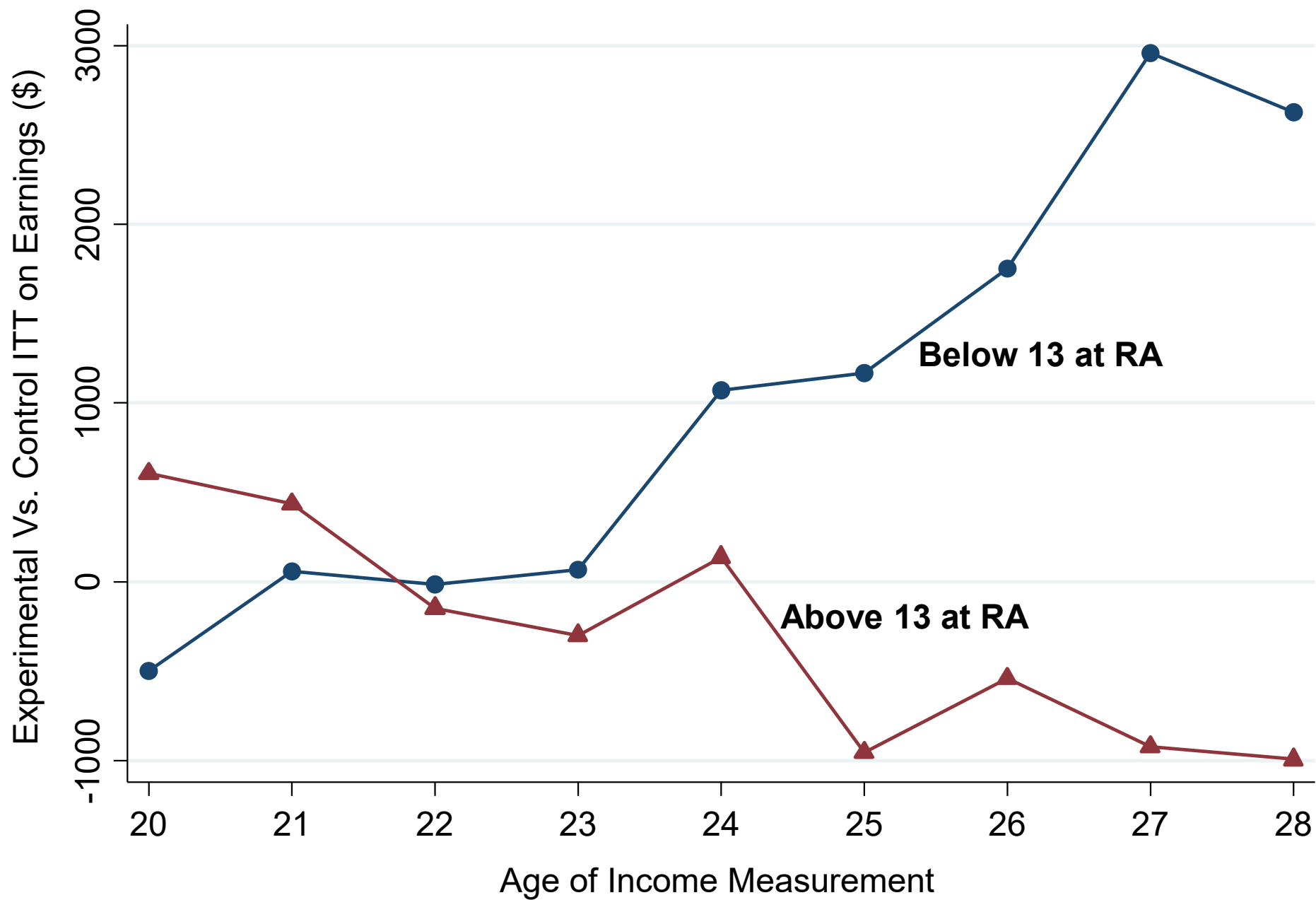
For Children Below Age 13 at Random Assignment



Moving to Low Poverty saves money

- Moving a child at age 8 on average would increase a child's lifetime earnings by about \$302,000.
- Equivalent to a gain of \$99,000 per child moved in present value at age 8.
- The incremental tax revenue generated from these earnings increases would offset the incremental cost of the housing voucher.

Impacts of Experimental Voucher by Age of Earnings Measurement

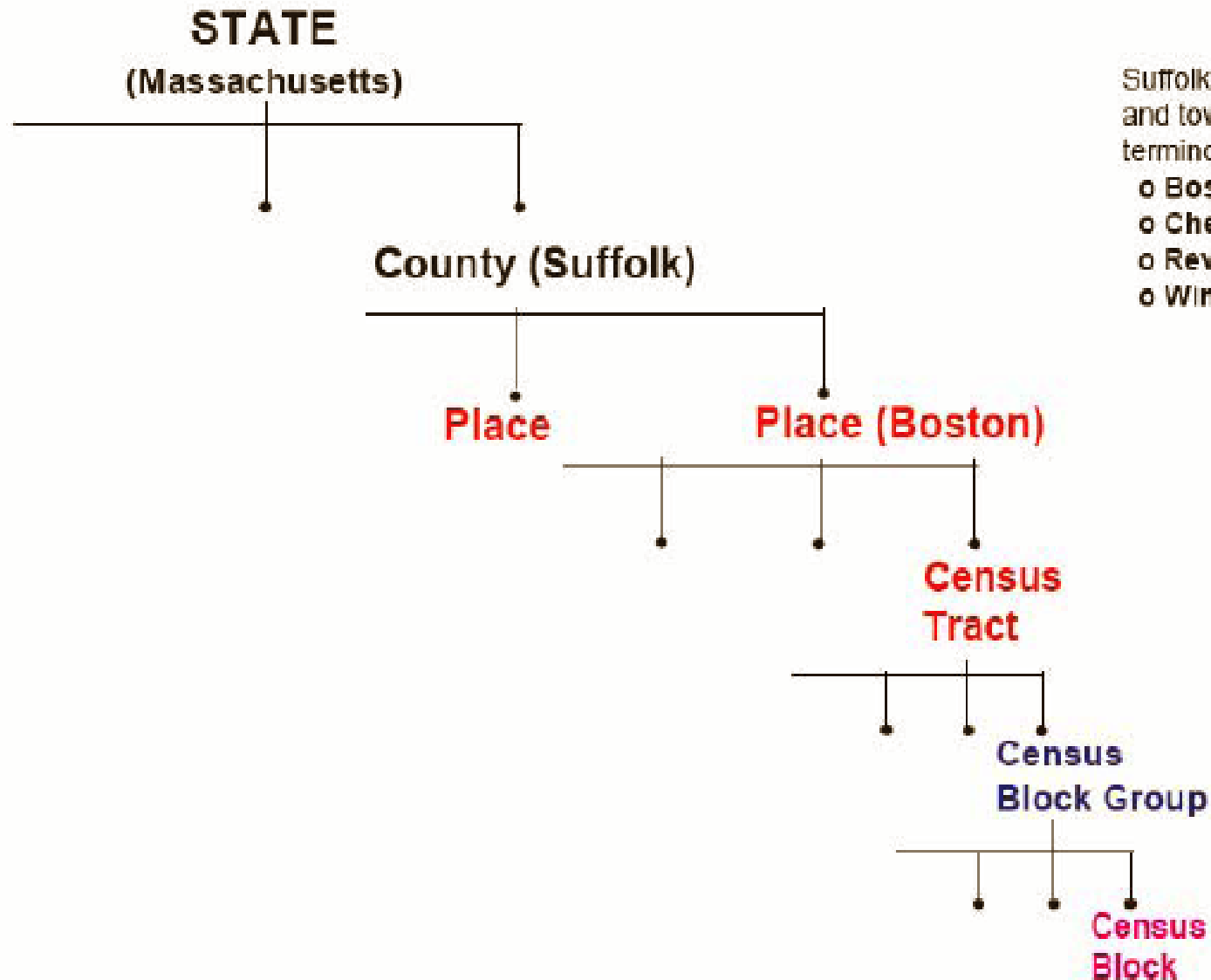


Studying Neighborhoods

GIS Data and Ethnography

Census Geography and Constituent Sub Units

a. Hierarchy



Suffolk County has four cities and towns, which in census terminology, are called places:

- o Boston
- o Chelsea
- o Revere
- o Winthrop

Consequences of Economic Segregation

- Controlling for individual characteristics, growing up in concentrated poverty has been linked to
 - Higher crimes and delinquency rates
 - Poorer physical and mental health outcomes
 - Higher dropout and teen pregnancy rates
 - Lower economic self sufficiency among adults

Opportunity Atlas