

Inequality: A Big Picture

<https://github.com/s-saisw/studyGroup>

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1 Katz & Krueger (2017)

- This paper provides an overview of inequality in the US. It is found that real median earnings have stagnated and fallen.
- Supply-side factor: less human capital investment
 - In low income families, children born in 1980s received less schooling than those born in 1940s. \Rightarrow less intergenerational mobility
- Demand-side factor: labor market polarization i.e. less demand for middle-skill jobs
 - Earnings of non-college educated workers decline. \Rightarrow less intergenerational mobility
 - More outsourcing \Rightarrow It becomes more difficult for new workers to be assigned non-clerical tasks. i.e. less occupational mobility \Rightarrow less intergenerational mobility
- Rising inequality comes with residential segregation, which reinforces the inequality even more cf. neighborhood effect
- The paper suggests the US invests more on programs that raise income growth of children in the bottom half of the distribution instead of policies that promote entrepreneurship and competition.

2 Chetty et al. (2014)

- This paper provides a descriptive evidence on the degree of intergenerational mobility over time.
- Chetty et al. (2017) use data that link adult income of children and their parents.¹
- When linked data is available, we can decompose the joint distribution of parent and child income into two components.
 1. The Copula: joint distribution of parent-child ranks \Rightarrow Mobility across generations e.g. correlation between parent and child percentile ranks, quintile transition matrices
 2. The Marginal Distribution: degree of inequality within each generation e.g. Gini coefficient

¹However, this kind of data is usually unavailable. Another commonly used method is ‘median parent’ of each period. We can look at the share of children earning more than the median parent. (Chetty et al., 2017) This can be accomplished using only cross-sectional household survey data.

- Intergenerational mobility remains stable but income inequality increases over time (Fig 2).
- The degree of intergenerational mobility is different across regions. High: Mountain and Pacific states, Low: Southeast (Fig 4)

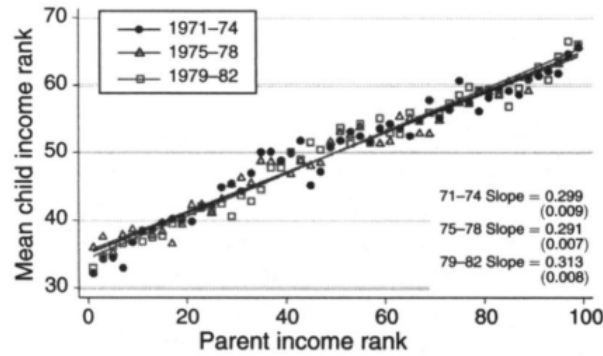


FIGURE 1. CHILD INCOME RANK VERSUS PARENT INCOME RANK BY BIRTH COHORT

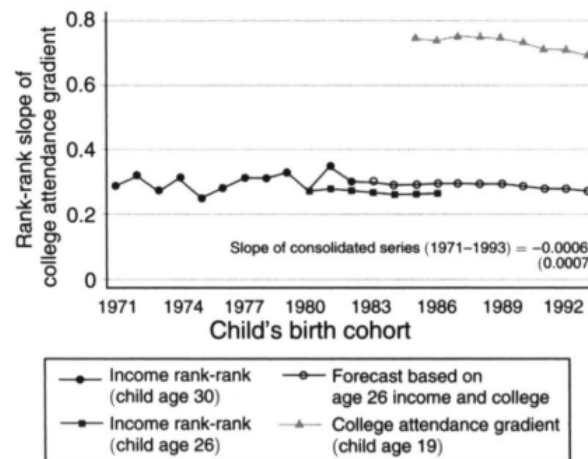


FIGURE 2. INTERGENERATIONAL MOBILITY ESTIMATES FOR THE 1971-1993 BIRTH COHORTS

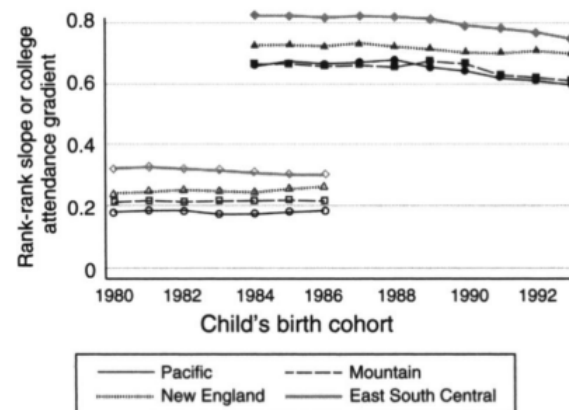


FIGURE 4. TRENDS IN INTERGENERATIONAL MOBILITY BY CENSUS DIVISION

Notes: The figure presents estimates of income rank-rank slopes when children are 26 (open symbols) and college attendance gradients when children are 19 (solid symbols) by birth cohort for four Census divisions. Income ranks are defined nationally, not within each Census division. All estimates use the population-based sample. See online Appendix Table 5 for estimates for all nine Census divisions and mean college attendance rates by Census division.

3 Beaudry et al. (2014)

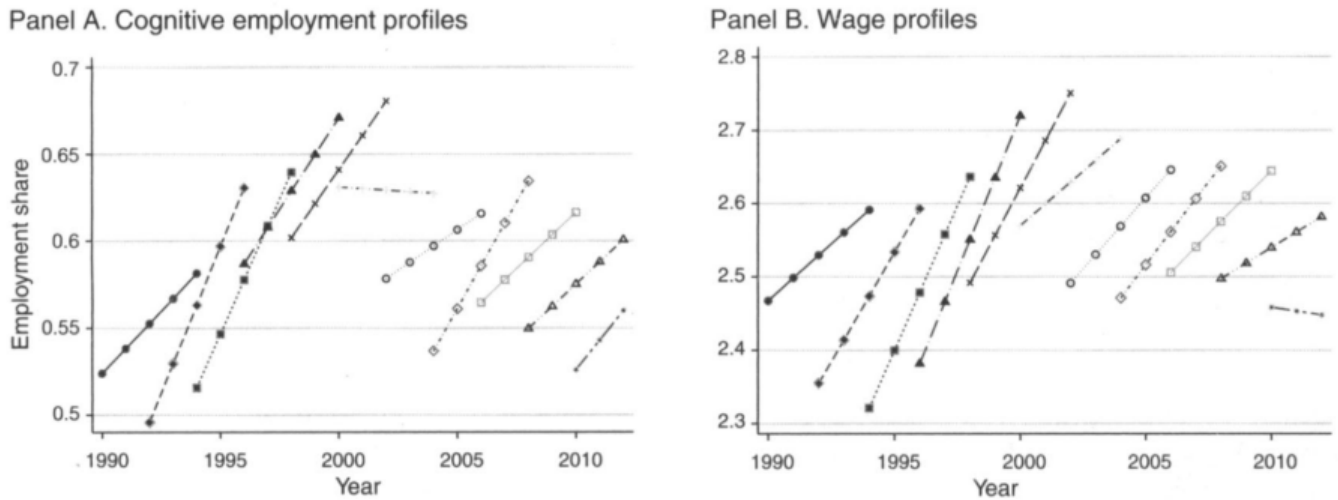


FIGURE 1. COGNITIVE EMPLOYMENT AND WAGE PROFILES FOR EXACTLY COLLEGE WORKERS

- This paper shows there is inequality between older and younger generations. Holding age constant, younger cohorts are poorer than older cohorts.
- Occupational mobility is higher for the pre-2000 cohorts than post-2000 ones.
 - Pre-2000 cohorts find it easier to transition to cognitive employment²(Fig 1, Panel A) compared to the post-2000 cohorts.
- This pattern reflects strong increase in demand for cognitive jobs in the 1990s.
 - Pre-2000 cohorts move from service and clerical sectors to cognitive occupations (Fig 2).
 - When latter cohorts enter the labor force, there is no vacancy in cognitive occupation. Therefore, the post-2000 cohorts are more likely to be stuck in clerical or service jobs.
- Some may argue this pattern is the result of recessions in the 1990s.
 - Those enter during a recession have lower initial earnings, making them more likely to switch to better paying firms.
 - Beaudry et al. (2014) argue that recession is unlikely to be the case since flat slope is found across 2000s cohort.
- Panel B shows pre-2000 cohorts experience faster earning growth.
 - Some may say this is a false evidence since employment and wage should not move in the same direction.
 - Beaudry et al. (2014) argue this reflects a strong demand for cognitive jobs.

²Occupations are grouped into four broad categories: cognitive, routine production, routine clerical, services

References

- Beaudry, P., Green, D. A., & Sand, B. M. (2014). The declining fortunes of the young since 2000. *American Economic Review*, *104*(5), 381–86.
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