Economic Inequality I: Is there anything money can't buy? How the commodification of the world is changing poverty, inequality, and everything.

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1   Introduction

- The increase in income inequality in the US has gained a lot of attention in the social sciences. (E.g., percentage of income earned by the top 10 % of the population has been drastically increasing since the 60s).

- We pay a lot of attention to rising income inequality, but there is another force at work which is as important and that is rising commodification.

- What is meant by rising commodification?

  - There are two ways to get goods, services, and opportunities: (1) it is automatically provided (e.g., healthcare in some societies) or (2) it is allocated on the basis of who has the money to pay for it.
  - Commodification is the process by which goods, services, and opportunities are allocated. This is the mechanism through which distribution increasingly occurs.

- This definition of commodification is very expansive. It includes both the direct purchase of goods and indirect ones such as package-deal purchases (e.g., neighborhood and schools) or installment plan purchases (e.g., spouse through a marriage contract – there is an expectation your spouse will help provide for you).

- We will talk about just one aspect of commodification today: access to opportunity for one's children. This theory extends more generally to three main zones that have historically been rich in public goods: family, neighborhood, and state.

- The argument for commodification of opportunity is that if you want to provide opportunity for your children, you have to buy it, whether directly or indirectly.

- Money is increasingly needed to secure opportunity. As a result, the poor are doubly disadvantaged:

  - They have less money.
  - Money matters more in securing opportunity.

2 Getting Ahead in a Commodified World

- Imagine you are a poor parent who would like to provide your child with opportunities. There are six examples of the different ways in which a parent faces challenges to do so given this rise of commodification:

- **Problem 1**: Getting into an opportunity zone.

  You want to get into a country that is doing well and has opportunities. The key problem here is that it is increasingly getting commodified. For instance, an EB-5 visa which provides a U.S. green card in return for investing millions of dollars into a business. Such ways of getting U.S. citizenship are increasing dramatically over time. You can do it less directly through NAFTA professionals, where you don't have to put down money directly on the table, but in effect you are paying for it through the stream of high taxes that you will be paying once you're in the U.S.

- **Problem 2**: Getting married.

  Marriage provides a second income stream, and gives a second earner insurance against poverty. But, what's happening over time is that marriage is becoming a luxury good that is available much more to those who already have high income. For instance, the percentage of people who are not college graduates has dropped from over 70 percent to under 50 since the 1960s. There is less erosion for those who have college degrees during the same time period.

  Question: Why are lower income people getting married less? Part of it could be that women who now have the opportunity to enter the labor force and earn on their own have fewer incentives to get married. There is an incentive to get married, but less so than before, so women might choose not to marry for a whole host of reasons. Marriage is less of a necessity.

  Question: Is it possible that what a lot of this data is capturing is a delay in marriage? It's possible that there is delay in when people get married over the years, but we believe that this general trend of lower income individuals getting married less holds even after accounting for that. The delay in marriage is also consequential if we were to look at portion of one's life as a married individual, where they reap the benefits of being married.

- **Problem 3**: Marrying "well."

  There is a rise in positive assortment by earning. People of the same education levels tend to marry one another. We see fewer cases where people end up marrying someone who has a higher education level, and thus a higher earning-potential. So, the benefits of marrying through increasing your income stream are diminished now as compared to in the past.

- **Problem 4**: Getting into a high-opportunity neighborhood.

  This issue is analogous to the problem of getting into a country with more opportunities. As a poor person, you also face challenges to get to a high-opportunity neighborhood. Raj Chetty has been influential in showing that some neighborhoods have a huge payoff in terms of opportunity. The evidence of this problem is not as established as we would like. The prototypical example is Palo Alto. Fifty years ago, apartments in less desirable areas of Palo Alto might be inhabited by someone from a working class family, and this could be

like winning the lottery since there are great public schools. Neighborhoods are increasingly more segregated. Having an opportunity to live in a high-amenity neighborhood without paying directly or indirectly doesn't happen as much now.

- **Problem 5**: Early childhood training.

  There is a lot of evidence that indicates that it's important to have high quality early education. The problem is, increasingly, you have to buy this training. In the past, we had norms in which women stayed home and cared for children, taking care of the early childhood training. That domestic division of labor had an equalizing effect on early training for children; even if, as a man, you married a woman who had high earning potential, you would not necessarily exploit that potential. But now that women are entering the workforce more, it's very difficult for poor families to pay for high quality childcare. This is unproblematic for those who are well-off, but not for lower income families.

  Question: It sounds like this might be an issue that would have differential impact across incomes. Is it the case that you would expect a lot of changes in female labor participation on the lower end compared to the higher end and so the impact on early childhood would be different as well? And who bears the incidence of the commodification?

  Suppose we lived in a world where early childhood training was provided by the state because it was seen as a right and public good. In that world, you might imagine someone even deciding not to enter the labor force since it was not necessary to provide early childhood training. However, for the most part, this is not the case in the U.S. Therefore, people have to enter the labor market to pay for early childhood training.

  In the past, when we had exceptions to the gendered norm, it was often at the lower end of the income distribution (out of necessity). Over time, that norm has broken down more; there are less stringent gendered norms and even more so at the lower end of the distribution.

- **Problem 6**: Adult training.

  In the past, you could expect your neighborhood to provide training. (E.g., high school that could give you training to get a union job, and thus a middle-class life.) Now, in order to get a middle-class outcome, you need a college degree, but communities do not provide free college. We've transitioned from where what is needed to have a middle-class outcome was something that was available for free to where it is not.

  Question: The reason why this is a problem seems to be that colleges are so expensive. In many other countries, colleges aren't as expensive and in some they are even a public good. Would that close the gap?

  We don't yet have good evidence on the impact of free or affordable college on mobility prospects. We do know that the U.S. is a low mobility country compared to many countries that provide much lower cost college education. It is a leading hypothesis, but not yet demonstrated.

# 3 Commodification as an Inequality-Exacerbating Force and Evidence

- Recall that there are two forces– increasing income inequality and rising commodification.

- The implication of all of this is that the U.S. isn't a land of opportunity. We might ask what the evidence for this is.

- What do we know about the amount of mobility in the U.S.? In particular, what is the evidence about the intergenerational earnings elasticity (IGE)?

- IGE is the expected percent change in a child's earnings given a one percent increase in her or his parents' income. (We can also define analogously for intergenerational income elasticity.)

- This measures to what extent should you care about whether an individual is born into a family with $50,000 income versus one percent more. If the "American Dream" was alive and well, then which family you are born into wouldn't matter.

- *Side comment*: In principal, the IGE could be greater than one meaning that a one percent increase in your parents' income would lead to a more than one percent increase in a child's income. Empirically, it never is.

- There are problems in terms of the size of the IGE.

  - Problem 1: There is a wide range of estimates. Our main sources are: survey data from surveys that are small, and thus it is hard to get a precise estimate. Based on these, we have an IGE of 0.5 or 0.6, which is very large. This is the basis of the concern that the U.S. is not a high mobility country. Chetty used tax data and estimated IIE to be 0.34, which is more average. He backed away from this for a host of reasons, but this still opens up the question, is the U.S. average in terms of mobility or is there a long way to improve based on this wide range?
  - Problem 2: Tax data is considered the gold standard, but there is lack of tax return evidence on the IGE partially, because of methodological problems.

- We might ask whether we can rely on the estimate above. There are many complications and biases that come up, making it difficult to use, including:

  - Lifecycle bias: Measuring income at the right age matters.
  - Attenuation bias: A reliable measure of parental income is important.
  - Selection bias: Measuring mobility for the full population is important.
  - Functional-form bias: The importance of allowing for different payoffs at different levels of parental income.

- *Question*: Is there analogous evidence on assets? Emmanuel Saez has some work on wealth mobility using some tax data. There is also some work using the PSID to get an estimate of wealth. Work on wealth is much harder than income, but if we have a problem with income mobility, then we are very likely to have a huge problem with wealth mobility.
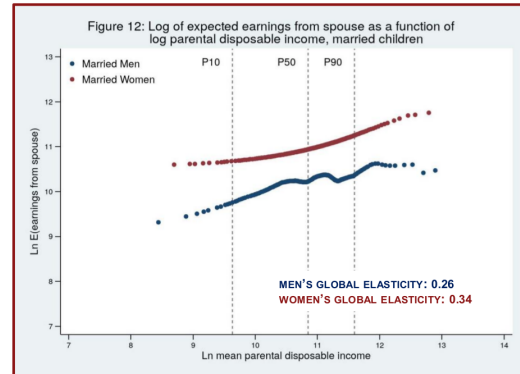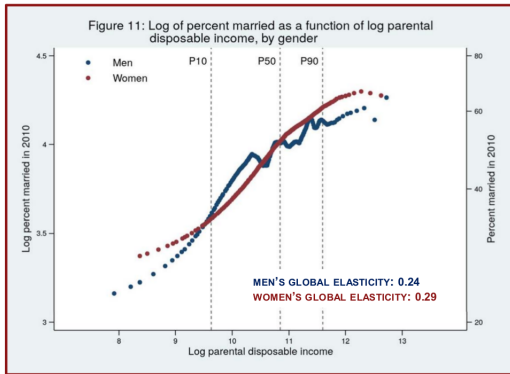
4 Some Results

- Given that tax data is some of the best data that we have available, we address many of these issues to estimate IGE in this project and find the following curves for men and women:
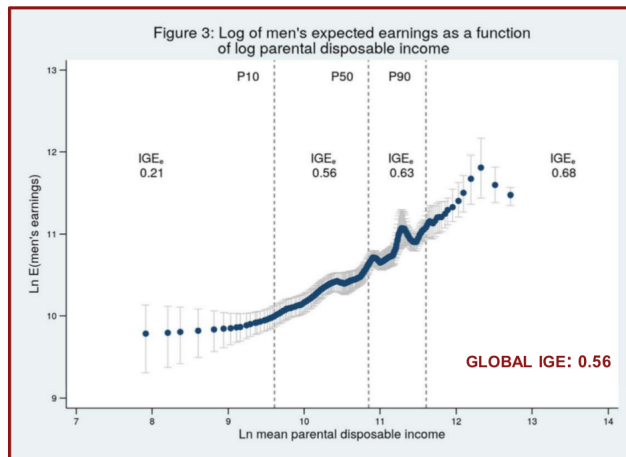
- This above figure indicates that the initial survey results were on the mark and that the U.S. might in fact be a renegade country in terms of mobility.

- An interesting observation is that a similar approach for women shows a lower IGE for women.
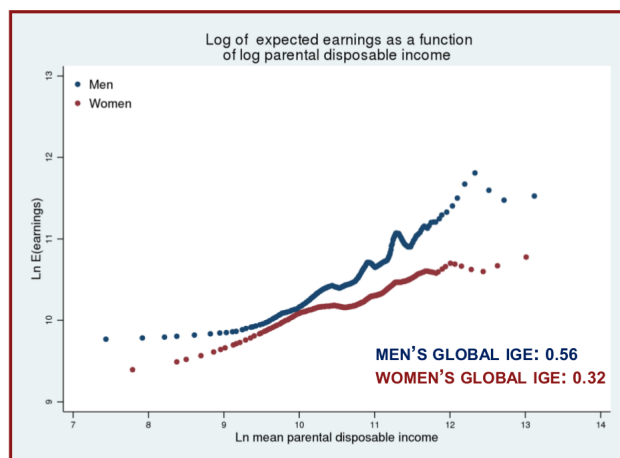

- An initial conclusion might be that parental income matters less for women's intergenerational mobility, and that the U.S. might in fact be the land of opportunity for women. Such an analysis would be ignoring opportunities to marry and marry well, which we mentioned as being one of the key factors for opportunity above.

- The following result shows that women are more likely to marry and marry well as a result of being born into higher earning families. That is, women have higher prospects of being married, and conditional on being married, they marry higher earning spouses.

Figure 11: Log of percent married as a function of log parental disposable income, by gender

Figure 12: Log of expected earnings from spouse as a function of log parental disposable income, married children
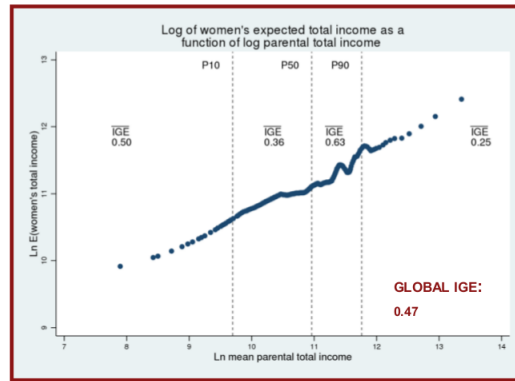
- Accounting for all of this, we get that IGEs are very high for both men and women, but as shown above, is generated in different ways for men and women.

MEN'S INCOME IGE
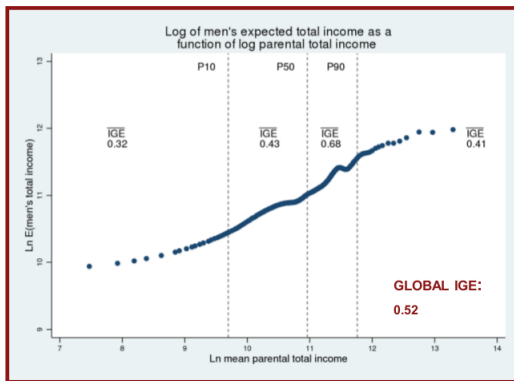
WOMEN'S INCOME IGE

- We also note that the IGE differs across the income distribution. In particular, for men and women, the IGE of 0.52 and 0.47 drop to 0.43 and 0.36 when considering the 10th to 50th percentile of income and rise to 0.68 and 0.62 for the 50th and 90th percentile, respectively.

- A partial explanation for this might be that we have some compensatory redistributive programs such as food stamps and student loans at the bottom of the income distribution, which reduces the impact increasing parent's income by 1 % might have, but we don't have such compensatory benefits to offset the effects of income inequality for the 50th to 90th percentile. Therefore, the return of such an increase might be higher for middle income families. We have different dynamics at play at the bottom versus the middle of the distribution.

- *Question*: Is there conventional wisdom about what the two or three underlying mechanisms are that cause the IGE to change?

  It's a big debate now as to whether the IGE is actually changing over time. It's true that income inequality was less in the 1960s, but we don't know what the IGE was at the time. One possibility is that the big change over the years is increasing commodification which

might have driven up the IGE. But, currently, we only have a one point dataset, and all we can say is that IGE is very high now.

Another related statistic is the percentage of children earning more than their parents at the age of 30. This has dropped from over 90 % to about 50% since the 1940s. This doesn't really speak to equality of opportunity, and is a different kind of mobility than what we've been talking about so far. The main forces behind this are (1) declining economic growth and (2) increasing inequality over the years.

- It's crucial for future work to set up infrastructure to get better trend data. Tax data cannot be used to address long-term trends since SSN for dependents was only first secured in 1987. There are some long-term solutions, including the American Opportunity Study, which will hopefully allow us to monitor mobility better.