Brown University Adam Looney

Department of Economics Fall Semester, 2017

**ECON 2350**

**INEQUALITY AND SOCIAL POLICY**

This is a survey course about economic and social inequality with a focus on the applied methods used to examine inequality. The course will provide a broad perspective on the causes and consequences of inequality, develop an understanding of the data and methods used to measure and analyze changes in income and wellbeing, and review selected topics relating to anti-poverty and social policy programs.

**Course Time:** Thursday 10:30 – 11:30AM and 1:00 to 2:30PM

**Course Website:** Canvas

**Office Hours:** Robinson Hall, 313 Wednesday, 3 – 5 pm

**Course Requirements and Structure:**

Students should read assigned readings and attend all lectures.

The course will have several assignments.

*Empirical Exercises:*

Students will be assigned 5 empirical exercises that analyze a specified dataset, implement an empirical model or tool, and produce a table and/or figure. Students will turn in the table or chart (with a descriptive note), a short (less than one page) description of the economic implications of the table or chart, and the code. The code must run and produce the relevant table or figure. Empirical exercises will be graded on a check, check-plus, check-minus standard. Students will be expected to discuss the results of their exercise in class and will be assigned (in advance) to present once in discussion.

*Participation and presentations:*

Class participation will be judged by a combination of quantity and quality. Credit for quantity will max out at 10% of the overall course grade, after which improvements (the remaining 5%) can only be based on quality of contributions.

*Grading:*

Course grades will be based on the following components:

Empirical Exercises: 85%

Class participation: 15%

*Course Activities:* Over 13 weeks, students will spend roughly 2.5 hours per week in class. Reading, studying and completing analytical assignments will take an additional roughly 12 hours per week, giving a total number of hours of about 189.

9/7/2017

**Week 1 – Introduction to the Study of Inequality and Social Policy**

This week’s lecture considers motivating facts and questions in the study of inequality: Why has inequality grown? How does inequality in the U.S. compare to other wealthy nations? Should we be concerned about rising inequality? What dimensions of inequality matter and why?

Reading: Timothy Noah on “The Great Divergence”. *Slate*, September 3-September 16, 2010.

<http://img.slate.com/media/3/100914_NoahT_GreatDivergence.pdf>

**Afternoon: Course instructions, introductions, goals, overview of empirical exercises.** *Empirical Exercise 1 Assigned: Measuring relative wages in the context of changing labor force participation and employment.*

9/14/2017

**Week 2 – Measuring Inequality: Income, opportunity, poverty, and wellbeing**

This week’s lecture provides an overview of recent research examining inequality in income, wealth, and opportunity, and issues related to the measurement of poverty and wellbeing.

**Afternoon: *No class.***

\*Meyer, B. and Sullivan, J. 2012. “Winning the War: Poverty from the Great Society to the Great Recession”. *Brookings Papers on Economic Activity*, Fall 2012, 133-200. <https://www.brookings.edu/wp-content/uploads/2012/09/2012b_Meyer.pdf>

\*Charles I. Jones and Peter J. Klenow. 2016. "Beyond GDP? Welfare across Countries and Time”. *American Economic Review.* Vol 106(9) (pp. 2426-57)"

<https://www.brookings.edu/blog/ben-bernanke/2016/10/19/are-americans-better-off-than-they-were-a-decade-or-two-ago/>

\*Piketty, Tomas, Emmanuel Saez and Gabriel Zucman. 2016. "Distributional National Accounts: Methods and Estimates for the United States”, NBER Working Paper No. 22945, revised July 2017.

\*Chetty, Raj, Nataniel Hendren, Patrick Kline, Emmanuel Saez and Nicholas Turner. 2014. "Is the United States Still a Land of Opportunity? Recent Trends in Intergenerational Mobility'', NBER Working Paper No. 19844, January 2014.

Other reading:

Atkinson, Anthony B, Thomas Piketty, and Emmanuel Saez. 2011. “Top Incomes in the Long Run ofHistory.”*Journal of Economic Literature*,49(1):3–71

Saez, Emmanuel and Gabriel Zucman. 2016. "Wealth Inequality in the United States since 1913: Evidence from Capitalized Income Tax Data". *Quarterly Journal of Economics*, 131(2), 2016, 519-578

Card, David, Alex Mas, Enrico Moretti and Emmanuel Saez. 2012. "Inequality at Work: The Effect of Peer Salaries on Job Satisfaction.” *American Economic Review*, 102(6), 2012, 2981–3003

Pierce, Brooks. 2001. “Compensation Inequality.” *Quarterly Journal of Economics*,116(3),1493-1525.

Gottschalk, Peter, and Robert A. Moffitt. 1994. “[The Growth of Earnings Instability in the U.S. Labor Market.](https://www.brookings.edu/wp-content/uploads/1994/06/1994b_bpea_gottschalk_moffitt_katz_dickens.pdf)” Brookings Papers on Economic Activity, 1994, No. 2.

9/21/2017

**Week 3 – The Labor Market and the Role of Skills**

This week’s lecture starts with basic facts about the structure wages and how it varies over time and by skill and education, and provides an overview of primary theory and evidence regarding the factors driving changes in the wage structure.

**Afternoon: Decomposition methods in labor economics**

*Empirical Exercise 2 assigned: Decomposing changes in the wage structure 1980 to 2010*

\*Autor, David H. ”Skills, Education, and the Rise of Earnings Inequality Among the ‘Other 99 Percent’”. *Science*, 23 May 2014: 344 (6186), 843–851.

\*Autor DH, Katz LF, Kearney MS. “Trends in U.S. Wage Inequality: Revising the Revisionists.” *Review of Economics and Statistics.* 2008;90 (2) :300-323.

\*Card, David and Thomas Lemieux. 2001. “Can Falling Supply Explain the Rising Return to College for Younger Men? A Cohort-Based Analysis*.” Quarterly Journal of Economics*, 116(2),705-746.

\*Di Nardo, John, Nicole Fortin and Thomas Lemieux. 1996. “Labor Market Institutions and the Distribution of Wages, 1973-1992: A Semiparametric Approach.” *Econometrica*, 64(5),1001-1044

Other Reading:

Goldin, Claudia and Lawrence Katz. 2007. “The Race between Education and Technology: The Evoluation of U.S. Educational Wage Differentials, 1890 to 2005”. NBER WP 12984.

Katz, Lawrence F. and Kevin M. Murphy. 1992. “Changes in Relative Wages, 1963-1987: Supply and Demand Factors.” Quarterly Journal of Economics,107(1),35-78

9/28/2017

**Week 4 – The Labor Market: Skills (continued) and Institutions**

After finishing the discussion of the role of skills in the wage structure, this week’s lecture focuses on questions unanswered by the canonical model of supply and demand for skills (like tasks), and examines the role of labor market institutions like firms, unions, and the minimum wage.

\*Card, David, J. Heining, and P. Kline. 2013. “Workplace Heterogeneity and the Rise of West German Wage Inequality." *Quarterly Journal of Economics*, 128(3), 967-1015.

\*Autor, David and David Dorn. 2013. ”The Growth of Low-Skill Service Jobs and the Polarization of the U.S. Labor Market”. *American Economic Review*, 2013, 103(5), 1553–1597.

\*Autor, David H., Alan Manning and Christopher Smith. 2015. “The Contribution of the Minimum Wage to U.S. Wage Inequality over Three Decades: A Reassessment.” MIT Working Paper, January.

**Afternoon: Continue “Skills” and Review Exercise 1**

Other reading:

Acemoglu, Daron and David Autor. 2010. “Skills, Tasks and Technologies: Implications for Employment and Earnings.” in Orley Ashenfelter and David Card, eds.,*Handbook of Labor Economics*, Vol. 4b.,NorthHolland: Elsevier, 1043-1171.

Lee, David. 1999. “Wage Inequality in the U.S. During the 1980’s: Rising Dispersion or Falling Minimum Wage.” *Quarterly Journal of Economics*, 114(4),941-1024

Labor Market Monopsony: Trends, Consequences and Policy Responses. Council of Economic Advisers Issue Brief, October 2016.

10/5/2017

**Week 5 – The Labor Market: Institutions, Immigration and Trade**

This week examines the roles of immigration and trade on the wage structure and employment in the U.S.

**Afternoon:** *Empirical Exercise 3 assigned: Wage distributions and mobility by race*

\* Autor, David, David Dorn, and Gordon Hanson. “The China Syndrome: Local Labor Market Effects of Import Competition in the United States” *American Economic Review*, 2013, 103(6), 2121–2168.

\* Autor, David, David Dorn, Gordon Hanson, and Jae Song. “Trade Adjustment: Worker Level Evidence” *Quarterly Journal of Economics*, 2014, 129(4), 1799–1860.

\*Ottaviano, G. I. P., and G. Peri. "Rethinking the Effect of Immigration on Wages*." Journal of the European Economic Association* 10.1 (2012): 152–197.

Other Reading:

Borjas, George. 2013. “Immigration and the American Worker: A Review of the Academic Literature,” Center for Immigration Studies, April.

Eaton, Jonathan and Samuel Kortum. 2012. “Putting Ricardo to Work”. *Journal of Economic Perspectives*, 26(1), 65-90. [Also see online appendix]

Hummels, David, Rasmus Jørgensen, Jakob Munch, and Chong Xiang. 2014. “The Wage Effects of Offshoring: Evidence from Danish Matched Worker-Firm Data.” *American Economic Review*,104(6),1597–1629.

10/12/2017

**Week 6 – Education**

This week will focus on the role of schools in reducing or reproducing inequalities. We will consider how race, class, and gender shape schooling trajectories and how educational policy may be targeted to mitigate key disparities.

\*Chetty, Raj, John N. Friedman, Nathaniel Hilger, Emmanuel Saez, Diane Whitmore Schanzenbach, and Danny Yagan. 2011. “How Does Your Kindergarten Classroom Affect Your Earnings? Evidence from Project STAR.” *Quarterly Journal of Economics* 126 (4): 1593–1660.

\*Reardon, Sean. 2016. “School Segregation and Racial Academic Achievement Gaps.” Russell Sage Foundation Journal of the Social Sciences 2 (5): 34–57.

\*Chabrier, Julia, Sarah Cohodes, and Philip Oreopoulous. 2016. “What Can We Learn From Charter School Lotteries?” *Journal of Economic Perspectives* 30 (3): 57–84.

\*Chetty, Raj, John N. Friedman, Nicholas Turner, Emmanuel Saez and Danny Yagan. "Mobility Report Cards: The Role of Colleges in Intergenerational Mobility". NBER Working Paper No. 23618, July 2017

Other Reading:

Heckman, James J. "Skill formation and the economics of investing in disadvantaged children." *Science* 312.5782 (2006): 1900-1902.

Dobbie, Will, and Roland G. Fryer. 2011. “Are High-Quality Schools Enough to Increase Achievement among the Poor? Evidence from the Harlem Children’s Zone.” *American Economic Journal: Applied Economics* 3 (3): 158–87.

Billings, Stephen B., David J. Deming and Jonah Rockoff. 2014. “School Segregation, Educational Attainment and Crime: Evidence from the End of Busing in Charlotte-Mecklenburg,” *Quarterly Journal of Economics*, 129(1): 435-476.

Sean Reardon. 2011.“The Widening Academic Achievement Gap between the Rich and the Poor,” pp. 91-116 in Greg Duncan and Richard Murnane, eds., *Whither Opportunity?* New York: Russell Sage Foundation and Spencer Foundation.

10/19/2017

**Week 7 – Families**

This week will focus on the role of the family in producing and reproducing inequalities. We will discuss recent trends in family structure and their implications for rising inequality.

**Afternoon: The EITC and the Employment and Earnings of Low-Income Families**

*Empirical Exercise 4 Assigned: Difference-in-difference estimates of EITC expansions*

\*Currie, Janet. 2011. “Inequality at Birth: Some Causes and Consequences,” American Economic Review, 101(3): 1-22.

\*David Ellwood and Christopher Jencks. “The Spread of Single-Parent Families in the United States Since 1960”.

\* Sacerdote, Bruce. 2007. “How Large are the Effects from Changes in Family Environment? A Study of Korean American Adoptees.” Quarterly Journal of Economics, 122(1), February, 119-157.

\*Phillip Levine & Melissa Kearney. 2011.“Income Inequality and Early Non-Marital Childbearing: An Economic Exploration of the "Culture of Despair".NBER working paper #17157.B.

Other Reading:

Western, Bruce, Christine Percheski, and Deirdre Bloome. 2008. “Inequality among American Families with Children, 1975 to 2005.” American Sociological Review 73(6):903-920.

Edin, Kathryn, and Maria Kefalas. 2005. “Unmarried with Children.” Contexts 4(2):16-22.

McLanahan, Sara, and Christine Percheski. 2008. “Family Structure and the Reproduction of Inequalities.” Annual Review of Sociology 34:257-276.

10/26/2017

**Week 8 – The Top 1%**

This week examines top-income inequality and the growth in income within the “top 1 percent.”

\*Pikketty and Saez QJE 1998

\*The Fall of the Labor Share and the Rise of Superstar Firms David Autor, David Dorn, Lawrence F. Katz, Christina Patterson, and John Van Reenen MIT Working Paper, May 2, 2017.

Other Reading:

Gabaiz and Landie 2008 QJE

Rosen AER 1981

Tervio 2008

Bakija, Jon, Adam Cole, and Bradley T. Heim. 2012. “Jobs and Income Growth of Top Earners and the Causes of Changing Income Inequality: Evidence from U.S. Tax Return Data.” U.S. Department of the Treasury Working Paper, April.

Atkinson, Anthony B, Thomas Piketty, and Emmanuel Saez. 2011. “Top Incomes in the Long Run ofHistory.”Journal of Economic Literature,49(1):3–71

11/2/2017

**Week 9– The Top 0.1%**

Inequality in wealth and in business income

\*"Capitalists in the 21st Century" Smith, Yagan, Zidar, and Zwick

\*"Wealth Inequality in the United States since 1913: Evidence from Capitalized Income Tax Data" Saez and Gabriel Zucman, Quarterly Journal of Economics, 131(2), 2016, 519-578

Other Reading:

Paying Themselves: S Corporation Owners and Trends in S Corporation Income, 1980-2013 Susan C. Nelson OTA Working Paper

11/9/2017

**Week 10 – No Class**

11/16/2017

**Week 10 – Neighborhoods**

In his book *The Truly Disadvantaged,* William Julius Wilson argued that changes in neighborhood conditions led to reductions in children’s life chances. This book stimulated a large body of empirical research aimed at identifying neighborhoods conditions that mattered, and, more recently, whether neighborhoods have a causal effect on life chances.

**Afternoon: Residential Segregation**

*Empirical Exercise 5: Are neighborhoods becoming more income segregated?*

*Review of empirical exercise 3 and implications for neighborhood segregation*

\*Chetty, Raj, Nathaniel Hendren, and Lawrence Katz. 2016. “The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Project.” American Economic Review 106 (4).

\*Chetty, Raj, Nathaniel Hendren, Patrick Kline, and Emmanuel Saez. 2014. “Where is the Land of Opportunity: The Geography of Intergenerational Mobility in the United States.” Quarterly Journal of Economics 129 (4): 1553-1623.

\*"Reardon, S. F., & Bischoff, K. (2011a). Growth in the residential segregation of families by income, 1970‐2009. Retrieved from http://www.s4.brown.edu/us2010/Data/Report/report111111.pdf

\*Desmond, Matthew. 2015. “Unaffordable America: Poverty, housing, and eviction.” Fast Focus. http://www.irp.wisc.edu/publications/fastfocus/pdfs/FF22-2015.pdf

Other Readings:

Sharkey, P. (2010). “The Acute Effect of Local Homicides on Children's Cognitive Performance. Proceedings of the National Academy of Sciences of the United States of America, 107(26), 11733-11738.

Desmond, Matt. 2012. “Eviction and the Reproduction of Urban Poverty.” American Journal of Sociology 118(1):88-133.

Wilson, William Julius. 1987. The Truly Disadvantaged: The Inner City, the Underclass, and Public Policy. Chicago, IL: University of Chicago Press. Pages 20-62.

Chetty, Raj, and Nathaniel Hendren. 2016. “The Impacts of Neighborhoods on Intergenerational Mobility I: Childhood Exposure Effects”.

Sampson, Robert J. 2008. “Moving to Inequality: Neighborhood Effects and Experiments Meet Social Structure.” American Journal of Sociology 114(1):189- 231.

Moved to Opportunity: The Long-Run Effect of Public Housing Demolition on Labor Market Outcomes of Children

11/23/2017

**Week 12 – Thanksgiving—No Class**

12/2/2017

**Week 13 – Taxation and Social Insurance**

This week considers the role of taxation and social insurance in the context of rising inequality.

**Afternoon Discussion: The War on Poverty**

***Review of exercise 5 and discussion of successes and failures of the war on poverty***

\*"Using Elasticities to Derive Optimal Income Tax Rates" Review of Economic Studies, 68, 2001, 205-229

\*Using Differences in Knowledge Across Neighborhoods to Uncover the Impacts of the EITC on Earnings (with John Friedman and Emmanuel Saez), American Economic Review 103(7): 2683-2721, 2013

12/9/2017

**Week 14 – Regulatory Policy**

This week considers the role of regulatory policy and governance in inequality, including the role of worker classification, anti discrimination, and the structure of tax and social policy.

**Afternoon: The economics of the gender wage gap**

\*The Contribution of the Minimum Wage to U.S. Wage Inequality over Three Decades: A Reassessment David Autor, Alan Manning, and Christopher L. Smith American Economic Journal: Applied Economics, 2016, 8(1), 58–99.

\*The Rise in Alternative Work Arrangements Jackson, Looney, and Ramnath 2017

\* “What Is the Case for Paid Maternity Leave?” Gordon B. Dahl, Katrine V. Løken, Magne Mogstad, Kari Vea Salvanes

Other Readings

Harris, Seth D. and Alan B. Krueger. 2015. “A Proposal for Modernizing Labor Laws for Twenty-First-Century Work: The ‘Independent Worker,’” The Hamilton Project Discussion Paper, 2015-10, December.

The Effects of a Minimum-Wage Increase on Employment and Family Income. Congressional Budget Office, February 2014.