Economic Growth, Individual Opportunity, and Federal Policy

2015 Federal Reserve System Community Development Conference

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April 3, 2015
Hanushek and Woessmann

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

Key contribution: use \textbf{test scores} to measure human capital

When properly measured, \textit{higher human capital} $\rightarrow$ \textit{faster growth}

The estimated effects are \textit{quite substantial}!

Raise average score to German levels:

$\rightarrow$ Increase GDP/pop by 7.3 percent over 80 yrs

Raise minimum score to reflect \text~9th\ grade education:

$\rightarrow$ Increase GDP/pop by 3.3 percent over 80 yrs

$\rightarrow$ 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** --&gt; “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

- 1948-1973
- 1973-1995
- 1996-2003
- 2004-2014
Economic trends underscore the importance of boosting both opportunity and growth

Index, 1950=100 (Log Scale)

Real median family income (U.S. Census Bureau)

Real average income for bottom 90% (World Top Incomes Database)
Economic trends underscore the importance of boosting both opportunity and growth

Where Low-income Children End Up as Adults

<table>
<thead>
<tr>
<th>Percent</th>
<th>Bottom 20 Percent</th>
<th>20-40 Percentile</th>
<th>40-60 Percentile</th>
<th>60-80 Percentile</th>
<th>Top 20 Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent</td>
<td>42</td>
<td>23</td>
<td>18</td>
<td>11</td>
<td>6</td>
</tr>
</tbody>
</table>

U.S. Treasury, Office of Economic Policy
Both opportunity and growth can be enhanced 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

Men

Women

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](https://www.cbo.gov/publication/49440).
