THRIVERS vs STRUGGLERS: A Growing Economic Divide and What To Do about It

Oren Cass
Senior Fellow

www.orencass.com
orencass@gmail.com
@oren_cass
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

15 enroll in 2-year college but fail to graduate

14 enroll in 4-year college but fail to graduate

OF THE REMAINING 57

12 take jobs they don’t need their college degrees for

Source: Digest of Education Statistics; Federal Reserve Bank of New York
What Happened to the Non-College Worker?

Median income compared with federal poverty line for family of four

Source: Census Bureau; Bureau of Labor Statistics
Upward Mobility*

*For continuously married mothers

Source: Richard Reeves, Brookings Institution
The Problem

DEPENDENCE ON GOVERNMENT PROGRAMS IN 1979
Federal transfers of cash or other assistance as a percentage of income, by county

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)

$16.0 trillion

Source: U.S. BEA

Real U.S. GDP (2009 chained dollars)
$6.5 trillion
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?”
## 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

- Individual
- Family
- Community
- Economy

- Self-esteem and mental health
- Life satisfaction and "happiness"
- Economic opportunity
- Formation – especially for men
- Stability – especially for men
- Outcomes for children
- Crime and addiction
- Social capital
- Tradeable goods and services
- Technology spillovers
- Productivity gains
- Investment returns
The Labor Market’s Limitation: People Aren’t Products

• Supply not responsive to market forces
• Efficient outcomes are not per se good ones
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?
• Why is it true?
• What does it imply?
Shortcomings of Standard Responses

- Redistribution
- Relocation
- Education
The Limits of Geographic Mobility

POPULATION BY STATE

- 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.

“Dust Bowl” 1930s: <2.5% decline

Source: U.S. Census Bureau
The Limits of Geographic Mobility

WAGES BY POPULATION DENSITY

Source: New York Times; David Autor
Not Everyone Can Be a Knowledge Worker

Source: Digest of Education Statistics; Brookings Institution (Hamilton Project)
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

Source: Environmental Protection Agency; World Health Organization
Balanced Trade

<table>
<thead>
<tr>
<th>Category</th>
<th>Bal ($B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aerospace</td>
<td>+86</td>
</tr>
<tr>
<td>Flexible Mfg</td>
<td>+5</td>
</tr>
<tr>
<td>Weapons</td>
<td>+3</td>
</tr>
<tr>
<td>Advanced Materials</td>
<td>--</td>
</tr>
<tr>
<td>Nuclear</td>
<td>-1</td>
</tr>
<tr>
<td>Biotech &amp; Life Sciences</td>
<td>-35</td>
</tr>
<tr>
<td>Computers &amp; Electronics</td>
<td>-180</td>
</tr>
</tbody>
</table>

Source: Bureau of Economic Analysis; Census Bureau
Organized Labor

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

- All workers: 63% do not prefer management cooperation, 22% prefer more power but management opposes, 7% do not want any kind of employee organization, 8% do not prefer either, or don't know/refused.
- Union workers: 65% do not prefer management cooperation, 23% prefer more power but management opposes, 5% do not want any kind of employee organization, 7% do not prefer either, or don't know/refused.

Source: Freeman & Rogers, What Worker Want (2006)
Re-orienting the Safety Net

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

Please also contact me with questions and feedback: orencass@gmail.com

@oren_cass