

Economic Growth, Individual Opportunity, and Federal Policy

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Hanushek and Woessmann

Focus on how education, a key determinant of individual opportunity, is good for long-term growth.

Key contribution: use **test scores** to measure human capital

When properly measured, **higher human capital -> faster growth**

The estimated effects are **quite substantial!**

Raise average score to German levels:

-> Increase GDP/pop by 7.3 percent over 80 yrs

Raise minimum score to reflect ~9th grade education:

-> Increase GDP/pop by 3.3 percent over 80 yrs

-> Also good for broadly shared economic growth

Marrero and Rodríguez

Offer an explanation for ambiguous theoretical and empirical results on the relationship between inequality and economic growth. **Two types of inequality:**

“Inequality of effort (IE)” = inequality that results from **rewards that vary with effort**. Theory: this is good for growth.

“Inequality of opportunity (IO)” = inequality that results from **factors outside of individuals’ control** (a.k.a. “inequality of circumstances”). Theory: this is bad for growth.

Key empirical result: **Inequality of opportunity is bad for growth**

Both papers significantly advance our understanding of the connections between economic growth and individual opportunity

Let me build on those ideas, with four points about those connections and, specifically, the potential role of federal policy.

We care about opportunity—and mobility and inequality—for reasons beyond effects on growth

Direct effect on well-being

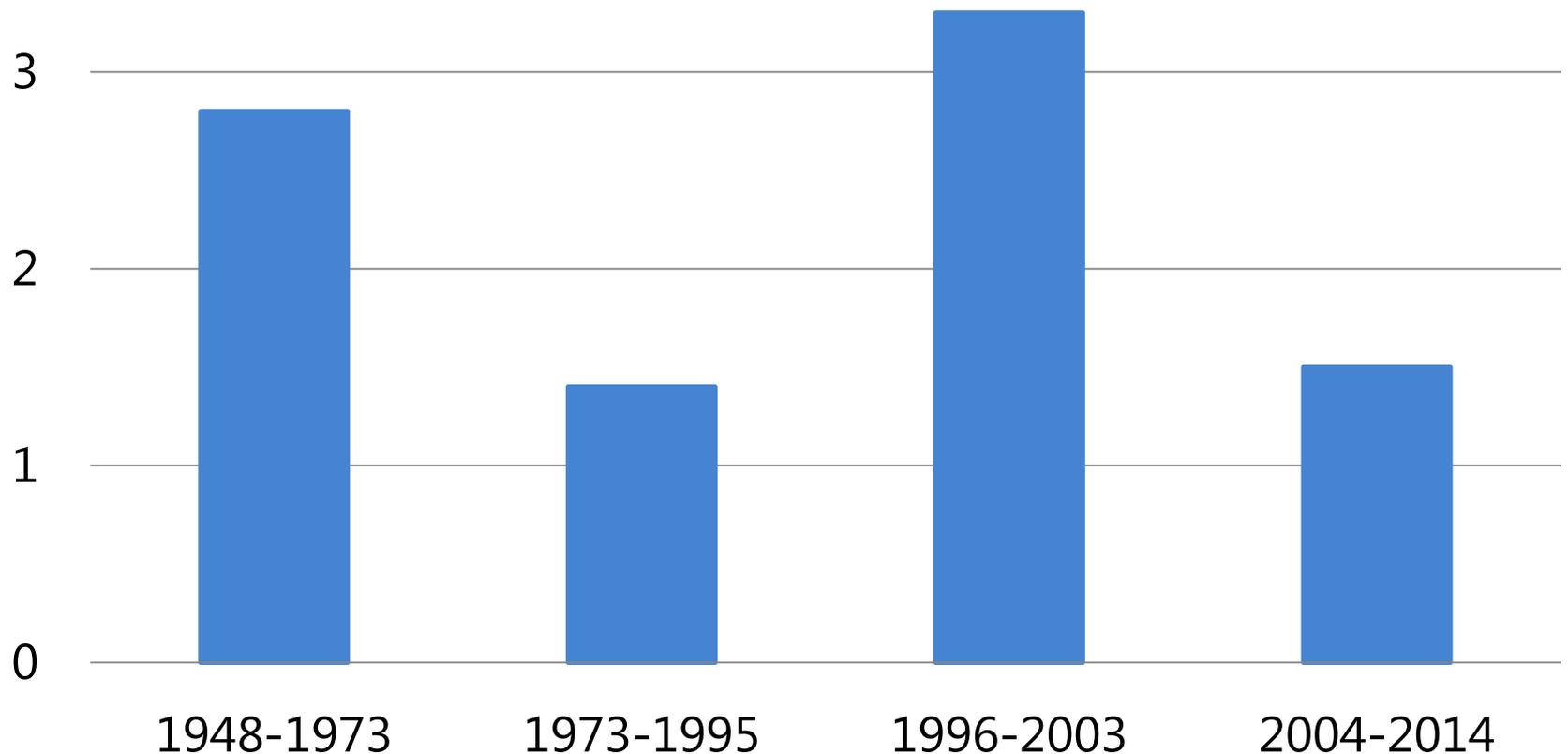
High mobility **feels more just** --> “everyone has a fair shot”

Low inequality and high mobility is **good for social cohesion**

Economic trends underscore the importance of boosting both opportunity and growth

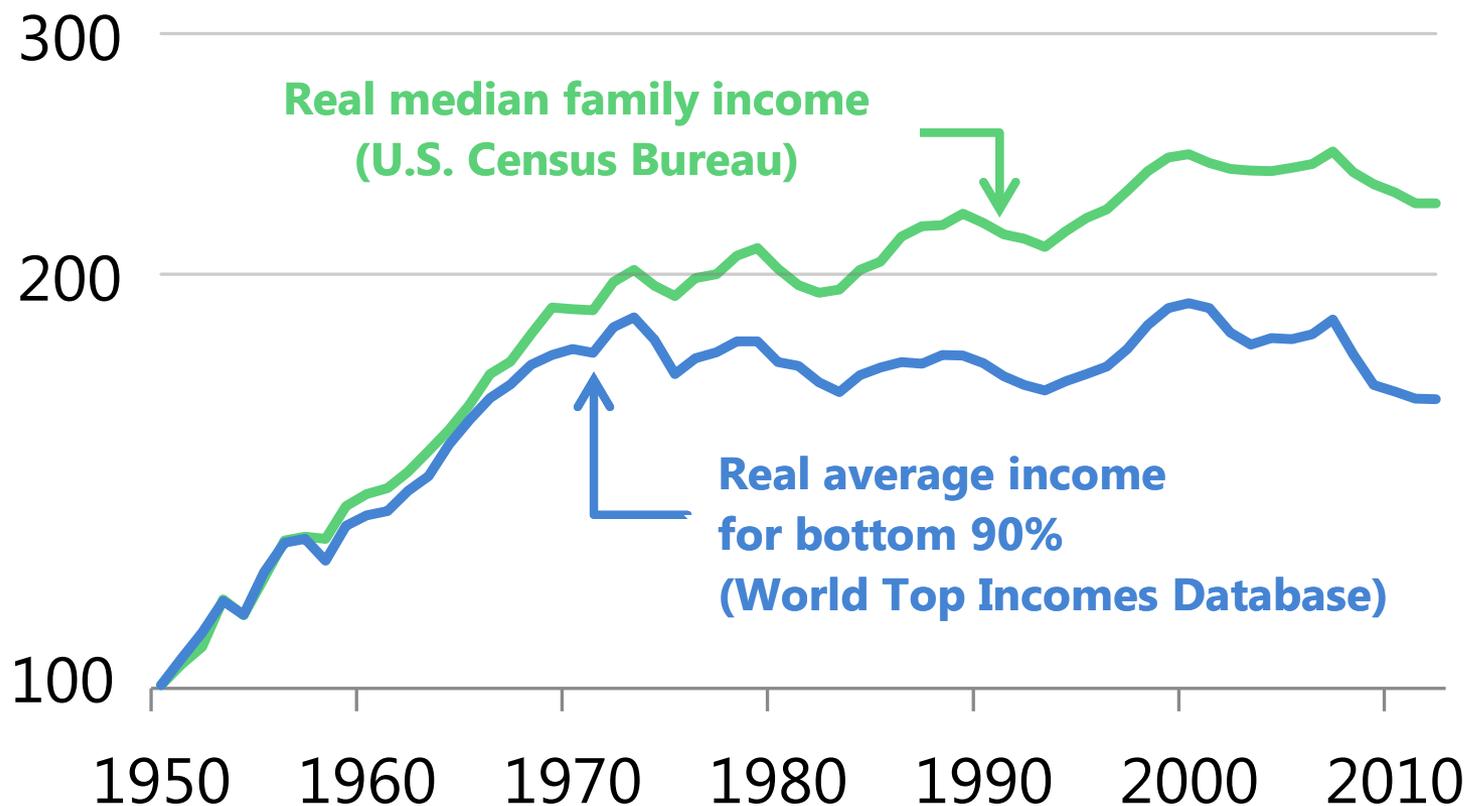
Real Output Per Hour

Percent



Economic trends underscore the importance of boosting both opportunity and growth

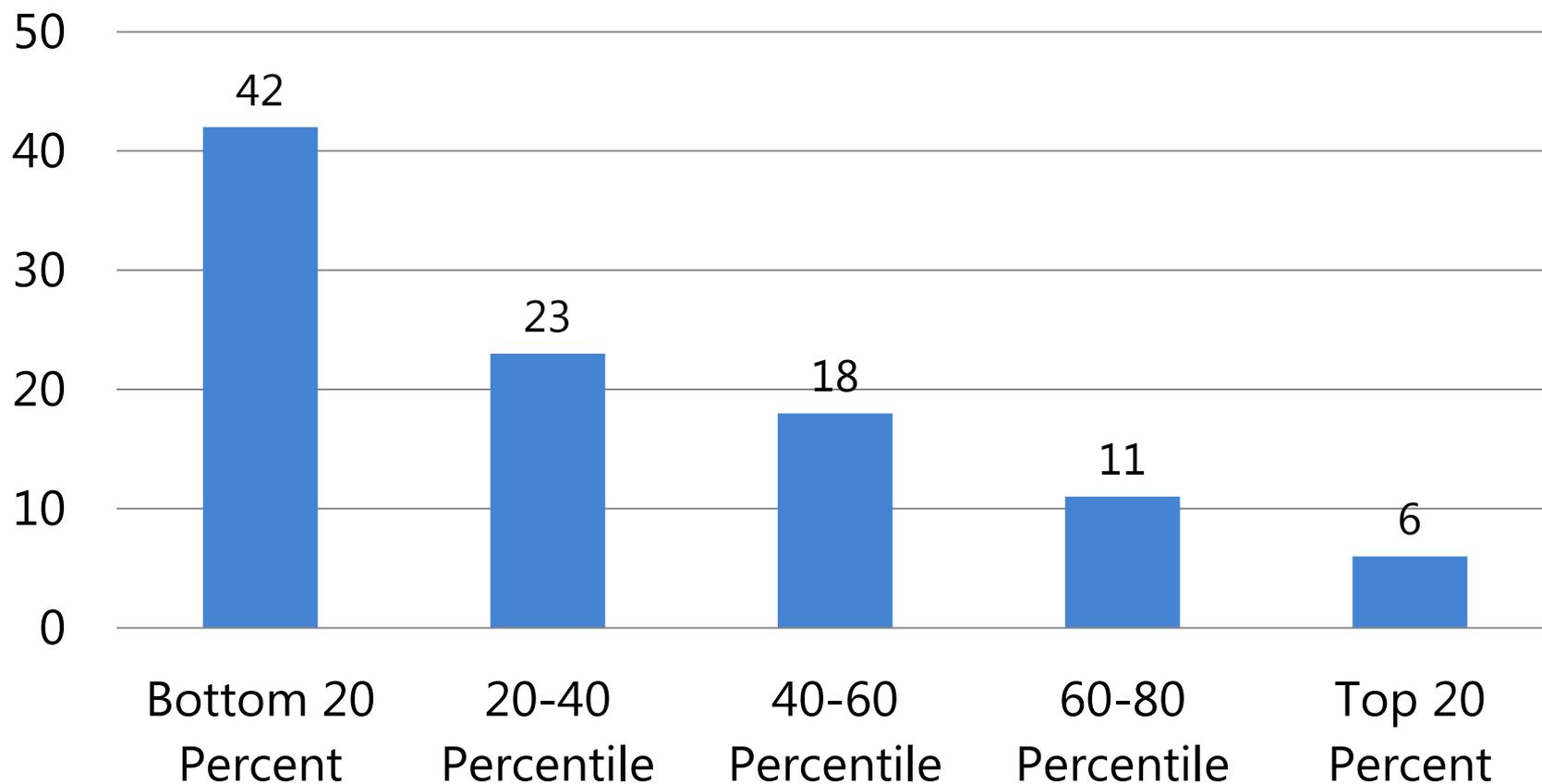
Index, 1950=100 (Log Scale)



Economic trends underscore the importance of boosting both opportunity and growth

Where Low-income Children End Up as Adults

Percent



Both opportunity and growth can be enhanced by by improving skills

Concrete policy steps:

Undertake early interventions, like **universal preschool**

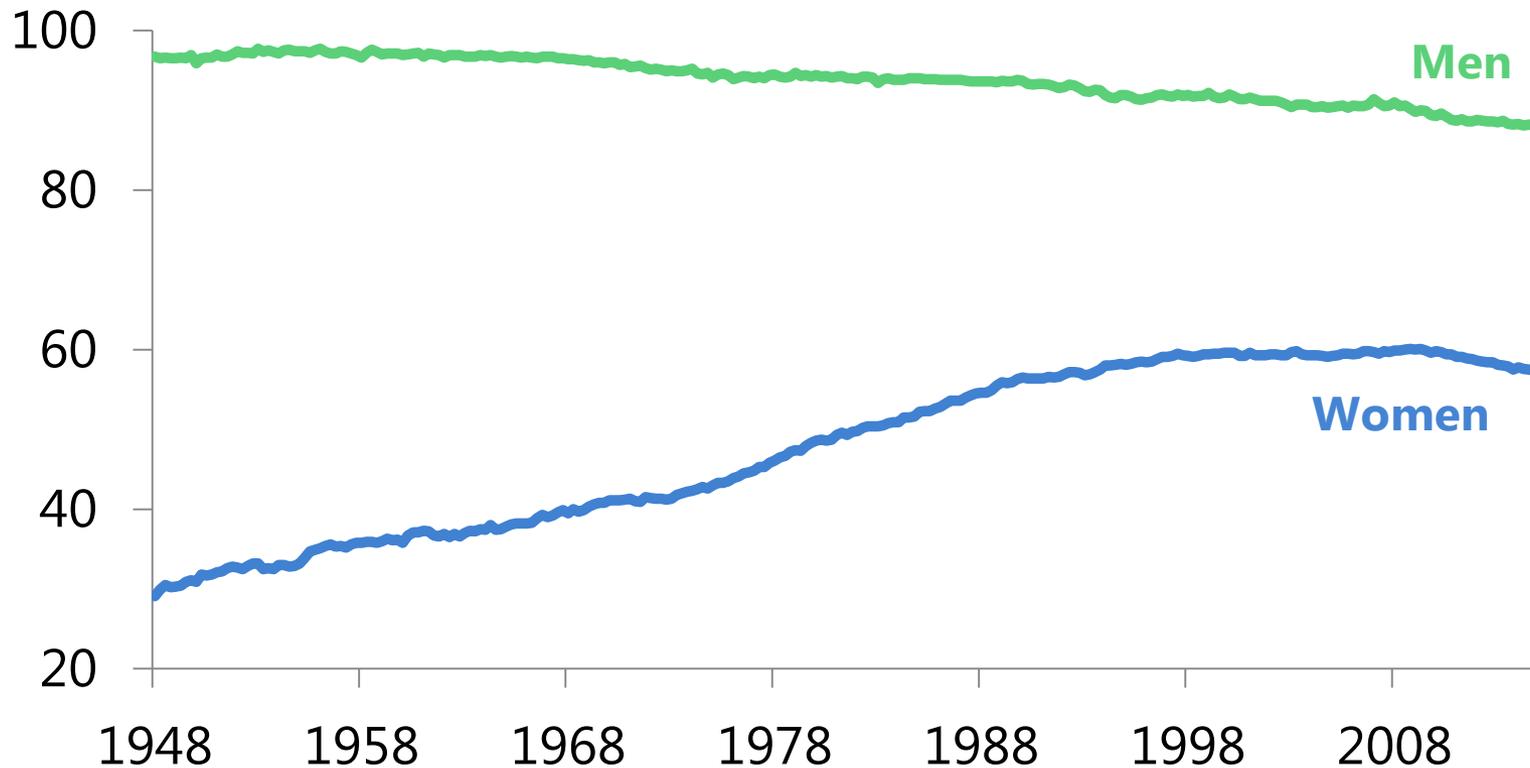
Promote increased access to **higher education**

Provide support for **worker training**, apprenticeships, and partnerships between community colleges and local employers

Another source of limited opportunity: obstacles to labor force participation

Participation Rates for Workers Age 25-54

Percent



Both opportunity and growth can be enhanced by reducing obstacles to labor force participation

Concrete policy steps:

Mitigate tax-related disincentives for second earners

Make it easier for Americans to **balance work and family responsibilities**

Explore **occupational licensing reform**

Conclusion

Achieving broadly shared economic growth is difficult, but we can make progress toward that goal by taking well-understood policy steps

Endnotes

Slide 5: Source – U.S. Department of Labor; annualized average of nonfarm productivity growth over periods shown.

Slide 6: Median family income is defined as money income received (exclusive of certain money receipts such as capital gains) before payments for personal income taxes, social security, union dues, medicare deductions, etc. It does not include noncash benefits, such as food stamps, health benefits, rent-free housing, etc. The World Top Incomes series is based on taxpayer information from each country, and it is defined as gross income before taxes. It does not include capital gains. For distributional information about more comprehensive measures of family income that span a shorter time period, see: <https://www.cbo.gov/publication/49440>.

Slide 7: Source – Haskins, Isaacs, and Sawhill (2008) “Getting Ahead or Losing Ground: Economic Mobility in America,” Brookings. Chart depicts income quintile as adults for children born into the lowest-income quintile.

Slide 9: Source – U.S. Department of Labor.