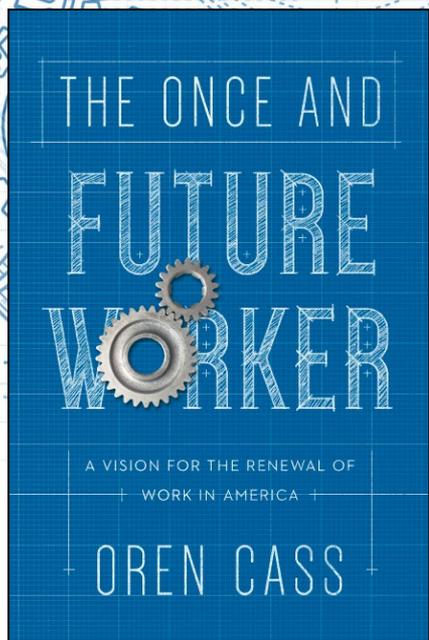


# THRIVERS vs STRUGGLERS:

A Growing Economic Divide and  
What To Do about It



MANHATTAN  
INSTITUTE

Oren Cass  
Senior Fellow

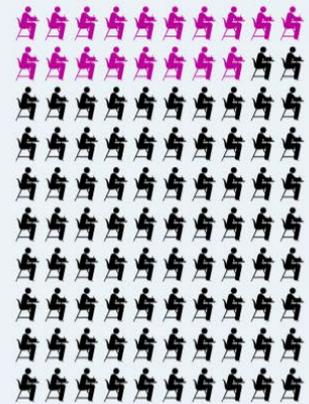
[www.orencass.com](http://www.orencass.com)  
[orencass@gmail.com](mailto:orencass@gmail.com)  
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Federal Reserve Bank  
of St. Louis  
May 23, 2019

# The Fortunate Fifth

OF  
**100** students who enter  
the 9th grade...

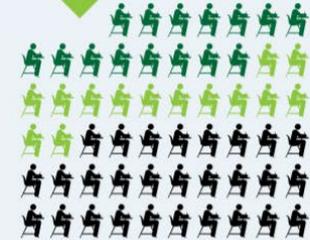
**18** fail to graduate  
from high school  
on time



OF THE REMAINING **82**  
**25** don't enroll in  
college after  
graduation



OF THE REMAINING **57**  
**15** enroll in 2-year  
college but fail  
to graduate  
**14** enroll in 4-year  
college but fail  
to graduate



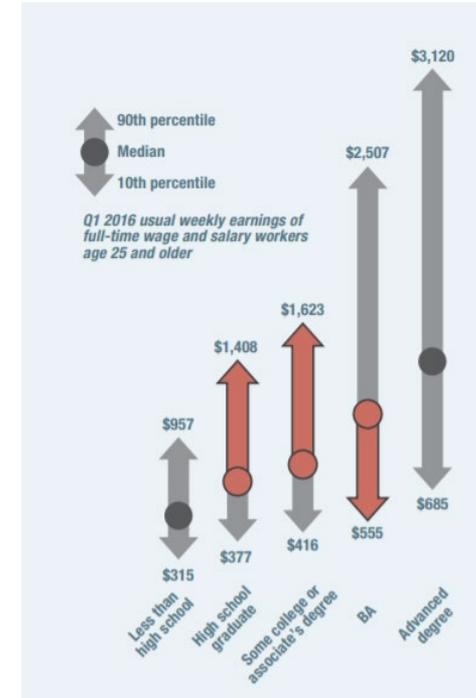
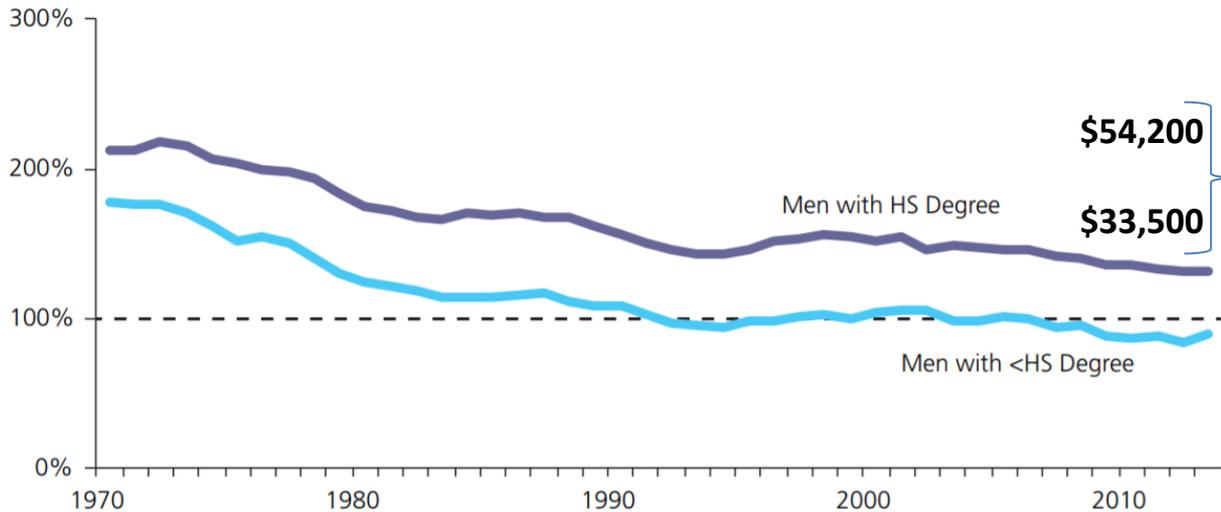
OF THE REMAINING **28**  
**12** take jobs they don't  
need their college  
degrees for



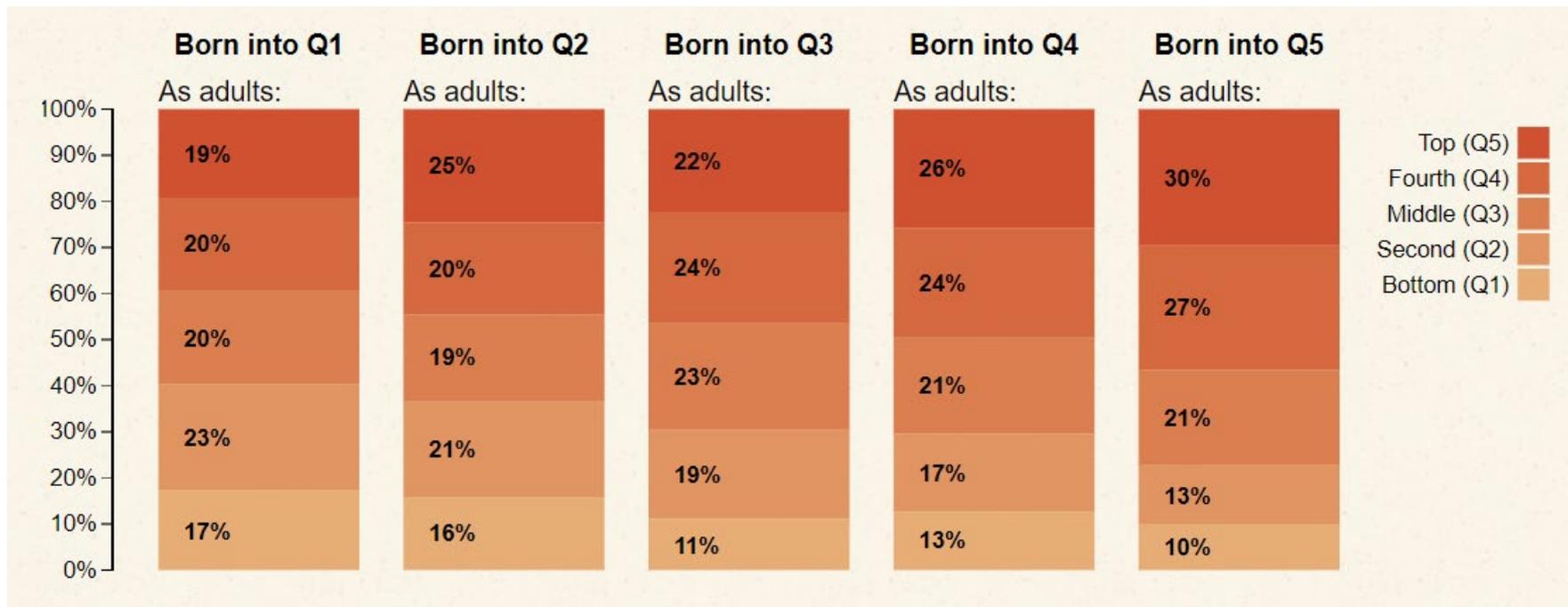
# What Happened to the Non-College Worker?



Median income compared with federal poverty line for family of four



# Upward Mobility\*



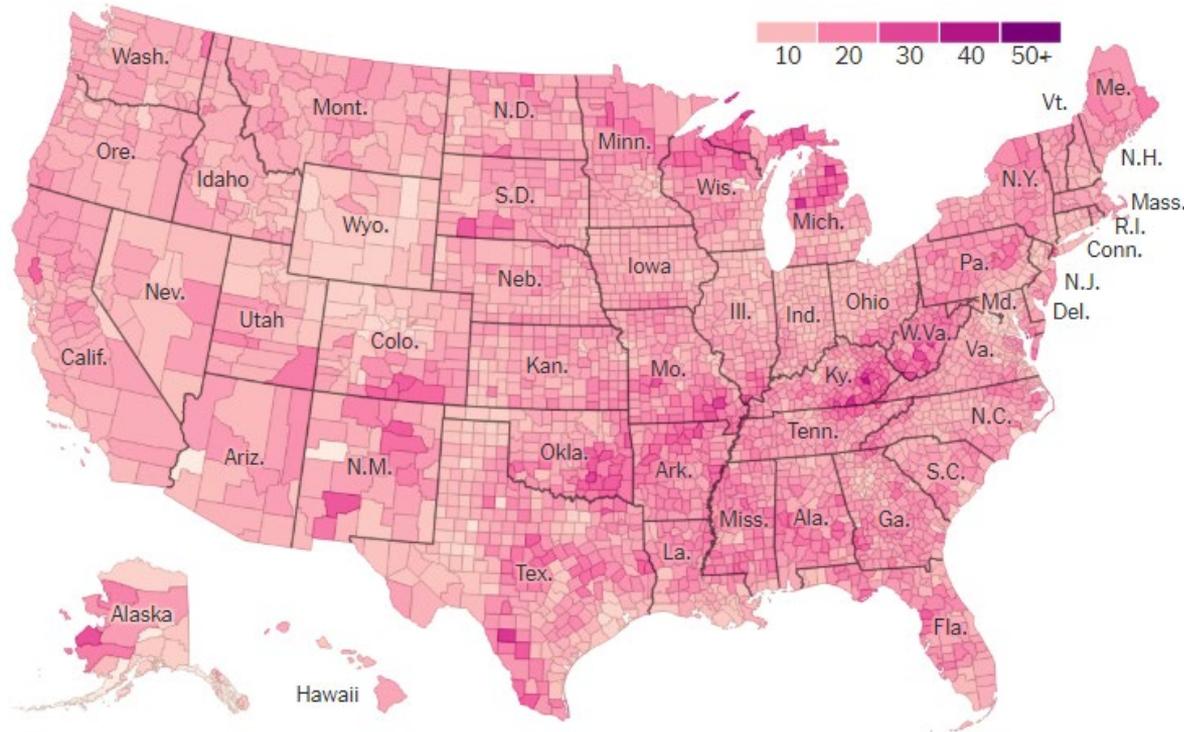
**\*For continuously married mothers**



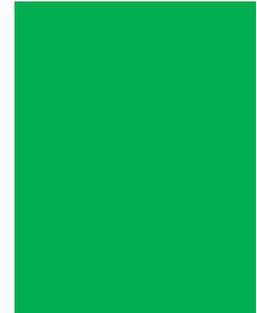
# The Problem

## DEPENDENCE ON GOVERNMENT PROGRAMS IN 1979

Federal transfers of cash or other assistance as a percentage of income, by county



**\$6.5 trillion**



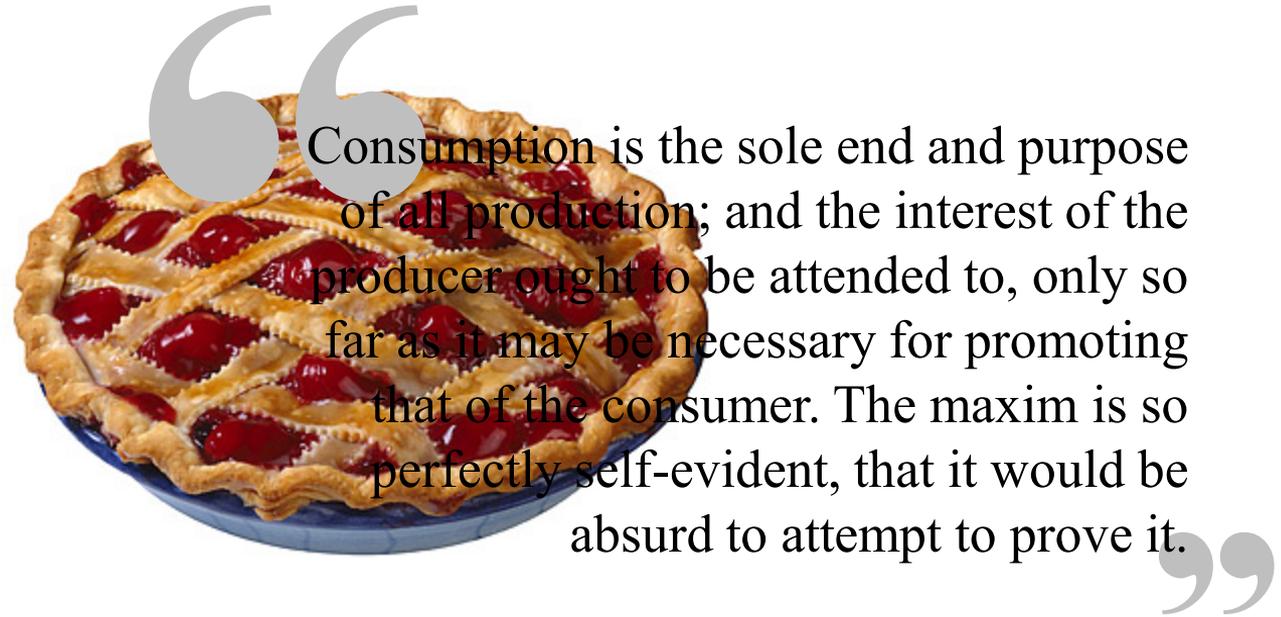
**Real U.S. GDP  
(2009 chained dollars)**

Based on more than 40 programs, including retirement, disability, medical, unemployment, education, income maintenance, and veterans' benefits.  
Source: *New York Times* (Suzanne Mettler and Cornell University)

Source: U.S. BEA

## WHAT DID WE MISS?

---



Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer. The maxim is so perfectly self-evident, that it would be absurd to attempt to prove it.

– Adam Smith, *The Wealth of Nations*

# The Working Hypothesis



“A labor market in which workers can support strong families and communities is the central determinant of long-term prosperity and should be the central focus of public policy.”

- How is this different?
- Why is it true?
- What does it imply?

# From a Consumption Lens to a Production Lens



## ECONOMIC PIETY

- Optimize for growth
- Ensure gains to winners exceed losses to losers
- Economic growth provides foundation for strong families and communities

## WORKING HYPOTHESIS

- Optimize for self-sufficiency
- Set floor below losses, even at cost to total efficiency
- Economic growth is an emergent property of strong families and communities

# A Hypothetical: The 20 Percent Button

- **Most productive quintile of the labor force becomes instantly twice as productive**
- **The least productive quintile drops out of the labor force**



**DO YOU  
PUSH THE BUTTON?**



# The Working Hypothesis



“A labor market in which workers can support strong families and communities is the central determinant of long-term prosperity and should be the central focus of public policy.”

- How is this different?
- Why is it true?
- What does it imply?

# What Work Is Worth



# The Labor Market's Limitation: People Aren't Products



# The James Harden Economy

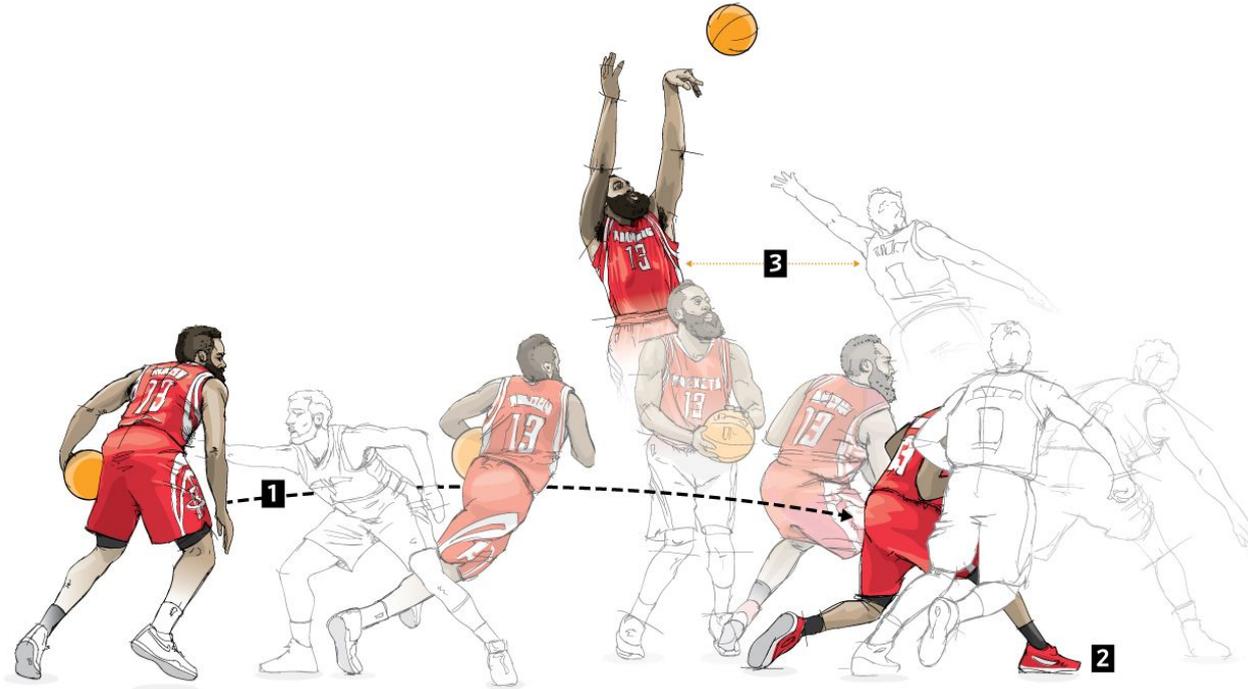


Illustration: Mike Sudal/THE WALL STREET JOURNAL

# The Working Hypothesis



“A labor market in which workers can support strong families and communities is the central determinant of long-term prosperity and should be the central focus of public policy.”

- How is this different?
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- What does it imply?

# Shortcomings of Standard Responses



**✘ Redistribution**

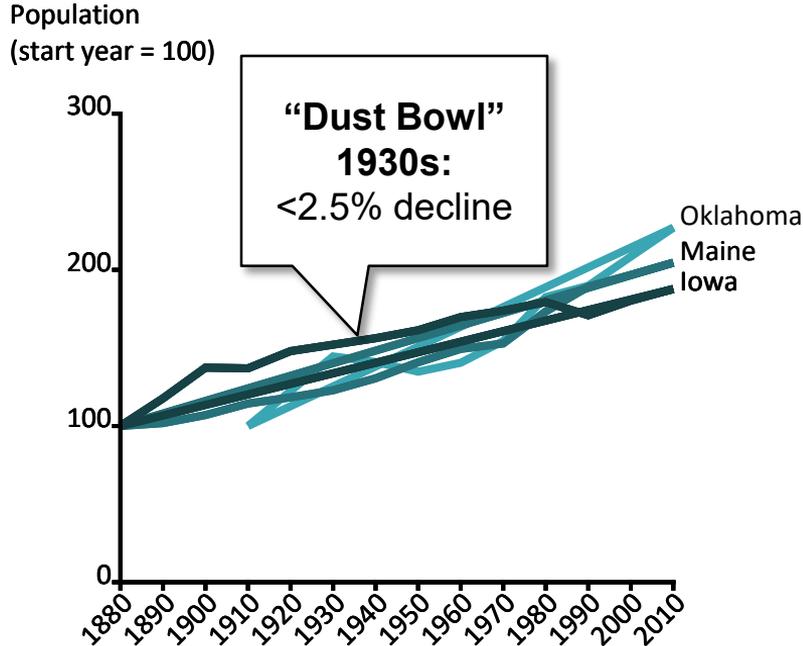
**✘ Relocation**

**✘ Education**

# The Limits of Geographic Mobility



## POPULATION BY STATE



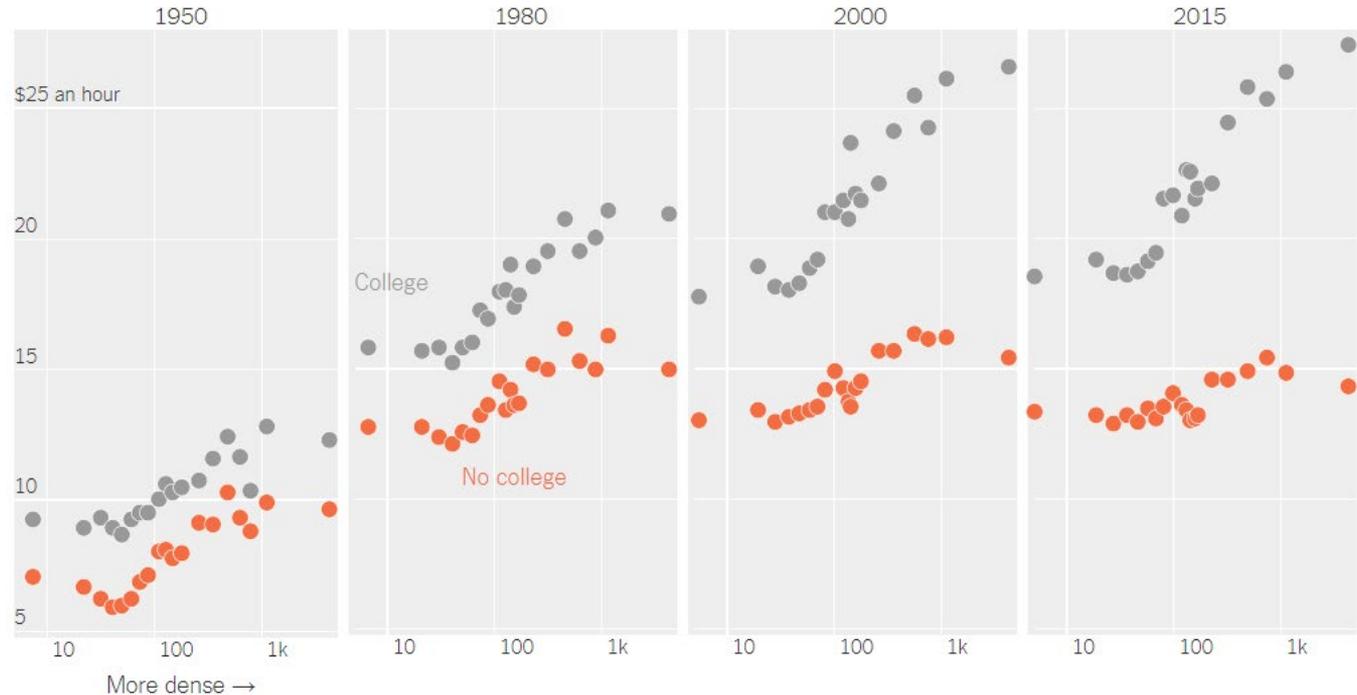
Source: U.S. Census Bureau

- Most Americans adults live within 18 miles of their mother; 80% live within a two-hour drive
- 37% of Americans have never lived outside their hometowns
- Those without college degrees much more likely to stay close to home

# The Limits of Geographic Mobility

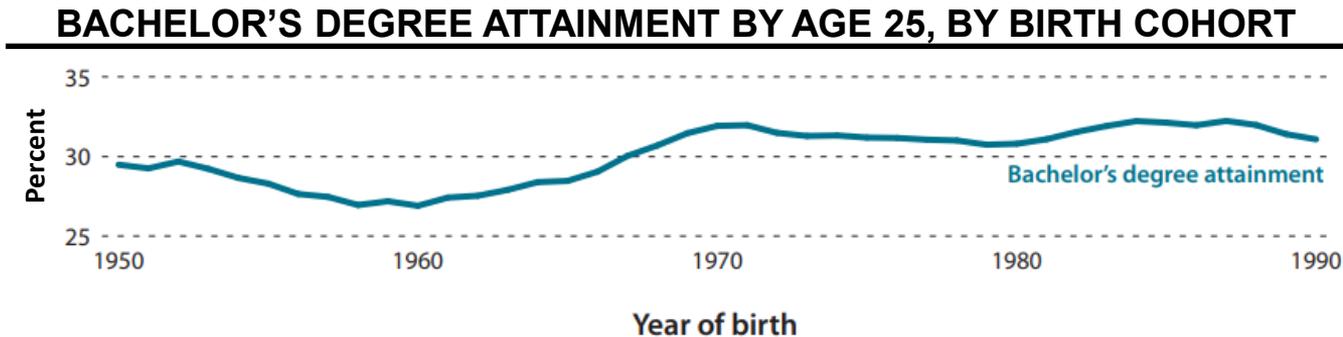
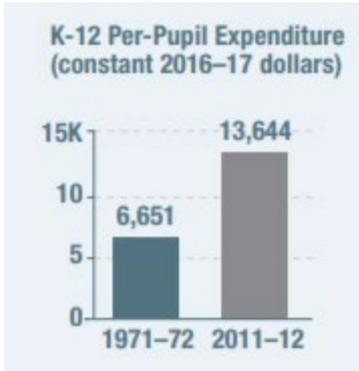


## WAGES BY POPULATION DENSITY



Source: New York Times; David Autor

# Not Everyone Can Be a Knowledge Worker



# Implications for Public Policy

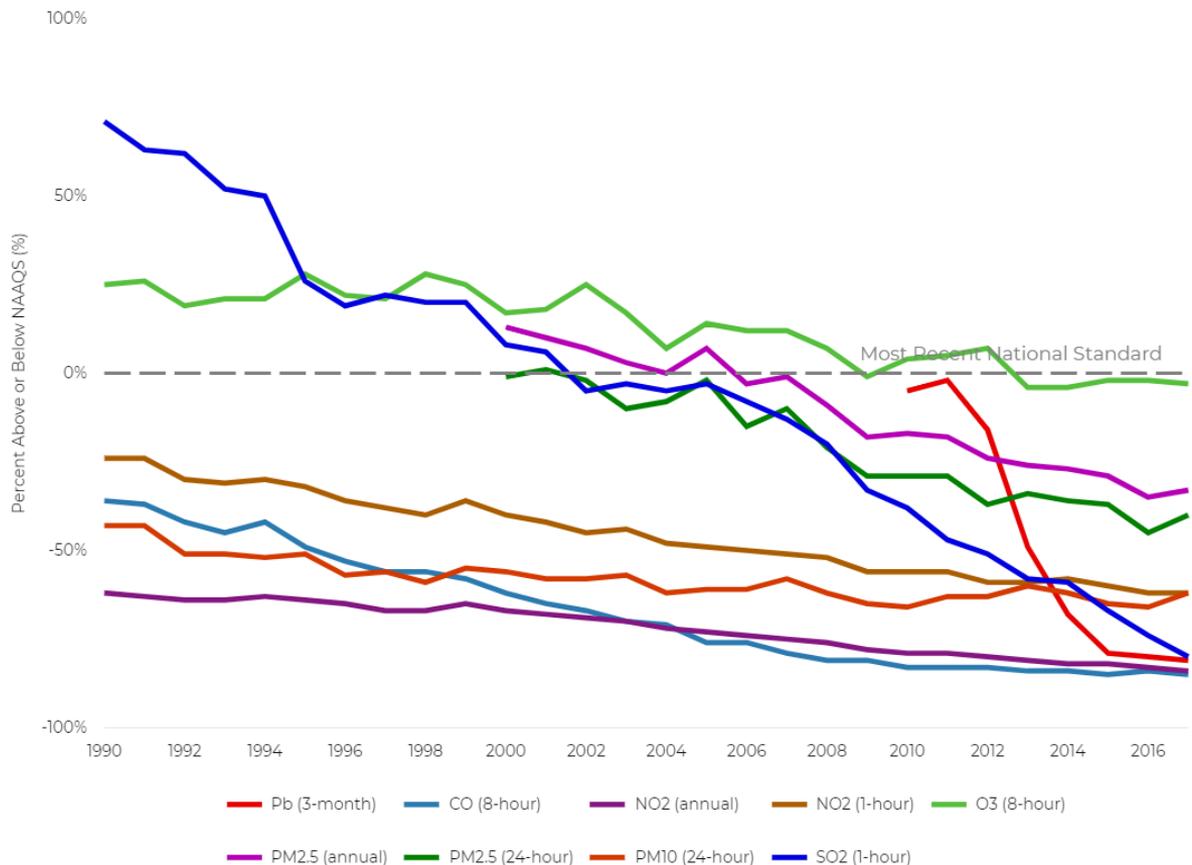


***The market is a neutral processing mechanism:***

***If we want different outcomes, we must alter the conditions in which it operates.***

- Slowing environmental gains for sake of industrial growth
- Orienting the education system toward the median student
- Requiring balance in our trade and immigration flows
- Revitalizing organized labor to mediate between the parties
- Reorienting the safety net toward making work pay

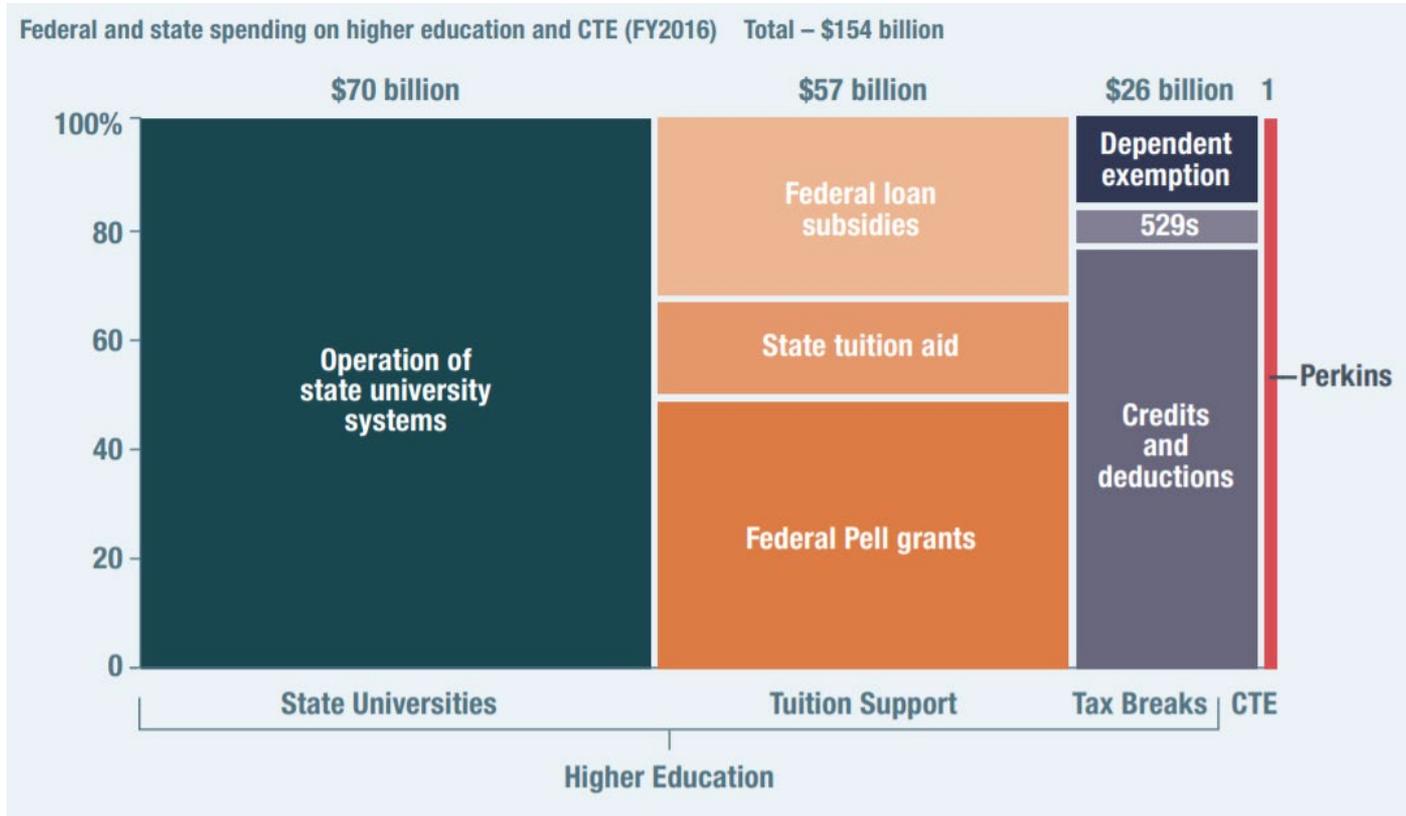
# Regulatory Environment



City	PM 2.5
Brussels (EU)	18.2
<b>Visalia-Porterville, CA</b>	<b>17.9</b>
Paris (EU)	17.5
<b>Hanford-Corcoran, CA</b>	<b>16.5</b>
London (EU)	15.0
Zurich (EU)	14.3
<b>Chicago, IL</b>	<b>11.6</b>
<b>Pittsburgh, PA</b>	<b>10.4</b>
<b>Houston, TX</b>	<b>10.2</b>

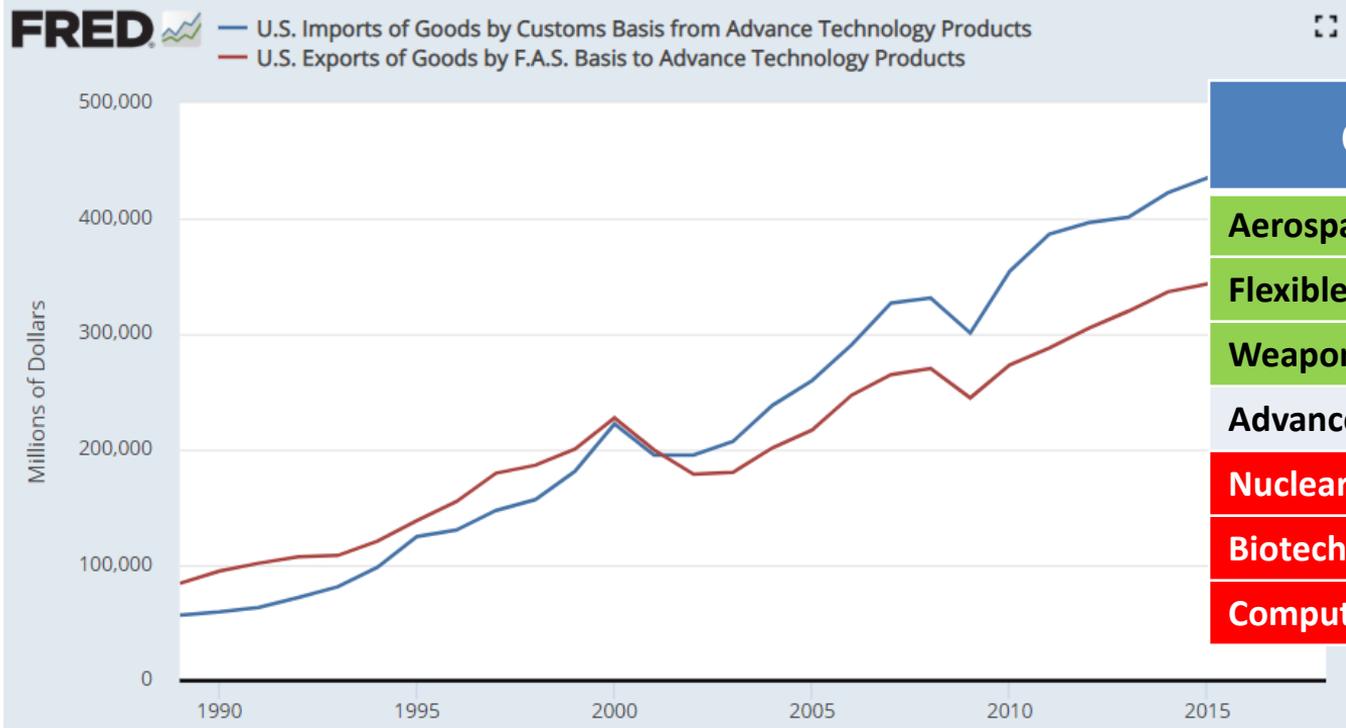
Source: Environmental Protection Agency; World Health Organization

# Education Spending



Source: Department of Education; Department of the Treasury; Congressional Budget Office; State Higher Education Executive Officers Association

# Balanced Trade

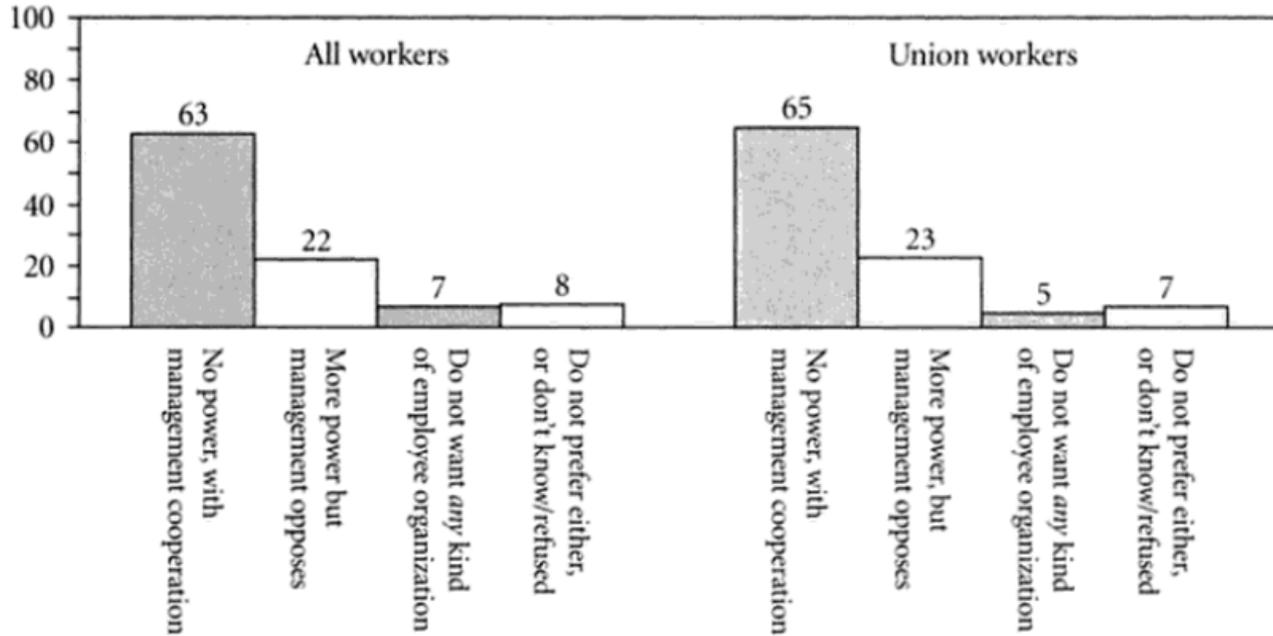


Category	Bal (\$B)
Aerospace	+86
Flexible Mfg	+5
Weapons	+3
Advanced Materials	--
Nuclear	-1
Biotech & Life Sciences	-35
Computers & Electronics	-180

Source: Bureau of Economic Analysis; Census Bureau

# Organized Labor

Percentage of workers who prefer management cooperation to a powerful employee organization



# Re-orienting the Safety Net

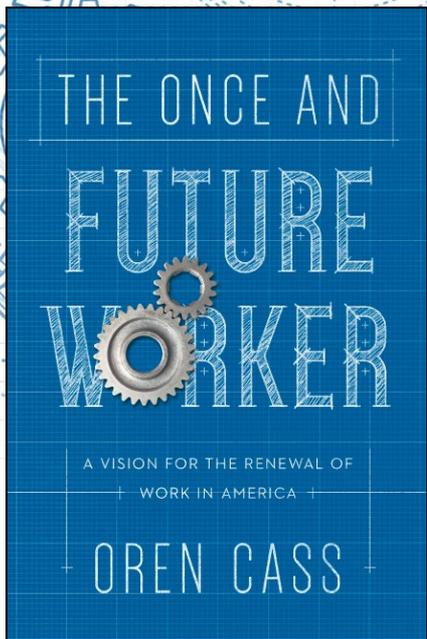


Americans in poverty

Social spending (2015\$)



Source: See Appendix to Oren Cass, *Over-Medicaid-Ed*



**Thank you for your time.**

**For more information about the book,  
and to receive email updates,  
please visit: [www.orencass.com](http://www.orencass.com)**

**Please also contact me with questions and feedback:  
[orencass@gmail.com](mailto:orencass@gmail.com)  
 [@oren\\_cass](https://twitter.com/oren_cass)**