



REPUBLICAN STAFF ANALYSIS

Addressing the Opportunity Gap

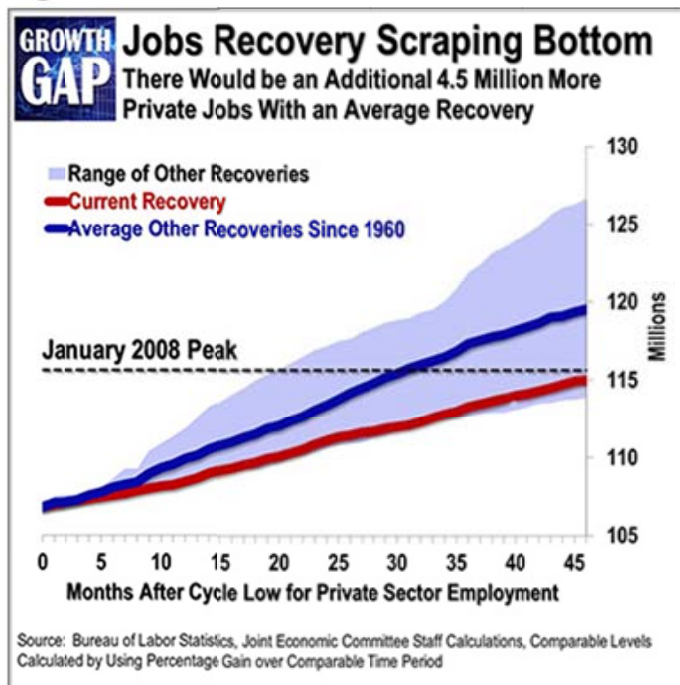
Increasing Economic Mobility: An Update

February 25, 2014

Introduction

In the wake of the Great Recession, many Americans don't feel economically mobile as they face rising healthcare expenses, high energy prices, swelling college education costs, and slow wage growth. A recent Gallup survey confirmed that income inequality is not ranked high on the minds of Americans—dissatisfaction with the federal government, the state of the economy, joblessness and growing healthcare costs are.¹ Relative economic mobility remains the key driver of individual prosperity, and economic growth ensures that everyone is better off in absolute terms over time.

Figure 1



The “Growth Gap” yawns ever wider, as shown in Figure 1, with employment recovering all too slowly, and too many remain unemployed for too long. Research has shown that long-term unemployment can have a profound negative effect on lifetime earnings.²

Over the last quarter century, the rapidly expanding

capabilities and falling costs of computers and computer-driven machinery boosted the earnings of highly educated, highly skilled workers performing creative, cognitive labor (e.g., an architectural engineer), while squeezing the earnings of less educated, less skilled workers performing repetitive, manual labor (e.g., an assembly line worker in manufacturing). This trend, known as skill-biased technological change (SBTC), has not diminished economic mobility statistically, but may be contributing to public perceptions about income inequality.

(Continued on the next page ...)

Highlights

- ❖ Today, virtually all Americans are better off due to continued economic growth.
- ❖ Most Americans experience upward mobility through different phases of life.
- ❖ Americans with high savings rates, even in cases of low-income, are more likely to experience upward mobility.
- ❖ Family structure has changed over time and remains an important social factor in children's opportunities for upward mobility.
- ❖ Receiving technical training or a college education, obtaining a job, and delaying marriage and family formation until at least one's early twenties are all factors highly associated with improving economic well-being and increasing likelihood of upward mobility.
- ❖ Economic mobility is higher in locations with a greater concentration of two-parent households, better elementary schools and high schools, more civic activity and community membership.

A new BLS analysis finds that slower labor force growth is expected to dampen potential GDP.

The “Growth Gap” is exacerbating an “Opportunity Gap” that favors the highly-skilled and well-educated over the less skilled workers, unemployed workers, and individuals caught in “poverty traps.”

Finally, a new Bureau of Labor Statistics (BLS) analysis finds that slower labor force growth is expected to dampen potential GDP growth.³ The “Growth Gap” is exacerbating an “Opportunity Gap” that has favors the highly skilled and well-educated over the less skilled workers, unemployed workers, and individuals caught in “poverty traps” that discourage upward mobility with marginal effective tax rates of more than 100 percent.

A three-part series of Joint Economic Committee Republican Staff Commentaries delved into the issue of economic inequality and mobility: (1) identifying the common sources and misconceptions of inequality and noting how inequality has changed over time;⁴ (2) examining inequality in the context of economic mobility;⁵ and (3) exploring factors driving economic well-being and mobility and evaluating the effectiveness of various policies aimed at addressing economic inequality.⁶ With this in mind, this commentary recaps and updates the previous series and highlights some facts about economic mobility for future and recommends the pursuit of policies that broaden opportunity for more Americans, encourage job growth to foster economic growth, and remove obstacles that many Americans face in equality of opportunity.

Identifying Economic Inequality and its Causes

There are five major problem areas that make changes in income inequality over time difficult to determine:

- 1) There is a lack of consensus on what definition of income analysts should use to measure inequality;
- 2) Household demographics have changed over time;
- 3) Consumption patterns have also changed over time;
- 4) The use of different price deflators yields significantly different results;
- 5) And other policy changes directly and indirectly affect the measurement of income inequality.

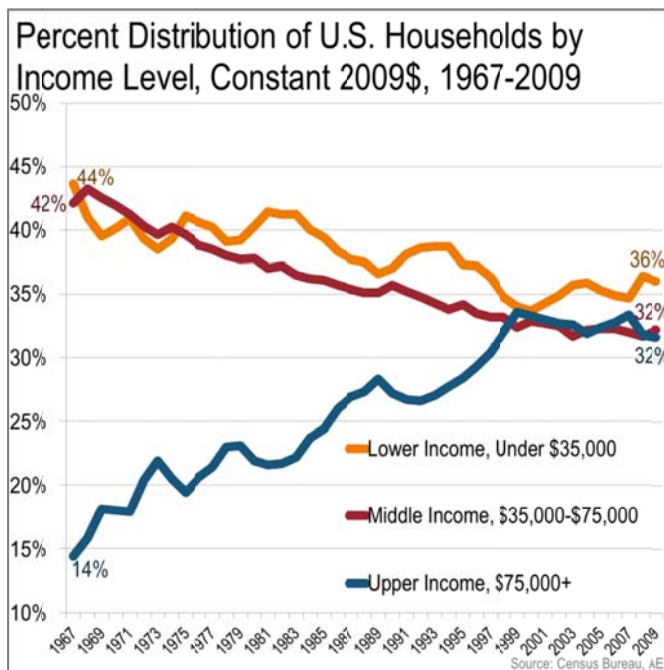


Figure 2

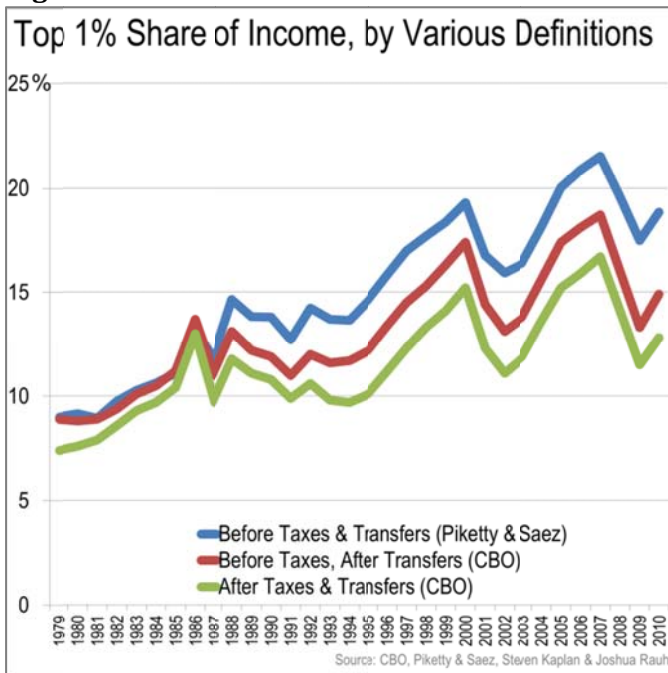
The percent of U.S. households in the poor and middle “classes” have shrunk as their members became more prosperous over the decades. The number of households (note: not the *same* households over time) in all of the income groups below \$75,000 in annual real income fell, while the number of households earning

above \$75,000 increased over the past 40 years, as shown in Figure 2.⁷ Recessions, including the most recent one, may have slowed or temporarily reversed the trends, but nonetheless, roughly a third of U.S. households currently earn more than \$75,000 in real income, up from just one in seven in 1967.

Defining Income

Income is traditionally defined as pre-tax, pre-transfer money income excluding capital gains. While a look at income differences in a given year may be particularly useful, the reality is not so simple when describing income changes over time.

Figure 3



As shown in Figure 3, the treatment of taxes and transfers makes a dramatic difference in the share of income the top 1 percent actually has. Thomas Piketty and Emmanuel Saez use pre-tax, pre-transfer tax-unit data, attributing nearly 20 percent to the top 1 percent. In contrast, the Congressional Budget Office (CBO) uses post-tax and post-transfer data to households,

attributing just less than 13 percent of income to the top 1 percent (the latest available to compare is through 2010).⁸

Recent Internal Revenue Service (IRS) data for 2010 show shares of federal individual income taxes paid by the upper income quintiles in detail as shown in Table 1, as well as the number of tax units that pay the corresponding share. Separately, using CBO data on households, it's possible to determine a comparable share of taxes paid by each percentile as defined by households rather than tax units.ⁱ

Recessions, including the most recent one, may have slowed or temporarily reversed the trends, but nonetheless, roughly a third of U.S. households currently earn more than \$75,000 in real income, up from just one in seven in 1967.

The treatment of taxes and transfers makes a dramatic difference in the share of income the top 1 percent actually has.

ⁱ Note: Table 1 shows share of federal individual income tax paid. AGI is a fairly narrow income concept and does not include cash payment and in-kind government benefits (except for taxed portion of Social Security benefits), but CBO's before-tax income does. Households may not add up due to rounding. Household-size adjusted income threshold may not be directly comparable to federal individual income tax paid and number of households in each percentile. Returns with negative AGI are included, but dependent returns are excluded. IRS tax shares do not include refundable portion of EITC as it is classified as a spending program.

Table 1. Characteristics of Upper Percentiles, 2010

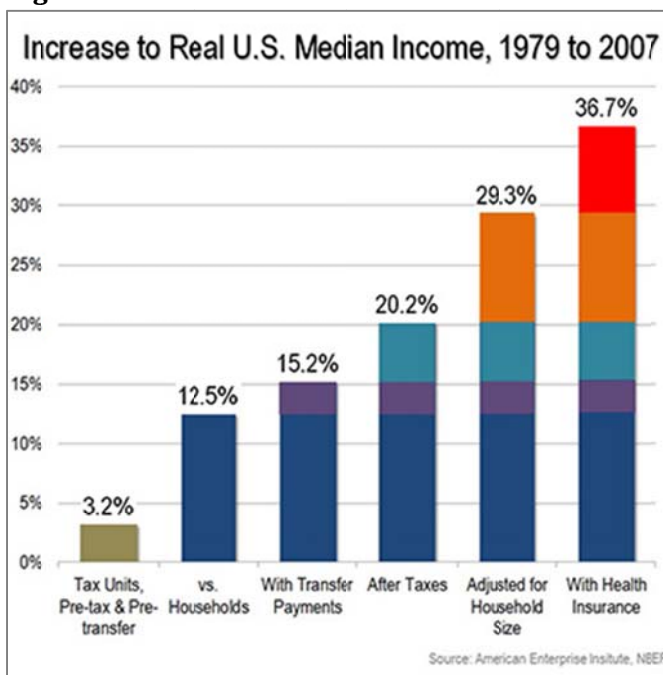
Percentile Ranked by Income	Adjusted Gross Income 135 million IRS tax returns			Before-Tax Income 118.7 million CBO households		
	Threshold	% of Income Tax Paid	Returns	Threshold, Household size adjusted	% of Income Tax Paid	Households
Top 1%	\$369,691	37.4%	1.4 million	\$306,900	39.0%	1.1 million
Top 5%	\$161,579	59.1%	6.8 million	\$139,100	63.6%	5.9 million
Top 10%	\$116,623	70.6%	13.5 million	\$103,500	77.4%	11.9 million
Top 50%	\$34,338	97.6%	67.5 million	\$42,900	N/A	59 million
Bottom 50%	<\$34,338	2.4%	67.5 million	<\$42,900	N/A	59.1 million

Source: IRS, CBO.

Using households as a measurement can often be misleading as the number of people per household has declined, and as such, there are fewer earners per household that income is spread over.

Changing Household Demographics

Using households as a measurement can often be misleading as the number of people per household has declined, and as such, there are fewer earners per household that income is spread over. In the 1960s, the number of persons per household stood at 3.3, the Census Bureau's traditionally-defined median real household income was \$43,000 in inflation-adjusted 2012 dollars, and the household-to-vehicle ratio was 1:1; compare that to 2012, when the number of persons per household has fallen considerably to 2.5, the recent post-recession median real household income was \$51,000, and the household-to-vehicle ratio stands at nearly 1:2.

Figure 4


As economist Richard Burkhauser notes, after accounting for size of households, government transfer payments, taxes, and employer-provided health insurance, the median real income has actually risen 36.7 percent from 1979 to 2007, instead of the unadjusted pre-tax, pre-tax median income tax unit increase of 3.2 percent as shown in Figure 3.⁹

Burkhauser's numbers compare similarly to the CBO's, which finds that for the 60 percent of the population in the middle of the income scale, real after-

tax household income growth was just under 40 percent from 1979 to 2007.¹⁰

Household composition, not only household size, has changed as well. Today, there are more single-parent homes as a percent of families than in previous decades. Single mothers make up nearly a quarter of families, and two-parent households have fallen from over 85 percent to just under 69 percent.¹¹ In 2012 alone, there were significantly more income earners per household in the top income quintile of households, at 2.04, than earners per household in the bottom quintile of households, at 0.45. Additionally, married-couple households represented an overwhelming share of the top quintile, at just over 77 percent, relative to single-parent families, non-family households, or singles. The top quintile had the largest share of full-time workers, over 78 percent, while more than 67 percent of those in the bottom quintile did not work.¹²

Consumption Patterns

Another measurement of economic inequality is differences in consumption patterns between the top and bottom income groups. Spending is an important measurement because it helps determine standard of living and reveals purchasing power in ways that cash income alone cannot. Individual spending patterns per person for those in top quintile in 1987 was 2.5 times greater than that of individuals in the bottom quintile; in 2012, that ratio remained unchanged despite the recent recession, demonstrating noteworthy stability. According to Diana Furchtgott-Roth, using data from the Consumer Expenditure Survey, a household in the lowest quintile spent an average \$13,032 per person in 2012, while a household in the highest quintile spent an average \$32,054 per person.¹³

Inequality and Economic Mobility

Absolute and Relative Mobility

Adding further complication to defining inequality is the dynamic element of economic mobility; a significant majority of households in a particular quintile more than 40 years ago are not in the same quintile in 2010. As defined in the collaborative *Economic Mobility Project* report of the Pew Charitable Trusts and Brookings Institution, there are two types of economic mobility to consider that differ from the changes in income resulting from rising or falling economic inequality: absolute mobility and relative mobility. *Absolute mobility* is a result of economic growth that enriches all groups of society. In the report, the economy is likened to a ladder that grows taller and all the ladder rungs are rising. At the same time, the distance of the rungs on the ladder may be getting closer together or farther apart as the ladder grows, demonstrating the degree of income inequality. In turn, *relative mobility* can be described as the ability of individuals to move from one rung to another dependent upon opportunity.¹⁴

As shown in Table 2, the interaction between absolute and relative mobility is complex; though a full 93 percent of those in the bottom quintile experience absolute mobility, 57 percent have both higher income and have moved up a quintile. Similarly, though 70 percent of those in the top quintile have higher income than their parents, only 38 percent have stayed within the top quintile with higher income.¹⁵

Household composition, not only household size, has changed as well. Today, there are more single-parent homes as a percent of families than in previous decades.

Consumption spending is an important measurement because it helps determine standard of living and reveals purchasing power in ways that cash income alone cannot.

Table 2. Absolute and Relative Mobility

		Parents' Family Income Quintile					
		Bottom	Second	Middle	Fourth	Top	All
Adult Children	Upwardly Mobile Higher Income & up 1+ quintile	57%	51%	43%	24%	N/A	35%
	Rising with the tide Higher income, same quintile	36%	24%	23%	24%	38%	29%
	Falling despite rising tide Higher income, down 1 quintile	N/A	11%	21%	36%	32%	20%
	Downwardly mobile Lower income & lower/same quintile	7%	14%	12%	15%	30%	16%

Source: Pew Charitable Trusts, Economic Mobility Project

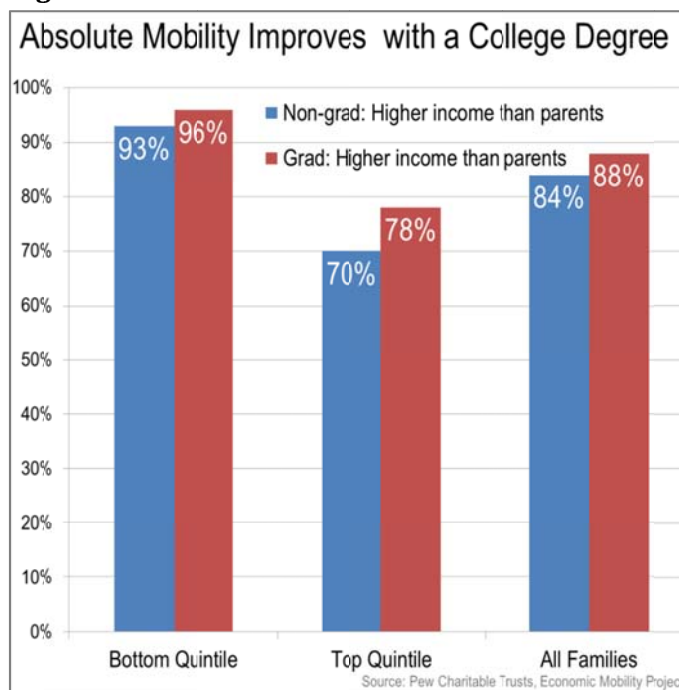
Already it appears that more and more Americans are achieving at least the top 2 percent of income at some point in their working lives than ever before; new research finds that 21 percent of working Americans are achieving that threshold by the time they turn 60 years old, a figure which has more than doubled since 1979.

Already it appears that more and more Americans are achieving at least the top 2 percent of income at some point in their working lives than ever before; new research finds that 21 percent of working Americans are achieving that threshold by the time they turn 60 years old, a figure which has more than doubled since 1979.¹⁶

Intergenerational Mobility

Another facet of the discussion of economic mobility concerns not just the movement of an individual or household between “rungs” on the “ladder” over time, but the degree of mobility between generations of the same family over time.

Figure 5



According to a recent study by Pew Charitable Trusts' *Economic Mobility Project* using data which tracked a nationally representative sample of children between the ages of 0 and 18 in 1968 through the Panel Study of Income Dynamics (PSID) found, as shown in Figure 5, at least over four out of five (84 percent) Americans have higher absolute family incomes

today than their own parents had approximately 30 years ago, and children born to parents in the bottom quintile are more likely to surpass their parents' income than children from any other quintile. While the higher the parents' income, the higher their children's income, it was also noteworthy that the amount by which children exceeded their parents' income decreased the higher the parents' income was. While both adult children with and without college degrees were likely to exceed their parents'

income, those with college degrees were far likelier to exceed parental income.¹⁷ Indeed, education remains a major predictor of higher income and upward mobility. According to Harvard economist Lawrence Katz, even if the gains of the top one percent were distributed to the lower 99 percent, household income would increase by less than half of what could be earned if everyone obtained a college degree.¹⁸

Characteristics of Economically Mobile Individuals

According to analysis of 2009 Census data from the Brookings Institution, adults who graduated from high school, were employed, and reached the age of 21 and married before having children, had a 2 percent chance of living in poverty and a better than 70 percent chance of upward mobility into the middle class, defined as \$65,000 or more in household income. Those who did not meet any of the three criteria had a 77 percent chance of living in poverty and a 4 percent chance of mobility into the middle class.¹⁹

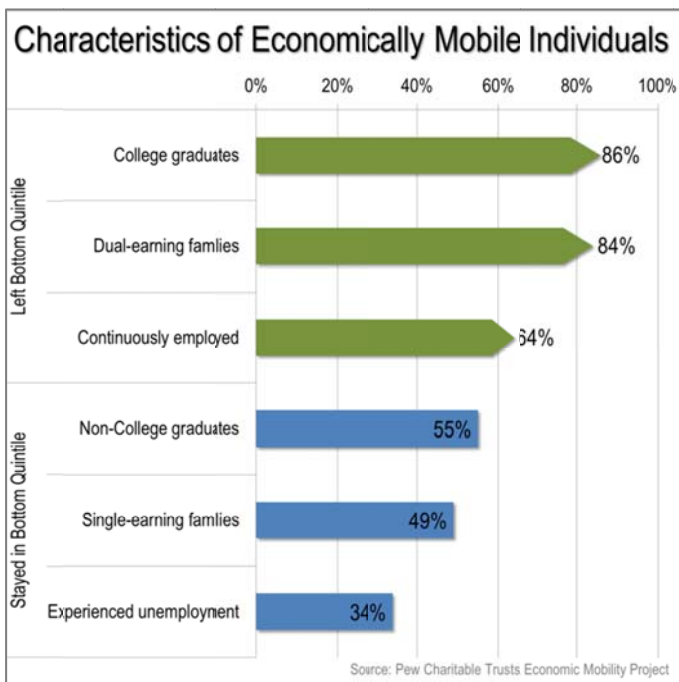


Figure 6

In an updated Pew Charitable Trust analysis, 86 percent of college graduates, 84 percent of dual-earning families, and 64 percent of people who were continuously employed left the bottom quintile; by contrast, only 55 percent of non-college graduates, 49 percent of single-earning families, and 34 percent of people who experienced unemployment

moved up from the bottom quintile, as shown in Figure 6. Additionally, it was found that those who moved out of the bottom quintile had considerably higher savings, wealth and home equity than those who did not move up.²⁰

Another factor that has recently been analyzed is geographic location; according to new research, a child from a low-income family in the bottom quintile has a 4 percent chance of rising to the top quintile in Atlanta, but an 11 percent chance of rising to the top quintile in San Francisco or San Jose. The researchers explain that upward mobility tends to be higher in metro areas that have greater distribution of poor families among mixed-income neighborhoods, and that income mobility was also higher in areas with a greater concentration of two-parent households, better elementary schools and high schools, and more civic activity and membership in religious and community groups.²¹

Education remains a major predictor of higher income and upward mobility.

Recent research explains that income mobility was also higher in areas with a greater concentration of two-parent households, better elementary schools and high schools, and more civic activity and membership in religious and community groups.

Skill-biased Technological Change

As aforementioned, the information technology revolution over the last several decades has changed the demand for and consequently the real wages paid to different types of workers. This phenomenon, known as **skill-biased technological change** (SBTC), has increased the “wage premium” that workers receive for a college education and for graduate or professional degrees. Thus, education achievement, especially in specialties drawing upon science, technology, engineering, and mathematics, is more important today than it was in the past to economic mobility and well-being.

Information technology has boosted the marginal productivity of highly skilled, college-educated workers. The real wages paid to highly skilled, college-educated workers have increased rapidly as well over the past four decades as the demand for these workers grew more rapidly than their supply. At the same time, information technology directly competes with some generally less skilled and less educated workers. Their real wages have tended to stagnate.

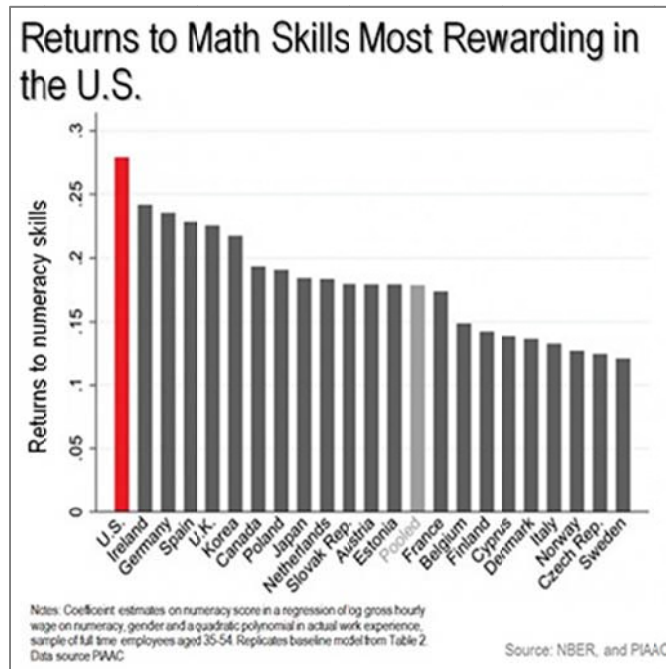
Those with skill sets demanded by technological changes over the past several decades have benefited the most in terms of real hourly wages by pursuing post-secondary education or specialized training.

Those with skill sets demanded by technological changes over the past several decades have benefited the most in terms of real hourly wages by pursuing post-secondary education or specialized training. The “wage premium” for these skills has therefore accelerated faster than those with less education or skills that are in less demand. However, it should be noted that while those with repetitive, manual occupations may have witnessed their real wages stagnate, those with repetitive, cognitive jobs (especially concentrated in the service industry) or creative, manual jobs (such as firefighters or professional athletes) did not witness as much effect of SBTC because those skills still require human input.

International Comparisons

Both domestically and abroad, these SBTC trends in labor have continued regardless of government structure, business cycles, political leadership, and government policies on revenue, outlays, and regulations.²² The

Figure 7



Organisation for Economic and Co-operative Development (OECD) finds that technology has accounted for 80 percent of the drop in the labor share of income among its member countries, and other studies have noted the effects of trade and globalization as factors as well.²³

However, returns to labor are still the greatest in the U.S., according to a new

working paper, which finds that of the survey of adult skills over the full lifecycle in 22 countries the largest return is 28 percent in the United States, as shown in Figure 7. Six countries returned more than 21 percent, and eight countries including all Nordic countries that have returns ranging between 12 and 15 percent. As noted in the recent paper published by National Bureau of Economic Research, “...returns to skills are systematically lower in countries with higher union density, stricter employment protection, and larger public-sector shares.”²⁴

Even if the focus is between the 99 percent and the top 1 percent, while inequality has grown considerably between these two categories, this phenomenon is not unique to the United States; in fact, there is very little evidence to suggest that this disparity is a result of the top gaining at the expense of the 99 percent. This possible because the economic pie can grow in size that benefits the top one percent immensely while everyone else enjoys a bigger slice as well.²⁵ Economist Allan Meltzer confirms that the change between the top one percent and the 99 percent is a change occurring across all developed countries.²⁶ Furthermore, scholar Scott Winship demonstrated that when the post-1986 U.S. trend of the top one percent is corrected for the changes made in the 1986 tax reform, the U.S. is rather consistent with the rest of the modern world over the past century (1916-2006).²⁷

Policy Solutions for the “Opportunity Gap”

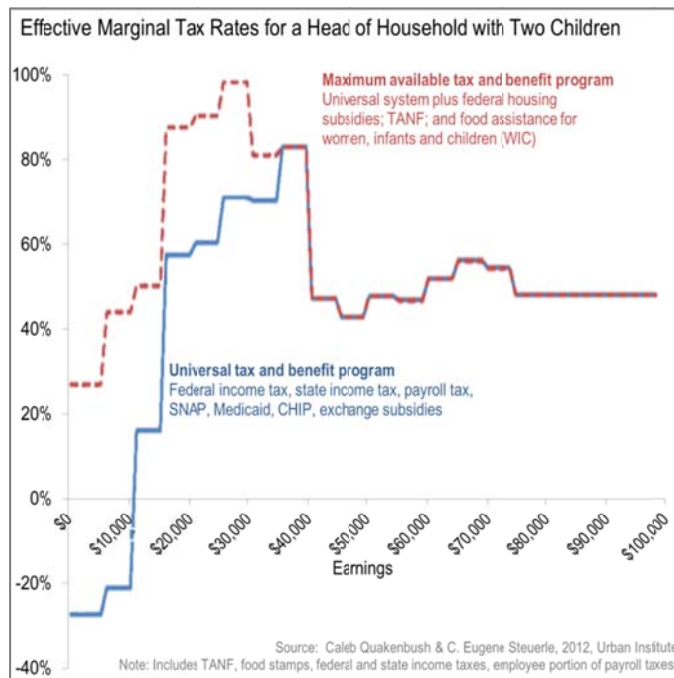
Reform the Poverty Trap

Focusing on the economic problems of the very poor requires addressing restrictions on opportunities for low-income, economically immobile individuals. The interaction between taxes and the phase-outs of social welfare benefits as household income increases frequently imposes an extremely high effective marginal tax on earning additional income. This phenomenon, known as the **poverty trap**, discourages individuals in low income households from entering the labor force, working extra hours, or seeking career advancement that would contribute to their economic mobility and well-being. As Winship points out, existing programs may provide a floor but also create a ceiling: though these programs lift the poor out of destitution, they can also discourage the upward mobility of poor children. In fact, in a recent report from the Cato Institute, Michael Tanner and Charles Hughes find that welfare can pay more than the minimum wage in 35 states, even after accounting for the Earned Income Tax Credit (EITC), and in 13 of those states, welfare can pay more than \$15 per hour.²⁸

On the tax expenditure side, if a couple earning similar income decides to get married next year, the tax code penalizes these dual earners when changing tax status from single to filing jointly or separately.²⁹ Recent research from Brookings Institution finds that among low-income families with a primary earner making \$25,000 per year, a secondary earner’s take-home pay can be less than 30 percent once taxes, loss of SNAP benefits, and cost of child care are accounted for.³⁰ In addition, with the implementation of the Affordable Care Act, families can also expect that “some provisions will raise effective tax rates on earnings from labor,” according to the CBO, as earning additional income could reduce a family’s premium subsidy for health insurance and thereby reduce the incentive to earn more.³¹

Focusing on the economic problems of the very poor requires addressing restrictions on opportunities for low-income, economically immobile individuals.

If a couple earning similar income decides to get married next year, the tax code penalizes these dual earners when changing tax status from single to filing jointly or separately.

Figure 8


Further research from the Urban Institute finds that the marginal effective tax rates for a head of household with two children can reach 80 percent or higher, as shown in Figure 8. The effective marginal tax rate is shown as the marginal tax rate of federal, state, local, and employee payroll combined, in addition to the rates that occur from the loss of transfer benefits

that were previously counted on as disposable income. The rates rise sharply above earnings around the \$10,000 and \$15,000 marks. The research further confirms that not getting married is a “major tax shelter” for low-income households with children. The problem is two-fold; because young and uneducated men that are childless or noncustodial fathers do not receive targeted benefits, they remain ineligible to most forms of assistance, and further, if a working man marries a working single mother, it could cause her to lose child care assistance and part of the EITC she receives. The study offers several suggestions, among them a bundled integration of the myriad separate programs meant to help the poor, a set maximum marginal tax rate on tax and transfer programs for families receiving transfer benefits, separating out children’s subsidies from low-income workers, and slower benefit phase-outs.³²

Most policies intended to help the poor are poorly targeted and price the poor out of markets for assets that promote mobility.

Most policies intended to help the poor are poorly targeted (such as the minimum wage and non-means-tested programs) and price the poor out of markets for assets that promote mobility (such as tax breaks that promote investment in savings and education that are unattainable to the poorest because federal policy penalizes those behaviors by cutting off other benefits), thus leaving a diminishing amount of money to reduce barriers to upward mobility for the poor.³³

Reduce Joblessness, Grow the Economy

Another barrier to mobility is joblessness, especially becoming long-term unemployed (27 weeks or longer). Recent calls for increases in the minimum wage will only further inhibit already slow job recovery. From an international perspective, no minimum wage is associated with lower rates of unemployment. In 2013, there were nine countries in Western Europe with a minimum wage with unemployment rates ranging from 5.9 percent (Luxembourg) to 27.6 percent (Greece) and the median country is France with an 11.1 percent unemployment rate. There were another nine countries with no minimum wage, five of which have lower unemployment

Recent calls for increases in the minimum wage will only further inhibit already slow job recovery.

than Luxembourg, and the median country is Iceland with a 5.5 percent unemployment rate. Germany, the largest economy in Europe, belongs to the no minimum wage group with 5.2 percent unemployment, a much improved change due to labor reforms that allowed more low-wage jobs combined with subsidies for low-wage workers.³⁴ There is a significant amount of literature on the minimum wage debate; economists William Wascher and David Neumark compiled research demonstrating that for the least-skilled groups, who are most likely affected by minimum wage increases, studies have overwhelmingly shown evidence of strong disemployment effects for least-skilled workers.³⁵ Additional research from Neumark, Wascher and J.M. Ian Salas reconfirm that the evidence still shows a tradeoff of higher wages from some with minimum wage against job losses for others.³⁶ Furthermore, as pointed out by Reason, one meta-analysis on the price effects of a minimum wage increase found that a 10 percent minimum wage increase in the U.S. raises food prices by 4 percent and overall prices by 0.4 percent. Another found that the same 10 percent increase in minimum wage led to a price increase of 0.7 percent.³⁷

The EITC, alternatively, is a more effective anti-poverty tool as it encourages work and it is more effectively targeted at working-class households without passing the burden on to employers looking to hire for low-skill jobs. Expansion of EITC to include lower-income workers without children could benefit more working-class households.

Remove Education Roadblocks & Restore College Affordability

Over the course of the 19th and 20th centuries, Americans were among the most literate and numeric people worldwide and this advantage led America to become the world's largest economy and to build a strong middle class. Today, American students are falling behind future competitors on international standardized tests, such as those from the Programme for International Student Assessment (PISA) by the OECD, in math and science. Though America has some excellent schools, both public and private, and some outstanding teachers, far too many children—especially those from urban minority families—are trapped in failing schools that do not prepare them with even the most basic skills needed for future success. As a result, they lack the foundation for more advanced learning that will enable them to become upwardly mobile. Teachers unions remain fervently against merit pay, charter schools, or other forms of “school choice” that would bring accountability and competition into primary and secondary education, even though these choices have proven successful both here and abroad.

Furthermore, in a world becoming more and more defined by SBTC, obtaining a college degree or advanced vocational training is vital to future success. Though federal student loan programs may have expanded access to education, they have also effectively reduced college affordability. In fact, colleges have increased tuition and fees along with greater sums of federal aid. As noted by the National Center for Policy Analysis, there are several pertinent facts revealed in several studies that have delved into the underlying reasons for the sharp increases in tuition costs:

- The College Board finds that over the past three decades, financial aid has increased 438 percent after inflation due to hikes in more than a dozen federal grant and loan programs.

The EITC is a more effective anti-poverty tool as it encourages work and it is more effectively targeted at working-class households without passing the burden on to employers looking to hire for low-skill jobs.

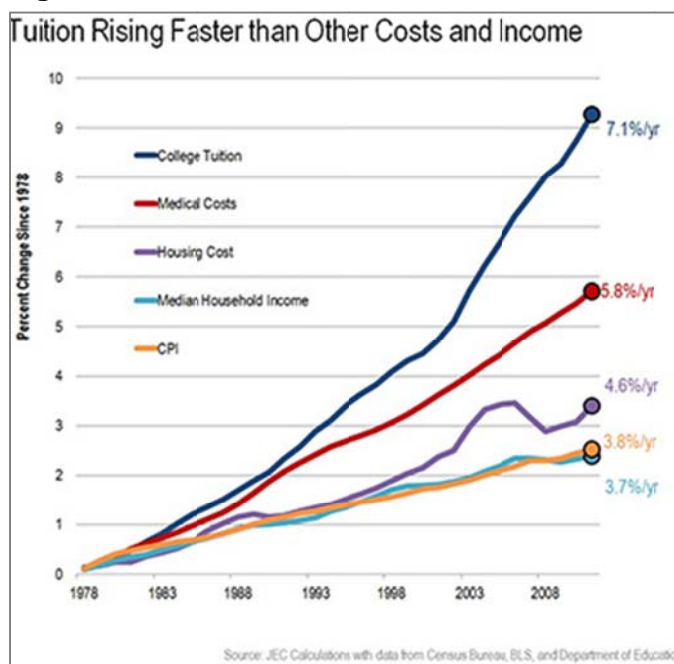
American students are falling behind future competitors on international standardized tests.

- A 2007 University of Oregon study found that colleges “tend to absorb most federal student aid by increasing their tuition revenue.”
- The Center for College Affordability and Productivity found that a \$1 increase in the average student loan was associated with a net increase in tuition of 93 cents at public schools and 55 cents at private schools.
- A Goldwater Institute study found that, from 1993 to 2007, per-student spending on administration climbed a double the rate of spending on instruction.³⁸

The cost of college tuition has been rising faster than other common household costs, including healthcare and housing costs.

As shown in Figure 9, the cost of college tuition has been rising faster than other common household costs, including healthcare and housing costs.

Figure 9



A recent *Washington Times* article notes that the college trend of having more administrators than professors is on the rise, citing an example from the University of Michigan which has 53 percent more “full-time administrators and professionals” (9,652) than full-time professors (6,305).³⁹ Today, recent college graduates are saddled with

mountains of student loan debt, which has far reaching consequences, including a delay in family formation, buying homes, or starting new businesses. Colleges must constrain costs as they pertain to excessive spending on administrative staffs, professional tenure, and other expensive accessories.

Conclusion

Income, even properly defined, is not the only useful measurement of economic inequality; wealth is an equally important consideration as different stages in life can yield anomalies in income relative to wealth. Rather than remain concerned with “concentrations” of income and wealth among the one percent, which is a constantly changing set of individuals, it is important to identify barriers to economic mobility and close the “Opportunity Gap” for those at risk of remaining economically immobile.

When examining policy options, policymakers should keep in mind what makes Americans so mobile, both in absolute and relative terms. Absolute mobility can be encouraged by pro-growth policies such as tax reform, deregulation, and lowering the debt relative to the size of the economy.

When examining policy options, policymakers should keep in mind what makes Americans so mobile, both in absolute and relative terms.

Relative mobility can be encouraged by reforming programs that currently discourage saving, investing, and learning among the poorest, including reforms to the welfare system, amending the tax penalty on married couples, education reform, and finding a solution to slow the cost growth of higher learning that has risen with the increasing prevalence of federal student loans. In the former, a strong economy with job growth begets absolute mobility and shrinks the “Growth Gap;” in the latter, the reformed incentives to save, invest, and learn skills boosts relative mobility and reduces the “Opportunity Gap.”

A refocus on the “Opportunity Gap” requires (1) critical consideration of how policies affect incentives; (2) identifying policies that fail to provide long-term solutions to increase wellbeing; and (3) delving into education reform, the best long-term solution to ensure sustainable improvement of wellbeing and economic mobility. At the same time, the “Growth Gap” should equally remain an important focus in the continually tepid recovery, and solutions abound in tax reform, removal of excessive regulations, and achieving long-term fiscal sustainability.

A strong economy with job growth begets absolute mobility and shrinks the “Growth Gap,” while reformed incentives to save, invest, and learn skills boosts relative mobility and reduces the “Opportunity Gap.”

Endnotes

- ¹ Lydia Saad, "Government Itself Still Cited as Top U.S. Problem," GALLUP Politics, January 15, 2014, <http://www.gallup.com/poll/166844/government-itself-cited-top-problem.aspx>
- ² Austin Nichols, Josh Mitchell, and Stephan Lindner, "Consequences of Long-Term Unemployment," Urban Institute, July 2013, <http://www.urban.org/uploadedpdf/412887-consequences-of-long-term-unemployment.pdf>
- ³ "Employment Projections: 2012-2022 Summary," Bureau of Labor Statistics, December 19, 2013, <http://www.bls.gov/news.release/pdf/ecopro.pdf>
- ⁴ "Identifying Economic Inequality," Republican Staff Commentary, Joint Economic Committee, June 18, 2012, http://www.jec.senate.gov/republicans/public/?a=Files.Serve&File_id=d4d8a9a9-042e-43b0-aae6-642fb798732d
- ⁵ "Economic Inequality and Mobility," Republican Staff Commentary, Joint Economic Committee, June 19, 2012, http://www.jec.senate.gov/republicans/public/?a=Files.Serve&File_id=8187f1f2-eb54-4ab2-844c-5b0aafcd87fd
- ⁶ "Economic Inequality: Causes and Solutions," Republican Staff Commentary, Joint Economic Committee, June 27, 2012, http://www.jec.senate.gov/republicans/public/?a=Files.Serve&File_id=d8658ea1-0a42-4086-88d4-b25c03bd63a9
- ⁷ Mark J. Perry, "Census data on income distribution reveal evidence of rising income levels for a rising share of American households," AEIdeas, January 6, 2014, <http://www.aei-ideas.org/2014/01/census-data-on-income-distribution-reveal-evidence-of-rising-income-levels-for-a-rising-share-of-american-households/>
- ⁸ Steven N. Kaplan and Joshua Rauh, "It's the Market: The Broad-Based Rise in the Return to Top Talent," *Journal of Economic Perspectives*, Vol. 23, No. 3, Summer 2013, <http://www.aeaweb.org/articles.php?doi=10.1257/jep.27.3.35>
- ⁹ Richard V. Burkhauser, "A 'Second Opinion' on the Economic Health of the American Middle Class," NBER Working Paper No. 17164, NBER, June 2011, <http://www.nber.org/papers/w17164>
- ¹⁰ Douglas W. Elmendorf, "Trends in the Distribution of Household Income Between 1979 and 2007," CBO, October 2011, <http://www.cbo.gov/sites/default/files/cbofiles/attachments/10-25-HouseholdIncome.pdf>
- ¹¹ W. Bradford Wilcox slide presentation.
- ¹² U.S. Census Bureau, "Current Population Survey," 2013 Annual Social and Economic Supplement, 2013, <http://www.census.gov/hhes/www/cpstables/032013/hhinc/toc.htm>
- ¹³ Diana Furchtgott-Roth, "The Income Inequality Problem Is Overblown," e21 at the Manhattan Institute, December 6, 2013, <http://www.economics21.org/commentary/income-inequality-problem-overblown>
- ¹⁴ Julia B. Isaacs, Isabel V. Sawhill, and Ron Haskins, "Getting Ahead or Losing Ground: Economic Mobility in America," *Economic Mobility Project*, Pew Charitable Trusts and Brookings Institute, February 20, 2008, http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/Economic_Mobility/Economic_Mobility_in_America_Full.pdf
- ¹⁵ "Pursuing the American Dream: Economic Mobility Across Generations," *Economic Mobility Project*, Pew Charitable Trusts, July 2012, http://www.pewstates.org/uploadedFiles/PCS_Assets/2012/Pursuing_American_Dream.pdf
- ¹⁶ Hope Yen, "Who's the biggest barrier to income inequality? The '2 percent'." Associated Press, December 9, 2013, <http://www.nbcnews.com/business/whos-biggest-barrier-income-inequality-2-percent-2D11708457>; see also: Don Boudreaux, "A Barrier to Reducing Income Inequality," Café Hayek, December 28, 2013, <http://cafehayek.com/2013/12/a-barrier-to-reducing-income-inequality.html>
- ¹⁷ "Pursuing the American Dream: Economic Mobility Across Generations," *Economic Mobility Project*, Pew Charitable Trusts, July 2012, http://www.pewstates.org/uploadedFiles/PCS_Assets/2012/Pursuing_American_Dream.pdf
- ¹⁸ Nina Easton, "Don't blame the 1% for America's pay gap," Term Sheet, CNN Money, April 24th, 2012, <http://finance.fortune.cnn.com/2012/04/24/pay-gap-rich-poor/>
- ¹⁹ Ron Haskins, "The Myth of the Disappearing Middle Class," Brookings Institution, March 29, 2012, <http://www.brookings.edu/research/opinions/2012/03/29-middle-class-myth-haskins>
- ²⁰ "Moving On Up," The Pew Charitable Trusts, November 2013, http://www.pewstates.org/uploadedFiles/PCS/Content-Level_Pages/Reports/2013/Moving_On_Up.pdf

- ²¹ David Leonhardt, "In Climbing Income Ladder, Location Matters," *The New York Times*, July 22, 2013, <http://www.nytimes.com/2013/07/22/business/in-climbing-income-ladder-location-matters.html?hp&r=0>
- ²² Florence Joumotte, Subir Lall, and Chris Papageorgiou, "Rising Income Inequality: Technology, or Trade and Financial Globalization?" IMF Working Paper, International Monetary Fund, July 2008, <http://www.imf.org/external/pubs/ft/wp/2008/wp08185.pdf>
- ²³ James Pethokoukis, "So Why Exactly Is Labor's Share of Income on the Decline," AEIdeas, November 4, 2013, <http://www.aei-ideas.org/2013/11/so-why-exactly-is-labors-share-of-income-on-the-decline/>
- ²⁴ Eric A. Hanushek, Guido Schwerdt, Simon Wiederhold, Ludger Woessmann, "Returns to Skills around the World: Evidence from PIAAC," NBER Working Paper No. 19762, NBER, December 2013, <http://www.nber.org/papers/w19762>
- ²⁵ Winship, 2012.
- ²⁶ Allan H. Meltzer, "A Look at the Global One Percent," *The Wall Street Journal*, March 9th, 2012, <http://online.wsj.com/article/SB10001424052970204653604577249852320654024.html>
- ²⁷ Scott Winship, "What would it mean for theories of U.S. income inequality growth if the U.S. experience has been similar to that everywhere else? (Updated)," ScottWinshipWeb, March 10th, 2011, <http://www.scottwinship.com/1/post/2011/03/what-would-it-mean-for-theories-of-us-income-inequality-growth-if-the-us-experience-has-been-similar-to-that-everywhere-else.html>
- ²⁸ Michael Tanner and Charles Hughes, "The Work Versus Welfare Trade-Off: 2013," Cato Institute, 2013, http://object.cato.org/sites/cato.org/files/pubs/pdf/the_work_versus_welfare_trade-off_2013_wp.pdf; see also: Megan McArdle, "When It Comes to taxes on the Poor, the Supply Siders Are Right," *The Atlantic*, December 16, 2011, <http://www.theatlantic.com/business/archive/2011/12/when-it-comes-to-taxes-on-the-poor-the-supply-siders-are-right/250099/>
- ²⁹ "Should You Go Back to Work?" Smart Money, <http://www.smartmoney.com/personal-finance/taxes/should-you-go-back-to-work-9559/>
- ³⁰ Melissa S. Kearney and Lesley Turner, "Giving Secondary Earners a Tax Break: A Proposal to Help Low- and Middle-Income Families," Brookings Institution, December 4, 2013, <http://www.brookings.edu/~media/research/files/papers/2013/12/04%20proposal%20help%20low%20income%20families%20kearney/04%20help%20low%20income%20families%20brief.pdf>
- ³¹ "Labor Market Effects of the Affordable Care Act: Updated Estimates," Appendix C of "The Budget and Economic Outlook: 2014-2024," Congressional Budget Office, February 2014, <http://www.cbo.gov/sites/default/files/cbofiles/attachments/45010-breakout-AppendixC.pdf>
- ³² C. Eugene Steuerle, "Labor Force Participation, Taxes, and the Nation's Social Welfare System," testimony before the Committee on Oversight and Government Reform, United States House of Representatives, February 14, 2013, <http://www.urban.org/UploadedPDF/901554-Labor-Force-Participation-Taxes-and-the-Nations-Social-Welfare-System.pdf>
- ³³ Scott Winship, "Stop Feeling Sorry for the Middle Class! They're Doing Just Fine." *The New Republic*, February 7th, 2012, <http://www.tnr.com/article/politics/100363/middle-class-mobility-crisis-low-income-poor>; see also: "Upside Down," CFED and the Annie E. Casey Foundation, 2010, http://cfed.org/assets/pdfs/UpsideDown_final.pdf
- ³⁴ "Where does America rank in terms of top rate?" *TheMoneyIllusion*, November 17, 2013, <http://www.themoneyillusion.com/?p=24759>
- ³⁵ David Neumark, "The Minimum Wage Ain't What It Used to Be," *The New York Times*, December 9, 2013, <http://economix.blogs.nytimes.com/2013/12/09/the-minimum-wage-aint-what-it-used-to-be/>
- ³⁶ David Neumark, J.M. Ian Salas, and William Wascher, "Revisiting the Minimum Wage-Employment Debate: Throwing Out the Baby with the Bathwater?" NBER working Paper No. 18681, NBER, January 2013, <http://www.nber.org/papers/w18681>
- ³⁷ Jess Remington, "Washington Post Fact Checker Calls Out Obama's 'Minimum Wage Increase Doesn't Cost Jobs'," *Reason*, December 6, 2013, <http://reason.com/blog/2013/12/06/washpost-fact-checker-calls-out-obamas-m>
- ³⁸ "Student Loan Debt Shows High Cost of Federal Aid," National Center for Policy Analysis, November 1, 2011, http://www.ncpa.org/sub/dpd/index.php?Article_ID=21259
- ³⁹ Suzanne Fields, "Are our universities shrugging off higher education?" *The Washington Times*, January 8, 2014, <http://www.washingtontimes.com/news/2014/jan/8/fields-bouncing-renaissance-man-for-robot-man/>