

TEAP Sample Part 3B

CPI Japan

Income levels in the United States

Almost since its founding, the United States has been premised on the idea of hardworking individuals materially improving their lives. Often, this was in the form of gaining higher income. Higher income could lead, over time, to economic mobility. For instance, a worker, if he or she saved up enough money, could eventually become a manager, investor or business owner. The opportunity to do this was helped by an economy that grew steadily, sometimes explosively, through most of the two centuries of its independence. The American Dream, popularized by the historian James Truslow Adams in the 1930s, was simply the encapsulation of this long-held idea that any hardworking American could improve his or her social and economic station.

By the late 1970s, however, that dream was coming into question. Inflation-adjusted median incomes began to flatten during that decade, and have remained flat or declined since. In fact, since the 1970s, inflation-adjusted male median incomes have fallen by 6%. Women entered the workplace later than men, and for some decades their median incomes grew; however, since 2000, their median incomes have likewise fallen by 6%. Yet, while median income has stagnated, top-tier incomes have trended strongly upward. By 2012, 1% of Americans were earning 22.5% of all American income, while 90% were earning only 49.6% of it. This concentration of income among the top earners of the nation was created by multiple factors, perhaps prime among them, automation and globalization.

Globalization, or the ability to produce, buy, and sell relatively freely across the world, incentivized many firms to offshore--shift production operations from the United States--to lower-wage emerging markets. Firms that retained operations in the United States were in many instances able to keep wages low, in part, through an implicit threat of such offshoring. Indeed, American workers whose jobs were directly exposed to offshoring or import competition experienced a 2.7% decline in real income. The effects of automation are more mixed, if not more controversial. Automation has resulted in greater demand for highly-skilled workers such as engineers or computer programmers, but less demand and lower income for unskilled

or semiskilled workers such as assembly line workers. While economists and technologists disagree over the long-term impact of automation on income and jobs, a consensus has emerged that, at the least, automation is causing a substantial and painful, if at best only temporary, dislocation of unskilled worker incomes.

Yet, even as median incomes have flattened, those same forces of automation and globalization have created tremendous new opportunities for Americans who are well-positioned to take advantage. CEOs of large American firms have been the most obvious beneficiaries, but this new class of upper-income Americans also included investors, small business owners, celebrities and athletes, venture capitalists, IT developers and media developers. University of Toronto economist Richard Florida calls these high-performing and well-compensated individuals “the creative class,” a group with specialized knowledge sets that may continue to earn the largest share of American income.

Despite all this, economic mobility is still high in the country. One study by a group of Harvard economists indicated that such mobility had essentially been unchanged. In 1971, a poor American child had an 8.4% chance of reaching the upper class. In 1993, the chance of that poor child rising was 9.0%.

The paradox of steady social mobility in a period of widening income gaps may be explained in part because it is still possible for even poor Americans to acquire the knowledge that can propel them into the upper class. George Mason University professor Tyler Cowen notes that online education, with its rapidly declining costs, may play a key role here. Education, either academic or vocational, may now be the firm determiner of both income and economic mobility in the country.

James Truslow Adams popularized the a long-held idea that

1 the American Dream is sometimes much more of a myth than reality

2 Americans are entitled to a good life because of their history

3 savings are necessary to ensure a reasonably good quality of life

4 rewards usually flow to people willing to make an effort at achievement

Which of the following is true according to the second paragraph?

1 incomes have not been properly measured by inflation-adjusted techniques

2 income trends have diverged between classes of Americans

3 median income stagnation has had a negative impact on the American economy

4 women have been experiencing slower income gains than men since the 1970s

In the third paragraph, what does the author describe as a “consensus?”

1 automation has resulted in far lower incomes for most Americans

2 globalization and automation have had mixed results on unskilled workers

3 the results of automation on workers have been very large

4 globalization has forced many workers to accept temporary jobs

According to Richard Florida, who are members of the “creative class?”

1 people with exceptional literary creativity

2 individuals with in-demand and unique abilities

3 people who thoroughly understand the knowledge-based economy

4 groups that teach special technologies to otherwise unskilled workers

According to the author, economic mobility in America has remained relatively steady because

- 1 it is still possible to upgrade one's technical expertise
- 2 poor people are working much harder than rich people to improve their lives
- 3 income levels are now rising across most of the country
- 4 poverty has traditionally not been a serious barrier to success in the country

The conclusion of the passages suggests that

- 1 the upper economic class of the United States is becoming much smaller
- 2 severe income gaps are unavoidable in a modern economy
- 3 the American government may increase funding for education
- 4 workers without special talents may continue to struggle economically

Select Sources

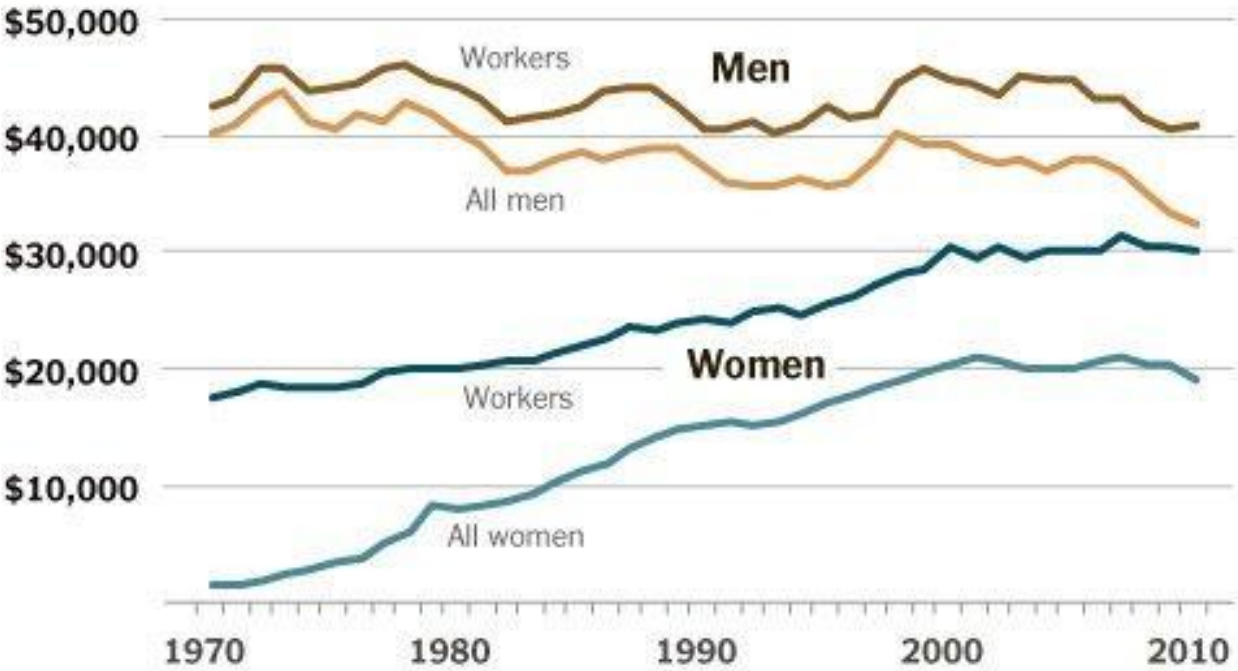
Average is Over, Tyler Cowen

The Great Stagnation, Tyler Cowen

Race Against the Machine, Erik Brynjolffson and Andrew MacAfee

The Second Machine Age, Erik Brynjolffson and Andrew MacAfee

EARNINGS of people ages 25-64



NOTE: Adjusted for inflation, in 2010 dollars.

Source: U.S. Census via The Hamilton Project, The Brookings Institution THE NEW YORK TIMES

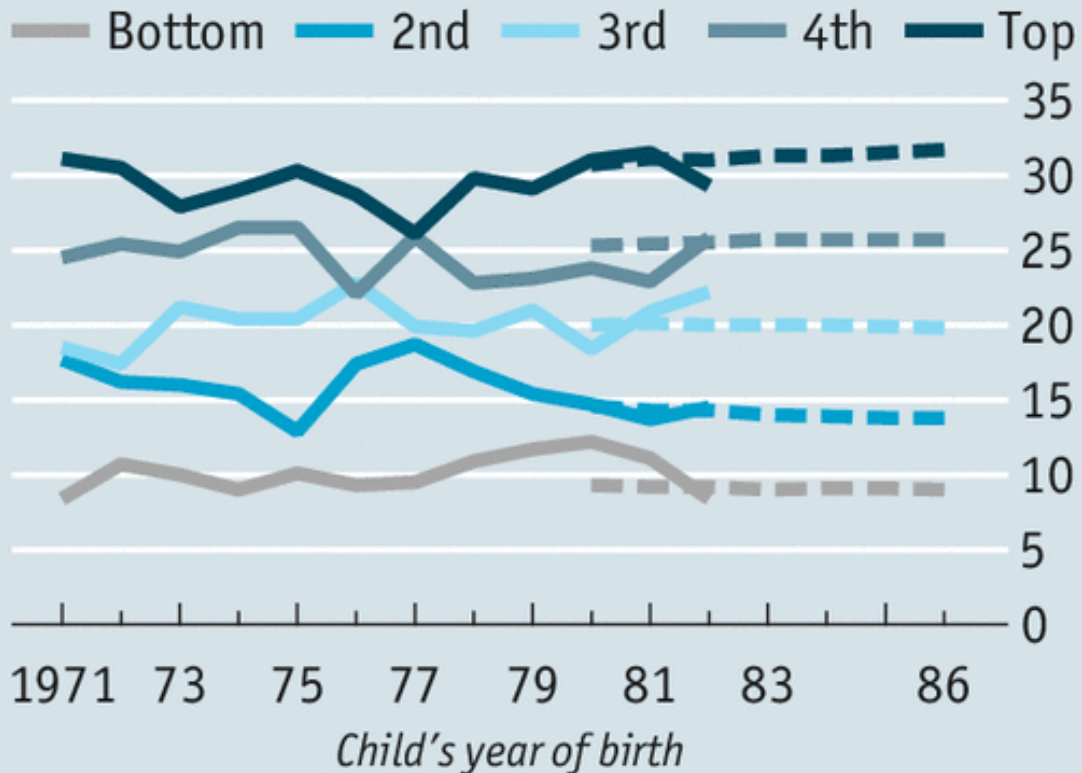


<http://www.economist.com/news/united-states/21595437-america-no-less-socially-mobile-it-was-generation-ago-mobility-measured>

As mobile as before

Probability* of reaching top income quintile at age 26 by year of birth and parental income, %

Parental income quintile



Source: Equality of Opportunity Project

*Earlier figures were compiled using a different statistical method

They find that none of these measures has changed much (see chart). In 1971 a child from the poorest fifth had an 8.4% chance of making it to the top quintile. For a

he study confirms previous findings that America's social mobility is low compared with many European countries. (In Denmark, a poor child has twice as much chance of making it to the top

quintile as in America.) But it challenges several smaller recent studies that concluded that America had become less socially mobile.

Most likely, the answer lies in the nature of America's inequality, whose main characteristic is the soaring share of overall income going to the top 1% (from 10% in 1980 to 22% in 2012). The correlation between vast wealth accruing to a tiny elite and the ability of people to move between the rest of the rungs of the income ladder may be small—at least for now.

Second, if the gains of growth are going mostly to those at the top, that bodes ill for those whose skills are less in demand. Many economists worry that living standards for the non-elite will stagnate for a long time.

Third, although social mobility has not changed much over time, it varies widely from place to place. In a second paper, the economists crunch their tax statistics by region. They find that the probability of a child born into the poorest fifth of the population in San Jose, California making it to the top is 12.9%, not much lower than in Denmark. In Charlotte, North Carolina it is 4.4%, far lower than anywhere else in the rich world.

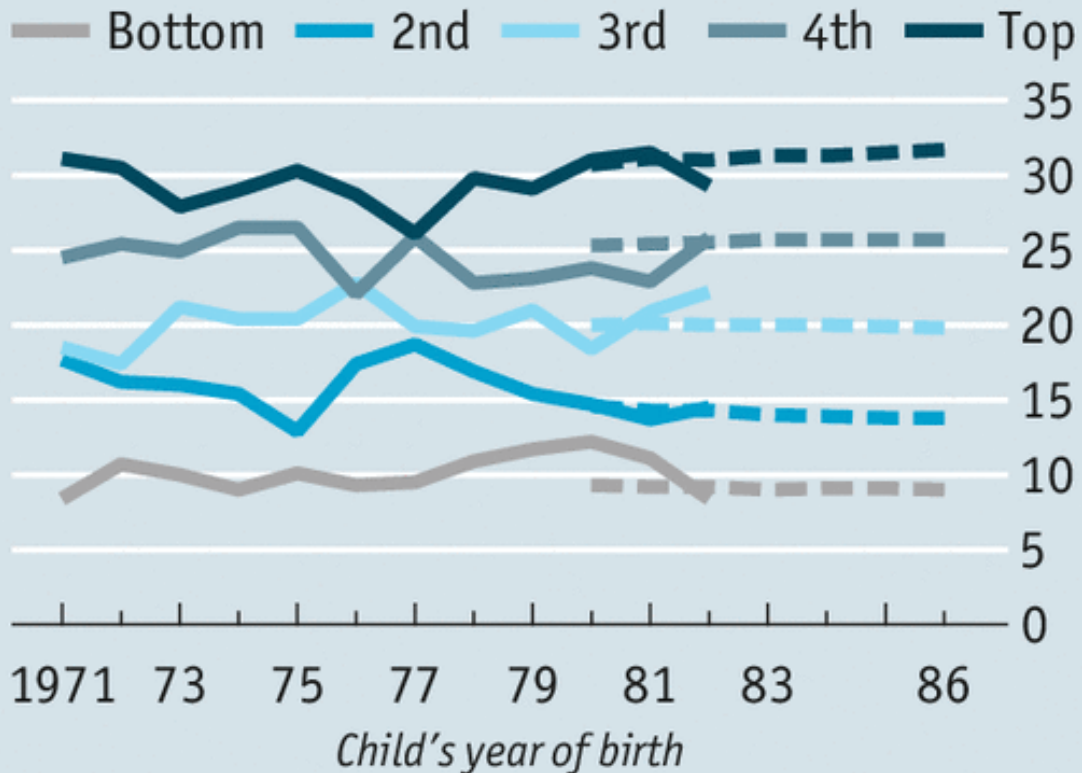
economists found five factors that were correlated with differences in social mobility in different parts of America: residential segregation (whether by income or race); the quality of schooling; family structure (eg, how many children live with only one parent); “social capital” (such as taking part in community groups); and inequality (particularly income gaps among those outside the top 1%). Social mobility is higher in integrated places with good schools, strong families, lots of community spirit and smaller income gaps within the broad middle class. Not a bad agenda for politicians to push, if only they knew how.

The study, by a clutch of economists at Harvard University and the University of California, Berkeley, is far bigger than any previous effort to measure social mobility. The economists crunch numbers from over 40m tax returns of people born between 1971 and 1993 (with all identifying information removed). They focus on mobility between generations and use several ways to measure it, including the correlation of parents' and children's income, and the odds that a child born into the bottom fifth of the income distribution will climb all the way up to the top fifth.

As mobile as before

Probability* of reaching top income quintile at age 26 by year of birth and parental income, %

Parental income quintile



Source: Equality of Opportunity Project

*Earlier figures were compiled using a different statistical method

They find that none of these measures has changed much (see chart). In

<http://www.bls.gov/ooh/highest-paying.htm>

<http://www.thestreet.com/story/11502637/1/the-industrial-evolution.html>

By 2050, 70% of people in big cities. (City 2.0)
Population increase from 3.6 billion to 6.0 billion.

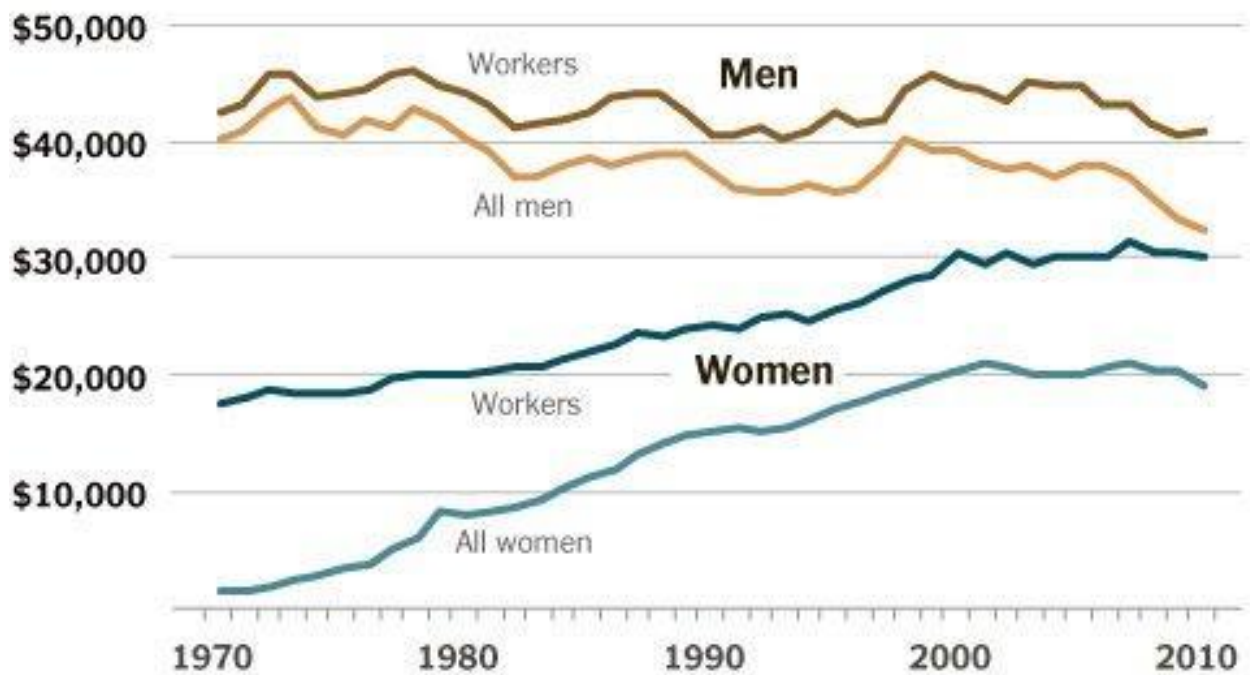
The Big Sort

Great Inver

<http://www.pewresearch.org/fact-tank/2013/12/05/u-s-income-inequality-on-rise-for-decades-is-now-highest-since-1928/>

Saez's preliminary estimates for 2012 (which will be updated next month) have that group receiving nearly 22.5% of all pretax income, while the bottom 90%'s share is below 50% for the first time ever (49.6%, to be precise).

EARNINGS of people ages 25-64



NOTE: Adjusted for inflation, in 2010 dollars.

Source: U.S. Census via The Hamilton Project, The Brookings Institution

THE NEW YORK TIMES

sion

http://economix.blogs.nytimes.com/2012/10/22/the-uncomfortable-truth-about-american-wages/?_r=0

Since 2000, the earnings of the median woman have fallen by 6 percent.

that the median earnings for prime-age (25-64) working men have declined slightly from 1970 to 2010, falling by 4 percent after adjusting for inflation

Marriage: In 1960, extremely high proportions of whites in both Belmont and Fishtown were married—94% in Belmont and 84% in Fishtown. In the 1970s, those percentages declined about equally in both places

Then came the great divergence. In Belmont, marriage stabilized during the mid-1980s, standing at 83% in 2010. In Fishtown, however, marriage continued to slide; as of 2010, a minority (just 48%) were married. The gap in marriage between Belmont and Fishtown grew to 35 percentage points, from just 10.

In 1960, just 2% of all white births were nonmarital. When we first started recording the education level of mothers in 1970, 6% of births to white women with no more than a high-school education—women, that is, with a Fishtown education—were out of wedlock. By 2008, 44% were nonmarital. Among the college-educated women of Belmont, less than 6% of all births were out of wedlock as of 2008, up from 1% in 1970.

That percentage went from a low of 3% in 1968 to 12% in 2008. Twelve percent may not sound like much until you think about the men we're talking about: in the prime of their working lives, their 30s and 40s, when, according to hallowed

Similarly large clusters of SuperZIPs can be found around New York City, Los Angeles, the San Francisco-San Jose corridor, Boston and a few of the nation's other largest cities. Because running major institutions in this country usually means living near one of these cities, it works out that the nation's power elite does in fact live in a world that is far more culturally rarefied and isolated than the world of the power elite in 1960.

<http://www.wsj.com/articles/SB10001424052970204301404577170733817181646>

<http://higley1000.com/about-this-site/methodology/top-urban-neighborhoods-by-mean-household-income>

<http://www.citylab.com/politics/2014/10/the-fading-distinction-between-city-and-suburb/381096/>

<http://www.nber.org/papers/w21027.pdf>

results indicate that a ten percentage point increase in occupational exposure to import competition is associated with a 2.7 percent decline in real wages for workers who perform routine tasks

http://www.ted.com/conversations/13603/will_automation_lead_to_econom.html

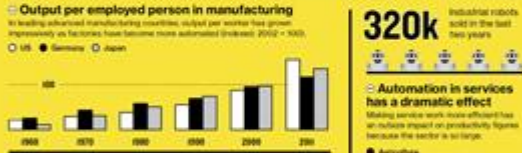
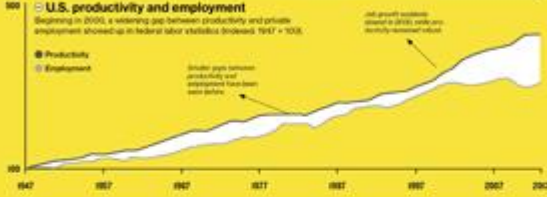
https://www.economicdynamics.org/meetpapers/2014/paper_162.pdf

<http://www.technologyreview.com/featuredstory/515926/how-technology-is-destroying-jobs/>

. Then, beginning in 2000, the lines diverge; productivity continues to rise robustly, but employment suddenly wilts. By 2011, a significant gap appears between the two lines, showing economic growth with no parallel increase in job creation. Brynjolfsson and McAfee call it the “great decoupling.” And Brynjolfsson says he is confident that technology is behind both the healthy growth in productivity and the weak growth in jobs.

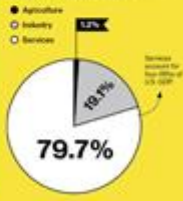
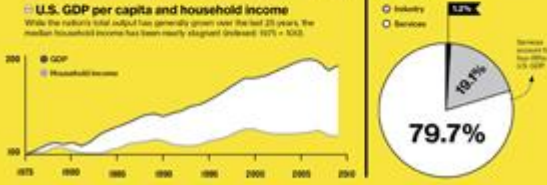
Decoupling Productivity and Employment

Digital technologies have boosted productivity in the United States without also spurring the expected job growth, argue Erik Brynjolfsson and Andrew McAfee. A result of this decoupling is that while gross domestic product (GDP) has risen, median income has not, and inequality has grown.



320k Industrial robots sold in the last 100 years

Automation in services has a dramatic effect
Making service work more efficient has an indirect impact on productivity figures, because the sector is so large.



Enlarge

<http://economistsview.typepad.com/economistsview/2014/07/tyler-cowan-on-global-inequality.html>