

*Osher Lifelong Learning Institute, Spring 2020*  
**Contemporary Economic Policy**

# Lecture 2: Coronavirus Economics, Poverty, and Economic Mobility

April 15, 2020

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 National Economic Education Delegation



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## National Economic Education Delegation

- **Vision**

- One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.

- **Mission**

- NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.

- **NEED Presentations**

- Are **nonpartisan** and intended to reflect the consensus of the economics profession.



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## Course Outline

- **What Economists Know About Important Policy Issues**

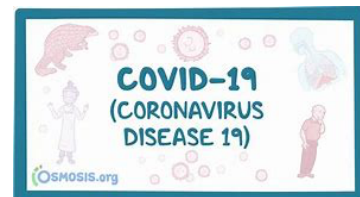
- Week 1 (4/8): US Economy & Coronavirus Economics
- **Week 2 (4/15): Coronavirus Economics, Poverty, and Economic Mobility**
- Week 3 (4/22): Economic Mobility and the Economics of Immigration
- Week 4 (4/29): Autonomous Vehicles



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## COVID-19: Economic Implications and Policy Response



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## Outline

- What is this?
- Evidence of Impact
- Government Policy
- What to expect going forward



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## What is this?

- **A natural disaster – with important twists**
  - Global
  - Duration is unpredictable
  - Economic toll is enormous and potentially durable
- **A health crisis with enormous economic implications.**
  - A perfect storm of economic difficulty
    - Supply side
    - Demand side
    - Financial
  - Without a culprit



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## Process for Dealing with a Natural Disaster

- Mitigation of effects
- Tend to the vulnerable
- Short up structures
- Rebuild

This crisis requires the same approach and sequence.



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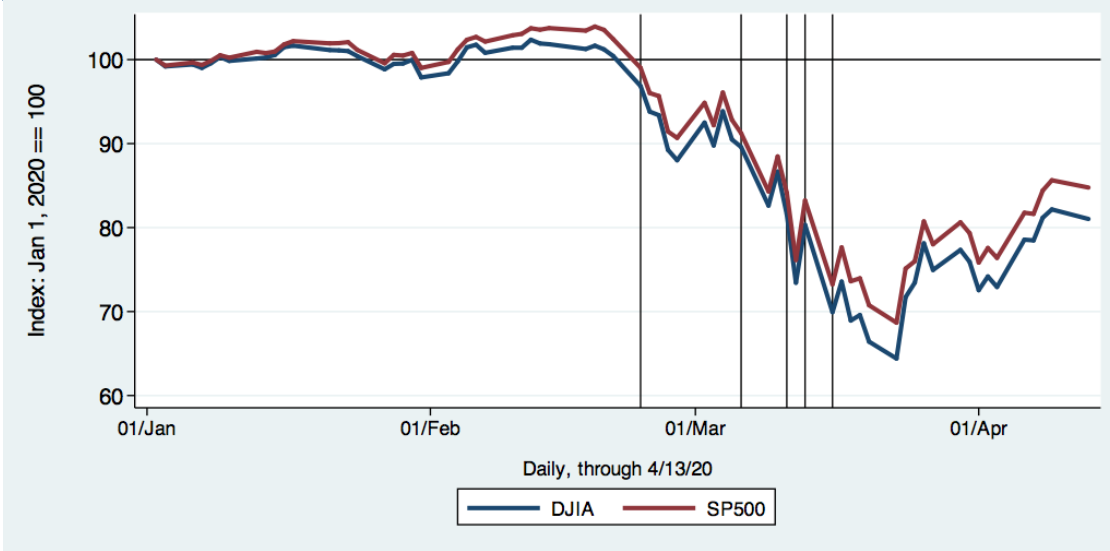
## Evidence of Impact

- Really too soon to tell.
- Early metrics:
  - Stock markets
  - Jobs
    - Job creation
    - Hours worked
    - Unemployment
  - Car and Truck Sales



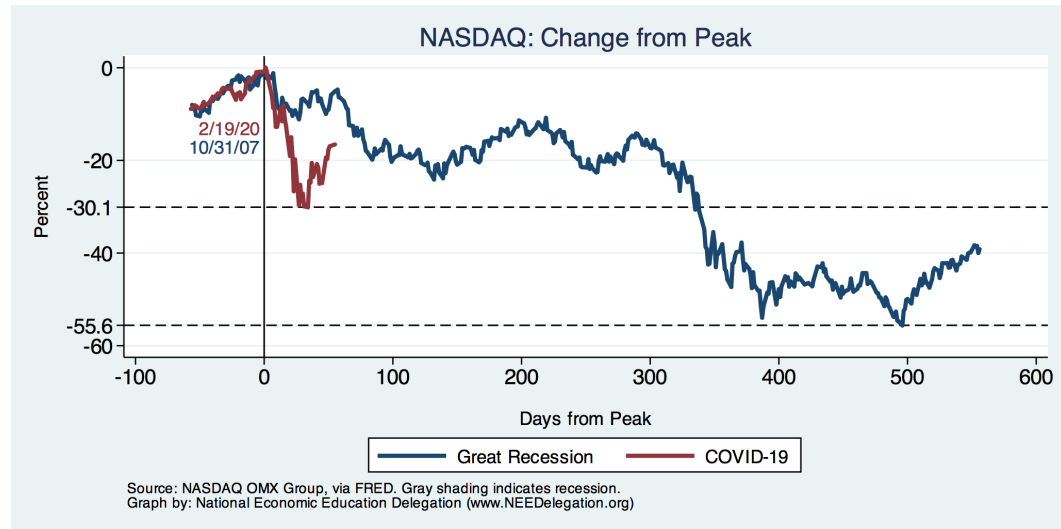
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## DJIA and S&P 500



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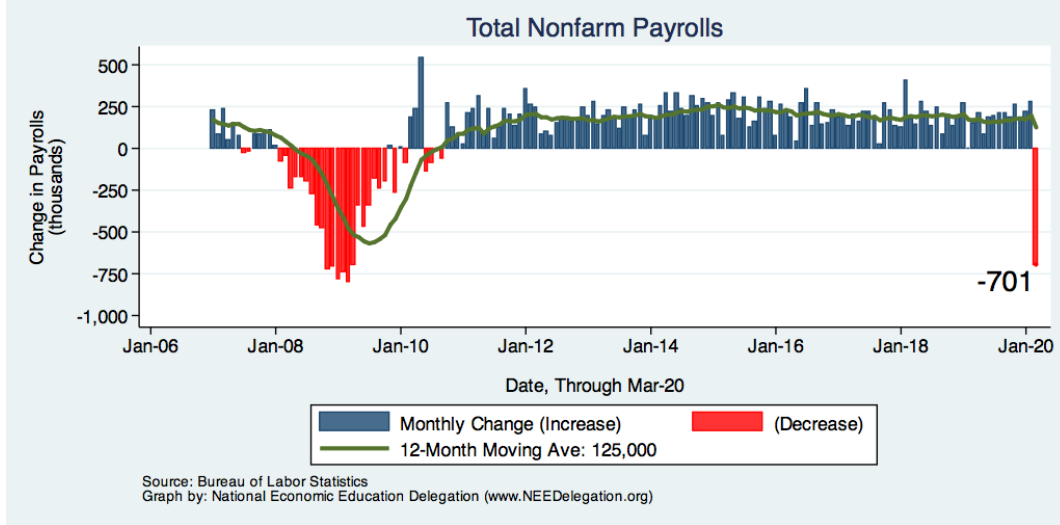
## NASDAQ: Then (Great Recession) and Now



Source: NASDAQ OMX Group, via FRED. Gray shading indicates recession.  
Graph by: National Economic Education Delegation ([www.NEEDelegation.org](http://www.NEEDelegation.org))

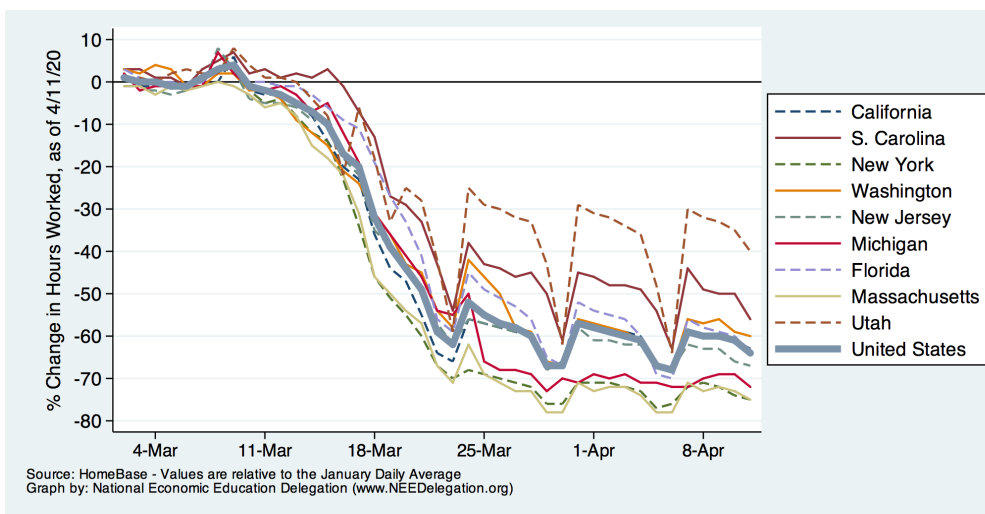
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# Monthly Changes in Nonfarm Employment



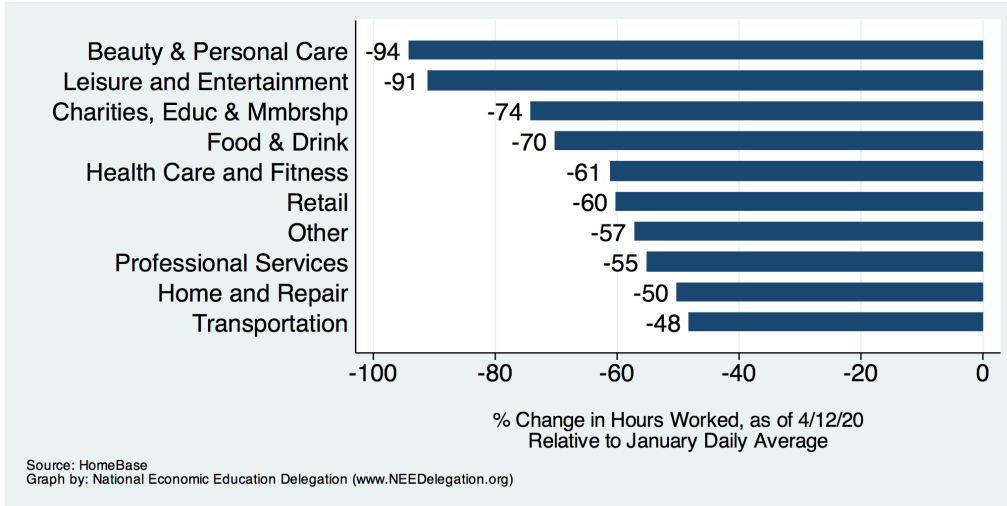
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# Change in Hours Worked



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## Change in Hours Worked



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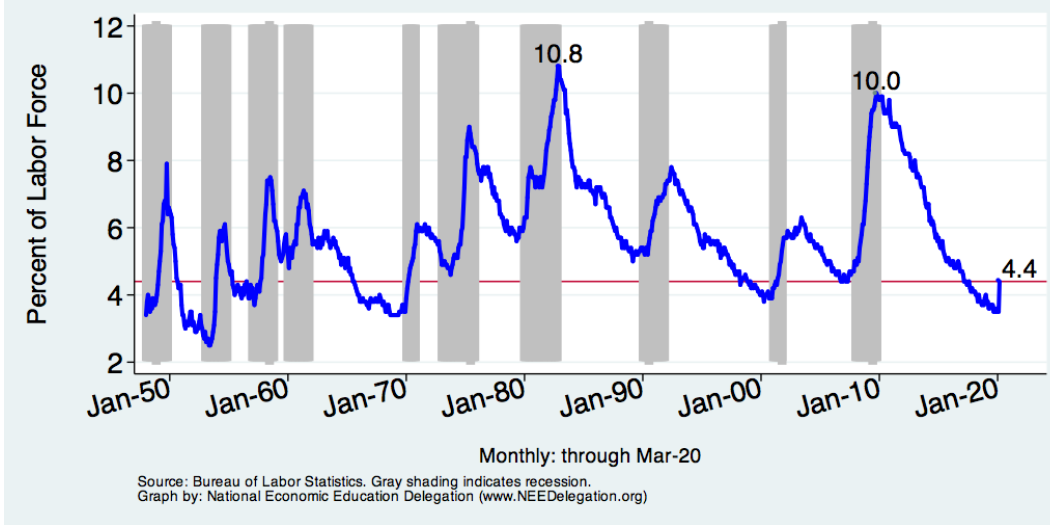
## Weekly New Unemployment Claims



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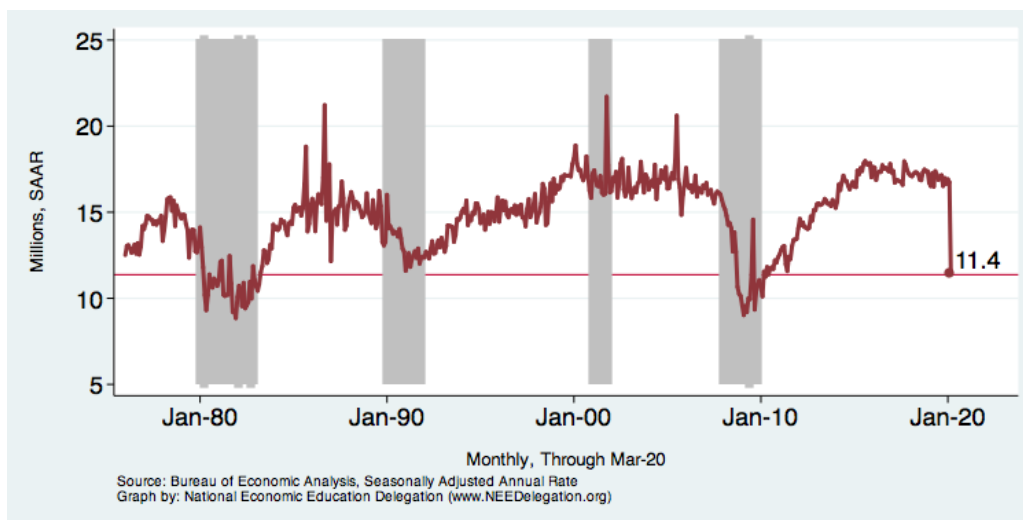


## Unemployment Rate



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## Automobile and Light Truck Sales



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# Policy Response



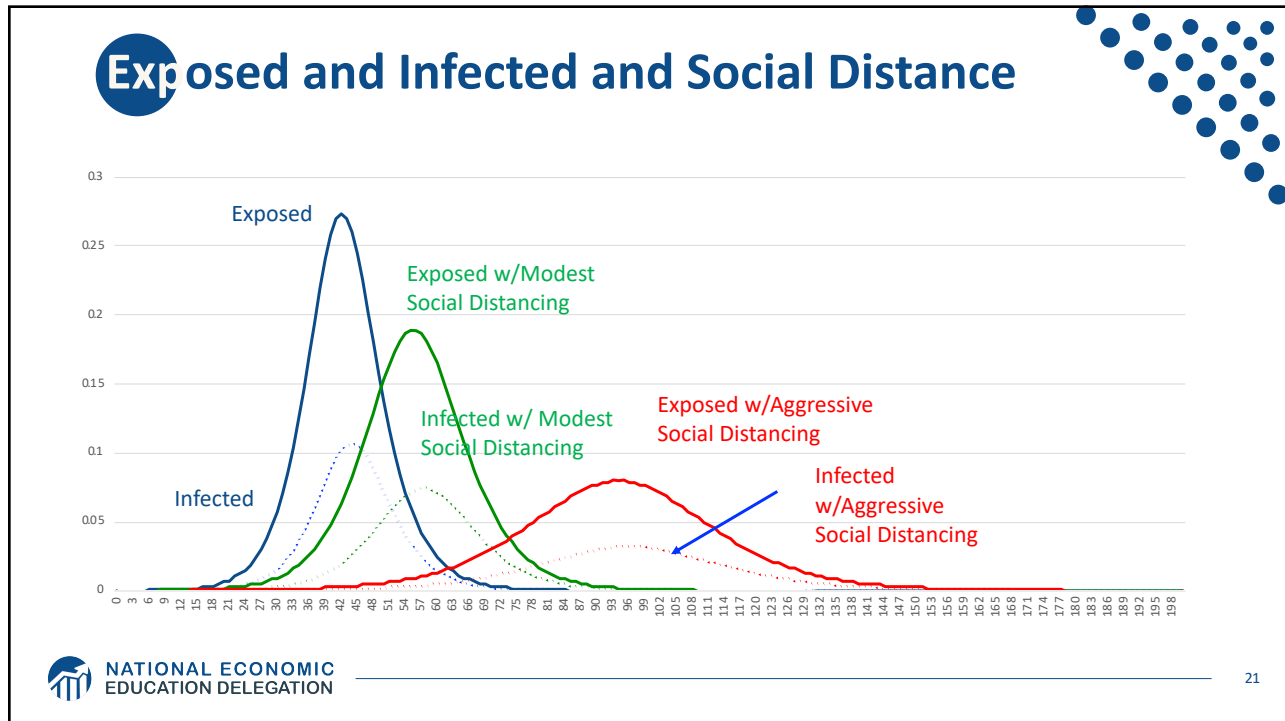
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## A Tale of Three Policies Efforts

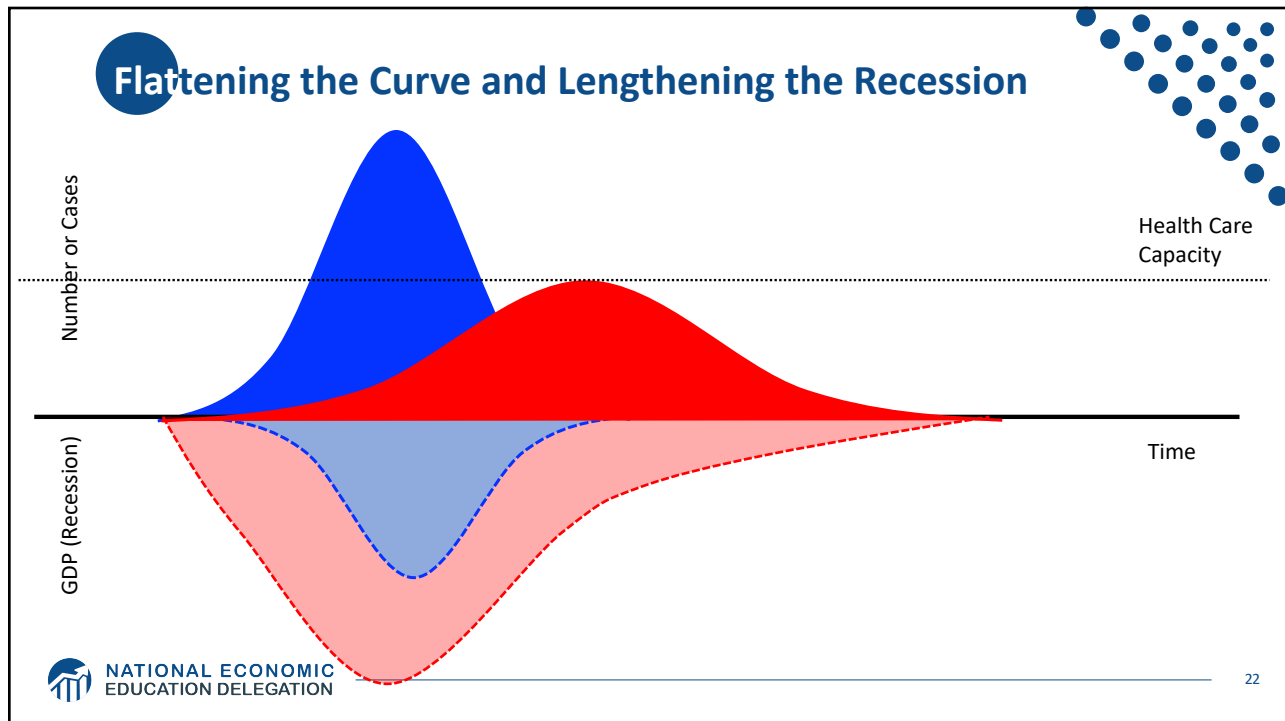
- **Social policy: Social Distancing**
  - Shutdowns on some industries versus others
  - Furloughs and lay-offs result
  - Vulnerable populations now more vulnerable
- **Fiscal Policy**
  - Business and taxpayer supports
  - Low-cost way to engage policy, but building danger later
- **Monetary Policy**
  - Back to Zero interest rates
  - Managing markets and inflation is out with the bath water



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## Impact on GDP of COVID-19

The response of GDP is likely to be a U-shaped recovery with social-distancing.

- 1) The depth will depend on the extent of social distancing.
- 2) Recovery will depend on the length of time spent social distancing.
  - 1) Longer means more destruction of the existing structure.

Time

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## Goldman Forecast

### 1. GIR: US Real GDP Annualized Quarterly Growth Forecast

\* Includes cutbacks to consumption categories requiring face-to-face interaction  
 \*\* Includes reduced domestic and foreign demand for goods, supply chain disruptions, and plant shutdowns.  
 \*\*\* Includes cutbacks to structures investment, homebuilding, and home sales.

### 2. GIR: US Real GDP Annual Growth Forecast

Year	Annual Growth Forecast (%)
2018	2.9
2019	2.3
2020f	-6.2
2021f	5.5
2022f	3.5

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## Cost Benefit Analysis: Tradeoffs

- **No containment policies**
  - Reduced economic activity
  - **More** coronavirus deaths
  - Non-coronavirus deaths
- **Stringent containment policies**
  - **Dramatically** reduced economic activity
  - **Fewer** coronavirus deaths
  - Non-coronavirus deaths(?)



### Analysis of Containment Policies

Reduced economic activity < value of additional deaths

Complicated equation – both numerically and philosophically

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## Cost Benefit Analysis: Some Additional Info

- **Value of a statistical life: \$5-14 million**
  - Depends on what the right value of a life is.
  - Depends on net difference in # of deaths.
- **Size of the economy: ~\$2 trillion per month**
  - Depends on economic impact
    - Of containment policies
    - Of unabated virus

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## BOTE Cost Benefit Analysis

*BOTE: Back Of The Envelope*

- If we evaluate the the value of a statistical life at \$7 million, and
- we think that social distancing reduces the number of deaths by 600,000
- Benefit of Saved Lives is: \$4.2 Trillion
- Survivors may face long-term health effects – 2 million valued each at \$500,000
- Survivor Cost: \$1 Trillion
- **Total Benefit of Social Distancing: \$5.2 Trillion**



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<https://twitter.com/BetseyStevenson/status/1242180499566669828>

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## BOTE Cost Benefit Analysis

*BOTE: Back Of The Envelope*

- Cost of “Shelter in Place” or “Lockdown”
- The cost of a non-workday reduces unadjusted quarterly GDP by about 0.4%.
- There are about 60+ workdays in a quarter and we lost about 1/8 or March.
- **The cost of a “lockdown” is roughly \$1.3 Trillion**

**Benefit: \$5.2 trillion > Cost: \$1.3 trillion**



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<http://caseymulligan.blogspot.com>

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## Priorities for Government Policy

- **Policies to protect public health**
  - Long run benefits for the economy.
  - Though there may well be short run pain.
- **Policies to protect the economically vulnerable**
- **Policies to maintain structure of the economy**
  - Help firms stay in business, maintain ties with workers.
- **Policies to stimulate aggregate demand (rebuild)**
  - Long run – once the economic switch is turned back on.



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## Fiscal Policy - Congress

- **Phase 1**
  - \$8 billion to – mitigate the crisis
- **Phase 2**
  - \$100 Billion – get people to stay at home, safety net
- **Phase 3**
  - \$2.2 Trillion – support individuals and businesses
- **Phase 4**
  - ???



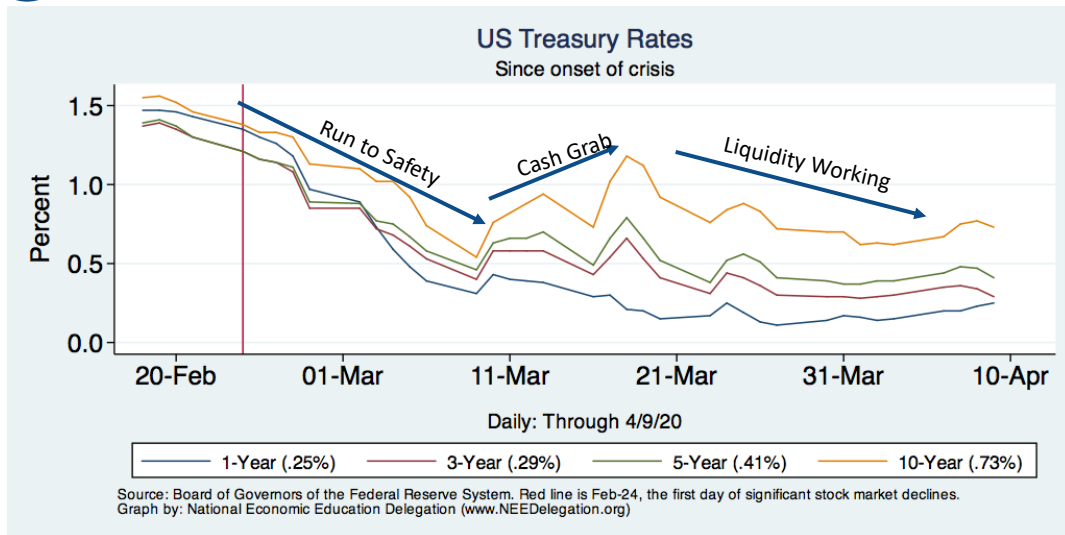
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# Monetary Policy – Federal Reserve

- **Two primary objectives**
  - Stabilize the economy
  - Maintain liquidity of the system
  
- **Actions in three forms:**
  - Inject cash into the system
  - Traditional interest rate stimulus
  - Shore up existing debt and structures

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# US Treasury Rates: A Safe Haven?



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## Thoughts on Policies to Date

- **Costs are enormous, but we are doing the right thing!**
  - And we are doing it **VERY QUICKLY!**
- **Monetary policy: Heroic!**
- **Fiscal policy: concerns**
  - Direct cash payments
    - Are they really getting into the hands of those most in need?
  - Payments to large corporations:
    - How effective are these at maintaining the structure of the economy?
  - Enough to maintain employee-employer ties?
  - Enough for medical care?
    - The amount spent fighting the virus is relatively small.
  - Technical issues – trouble getting the money out.



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## What does the future bring?

- **We won't need "shades" for quite some time.**
- **Further government policy**
  - Buoy individuals, financial sector, and structures.
  - Ultimately stimulus – but not soon.
- **Structural changes to the economy?**
  - More telecommuting
  - More rapid adoption of technology
  - The way we purchase things



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## Big Open Questions

- **When will the dust settle?**
- **When the dust settles:**
  - How close will ties be between businesses and their pre-CV employees?
  - How much will the business environment change?
- **Broadly speaking: How quickly can things bounce back?**
- **What will the overall economic cost be?**

## Fiscal Policy Timeline

Phase	Amount (\$ bn)	Action
<b>Phase 1</b> March 6	\$8	Emergency response, health care, vaccine development, prevention
<b>Phase 2</b> March 18	\$100	Paid sick leave, unemployment insurance, free virus testing
<b>Phase 3</b> Pending	\$250	Direct cash payments to families with income cap; \$1,200 per adult, \$500 per child
	\$250	Enhanced unemployment benefits
	\$350	Small business loans up to 250% of monthly payroll
	\$100	Corporate tax changes
	\$17	Community lending
	\$500	Loans & loan guarantees for businesses, incl. airlines
	\$180	State and local governments & Education
\$100	Hospitals	
<b>TOTAL</b>	<b>\$1.5-2.5 Trillion</b>	<b>7-12% of GDP</b>

# Monetary Policy Timeline

	Date	Action
Stabilization	March 3	Fed Funds Rate Lowered 1.75-1.5 to 1.25-1
	March 15	Fed Funds Rate Lowered to 0.25-0 Announced QE of \$700 billion
Liquidity	March 17	Commercial Paper Funding Facility Primary Dealer Credit Facility
	March 18	Money Market Mutual Fund Liquidity Facility
	March 23	Primary Market Corporate Credit Facility Secondary Market Corporate Credit Facility Term Asset-Backed Securities Loan Facility Unlimited QE
		TBA

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## Poverty & Economic mobility



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## Credits and Disclaimer

- **This slide deck was authored by:**

- Oana Tocoian, Claremont McKenna College
- Jon Haveman, NEED

- **Disclaimer**

- NEED presentations are designed to be nonpartisan.
- It is, however, inevitable that the presenter will be asked for and will provide their own views.
- Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED).



## Poverty



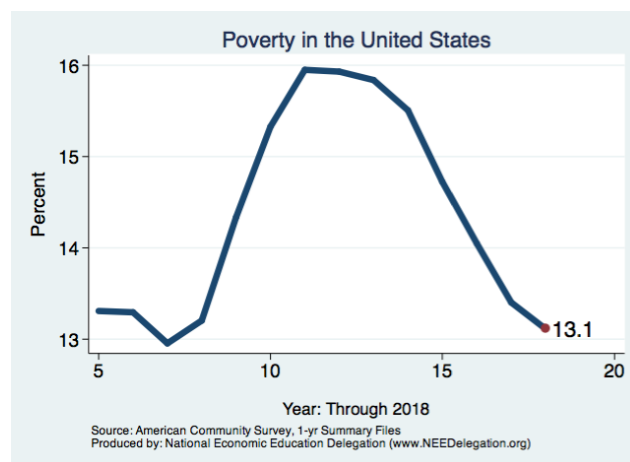
## What do We Mean by Poverty?

### • Poverty

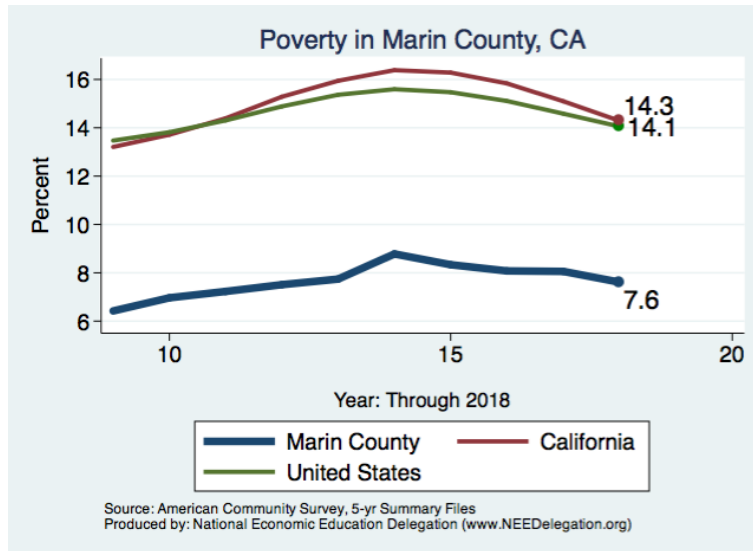
- Poverty is not having enough material possessions or income for a person's needs. Poverty may include social, economic, and political elements.
- Absolute poverty is the complete lack of the means necessary to meet basic personal needs, such as food, clothing and shelter.
- The threshold at which absolute poverty is defined is always about the same, independent of the person's permanent location or era.



## Poverty in the United States

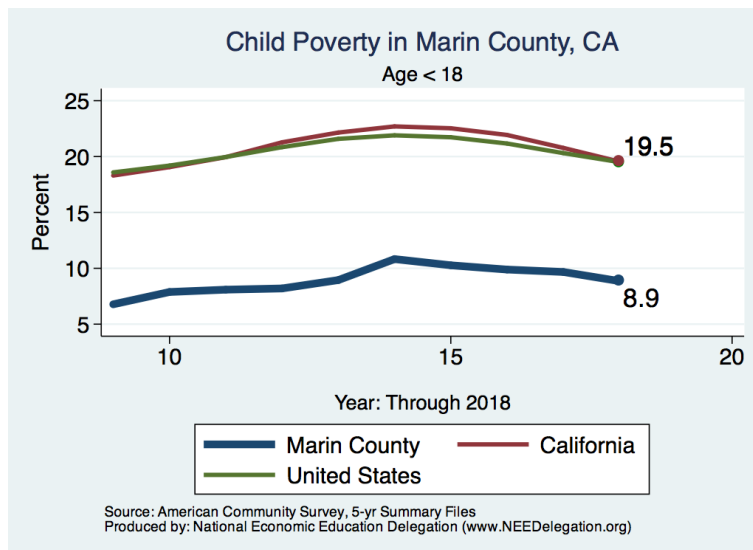


## Poverty in Marin, CA, and US



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## Child Poverty in Marin, CA, and US



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## Two Definitions of Poverty

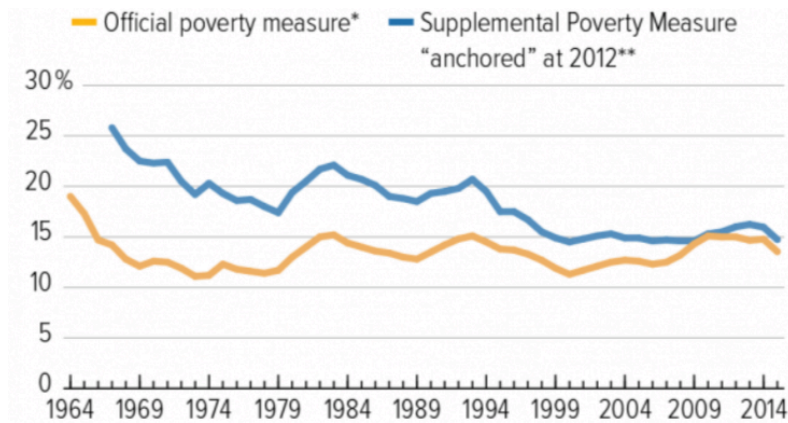
- **Official Poverty Rate**

- Market income relative to monthly expenses.
  - o Assumes that 1/3 of basket goes to food.
  - o Poverty line = 3 \* cost of food.
- Greatly understates NEEDs, so UNDERstates poverty.

- **Supplemental Poverty Rate**

- Adds in government assistance and taxation.
- Differences in cost of living across states.

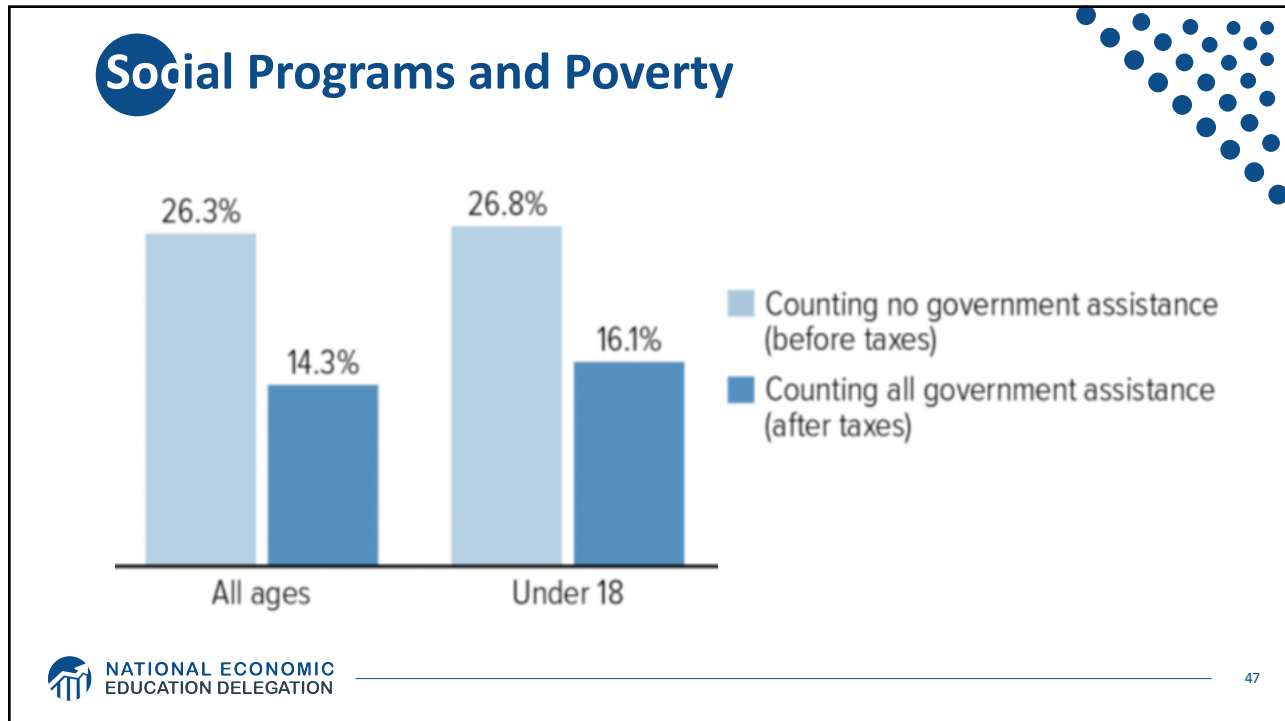
## Trends in Poverty



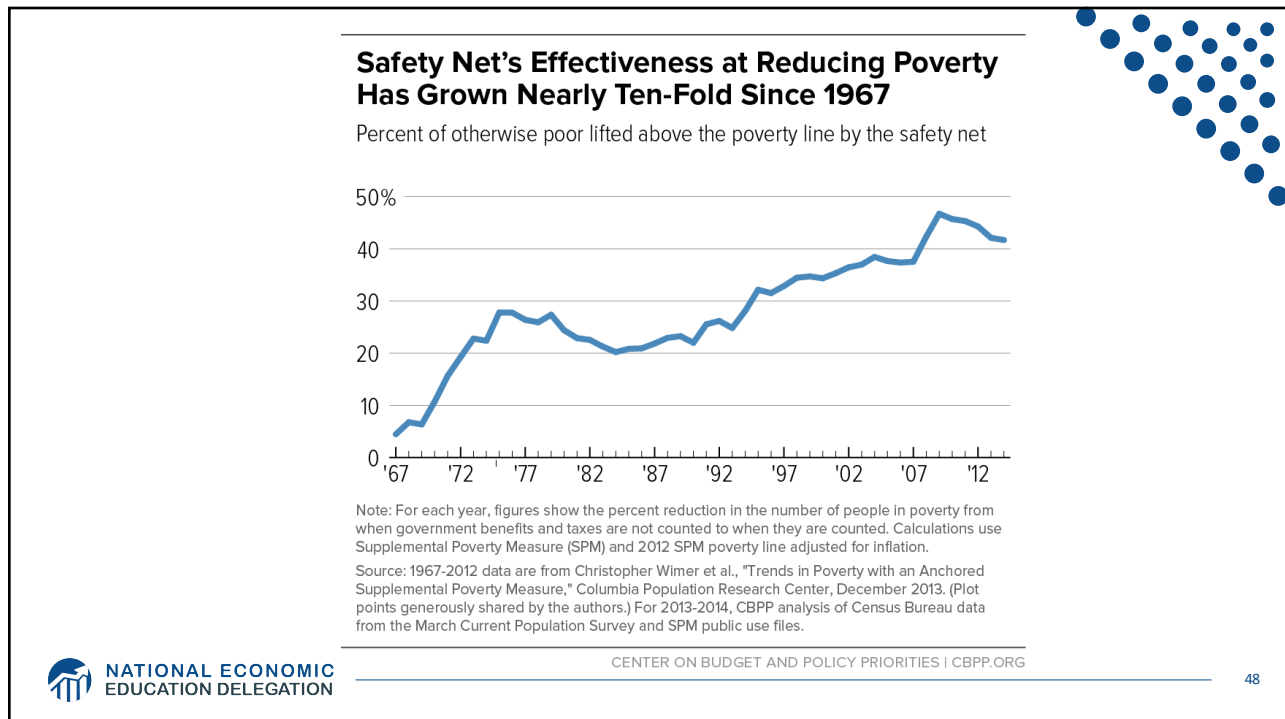
Supp: 12.8% in 2018  
 Official 11.8% in 2018

\*Counts only cash income and uses the official poverty line

\*\*Counts cash income plus non-cash benefits, reflects the net impact of the tax system, subtracts certain expenses from income, and uses a poverty line based on today's cost of certain necessities adjusted back for inflation.



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## Overview of Major Safety Net Programs

- **What programs are included in the “safety net”?**
  - **Means-tested** (must have low income to receive)
  - **Federal programs** (often with state partnership in financing & running programs)
  - **Provision** of cash, services or in-kind benefits, tax credits/refunds
  
- **What programs are not included?**
  - Social Insurance: non-means tested, participants pay in to system
    - Example: Unemployment Insurance, Social Security, Disability Insurance
    - (Though these programs also assist the poor)



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## Major Safety Net Programs

- **Medicaid**
- **Supplemental Security Income (SSI)**
- **Temporary Assistance to Needy Families (TANF)**
  - (formerly AFDC)
- **Earned Income Tax Credit (EITC)**
- **Supplemental Nutrition Assistance Program (SNAP)**
  - (formerly food stamps)
- **School nutrition programs**
- **Special Supplemental Nutrition Program for Women, Infants and Children (WIC)**
- **Housing Assistance**
  - Vouchers
  - Rental Assistance
  - Public Housing
- **Head Start**

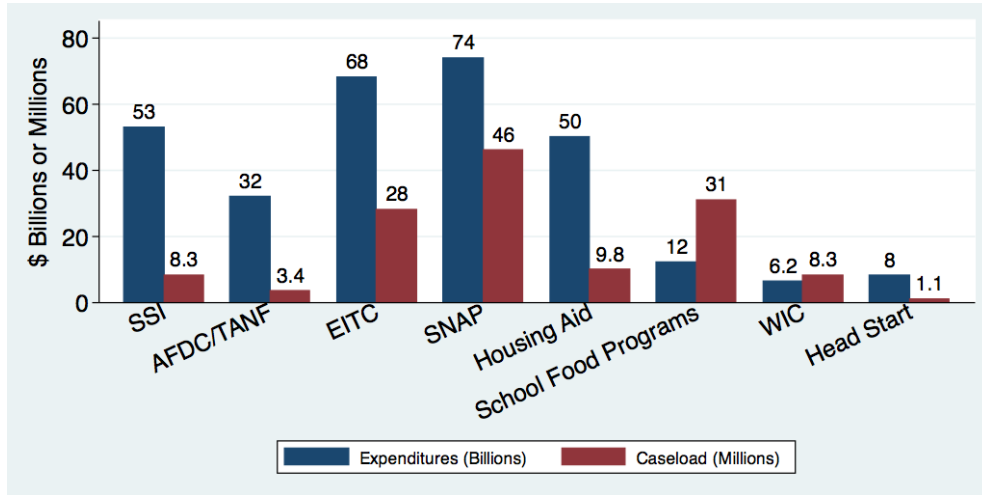


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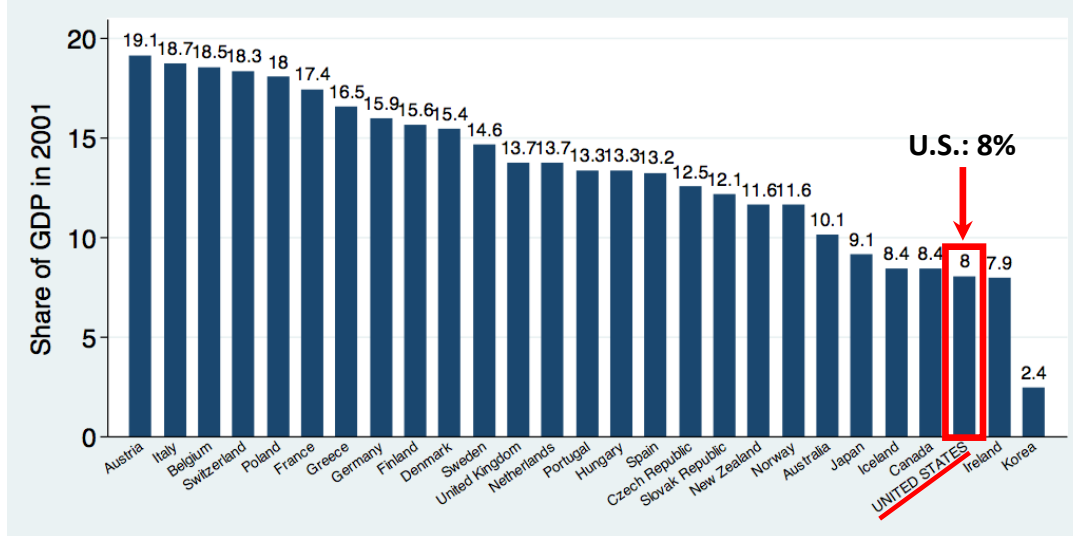
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## U.S. Safety Net Expenditures (\$ Billions) and Caseload (Millions) – No Medicaid, 2014 or 2015



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## Safety Net Spending Across the OECD



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## Reasons for Poverty in America

- Low earnings
- Unequal access to resources
- Lack of assistance
- Rising cost of living
- Medical expenses



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## How to Think About Poverty

- **Transitional**
  - Flows in and out of poverty
- **Many are one financial emergency away.**
  - 40% of households do not have the resources to cope with a \$400 financial emergency.
- **Hereditary (partially)**
  - Economic mobility out of a low income state is difficult.



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# Economic Mobility



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## Outline

- I. What do we mean by economic mobility and why does it matter?**
- II. What are the facts? Empirical patterns and cultural context:**
- III. What can we make of these patterns?**
- IV. Exploring different barriers to upward mobility**
- V. Summary**



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# I. What do we mean by economic mobility?

Definition and motivation



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## Economic Mobility – Defined

- **Economic Mobility – Our working definition:**

- Ability to advance beyond the status of your parents.

- **More broadly:**

- The ability to improve your socioeconomic class.

- **Variety of measures:**

- Income
- Wealth
- Education level
- Occupation
- Home ownership



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## Absolute and Relative Mobility

Consider *intergenerational mobility* in INCOME.

There are basic concepts:

- **Absolute mobility:** the difference in income from one's parent.
  - It is possible for *everyone* to experience upward absolute mobility.
- **Relative mobility:** the change in income rank from one's parent.
  - Increased relative mobility requires both upward and downward movement.



## Absolute vs Relative: Escalator Analogy

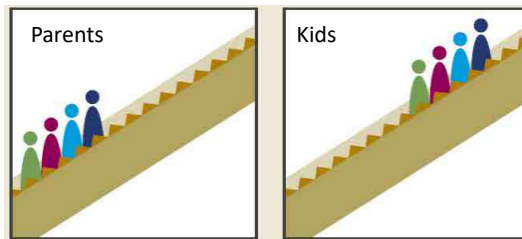
- **Absolute Mobility**
  - You're moving up the escalator.
- **Relative Mobility**
  - You're moving up the escalator and passing other people.



## More on Absolute vs Relative Mobility

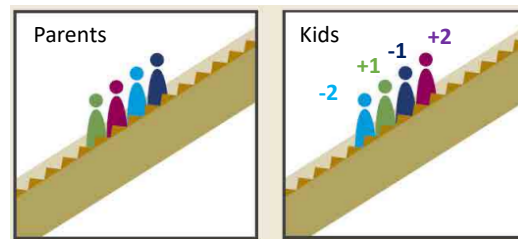
- **Can there be absolute mobility with NO relative mobility?**

- Yes: if everybody experiences the same increase in income, there will be no relative income.



- **Can there be relative mobility with NO absolute mobility?**

- Yes: There can be a dramatic reshuffling of the distribution even if there is no increase in average income.



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## Economic Growth and Mobility

- **Economic growth should drive absolute mobility**

- It has the potential to raise all incomes.
- But the extent of mobility that results depends on how income is distributed.

- **Economic growth and relative mobility are unrelated**

- Growth does not have implications whether kids are more or less likely to rise above their parent's position in the income distribution.

- **Food for thought:**

- **What does rising GDP say about living standards?**



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## II. Empirical Patterns

What are observed levels of mobility?



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## Mobility – Empirical Patterns

**Decline in *absolute* mobility in the United States:**

- 90% of those born in the early 1940s could expect to earn more than their parents in real terms. For millennials, the fraction is closer to 50%
- Below-median earnings have not increased in real terms since the 1970s.

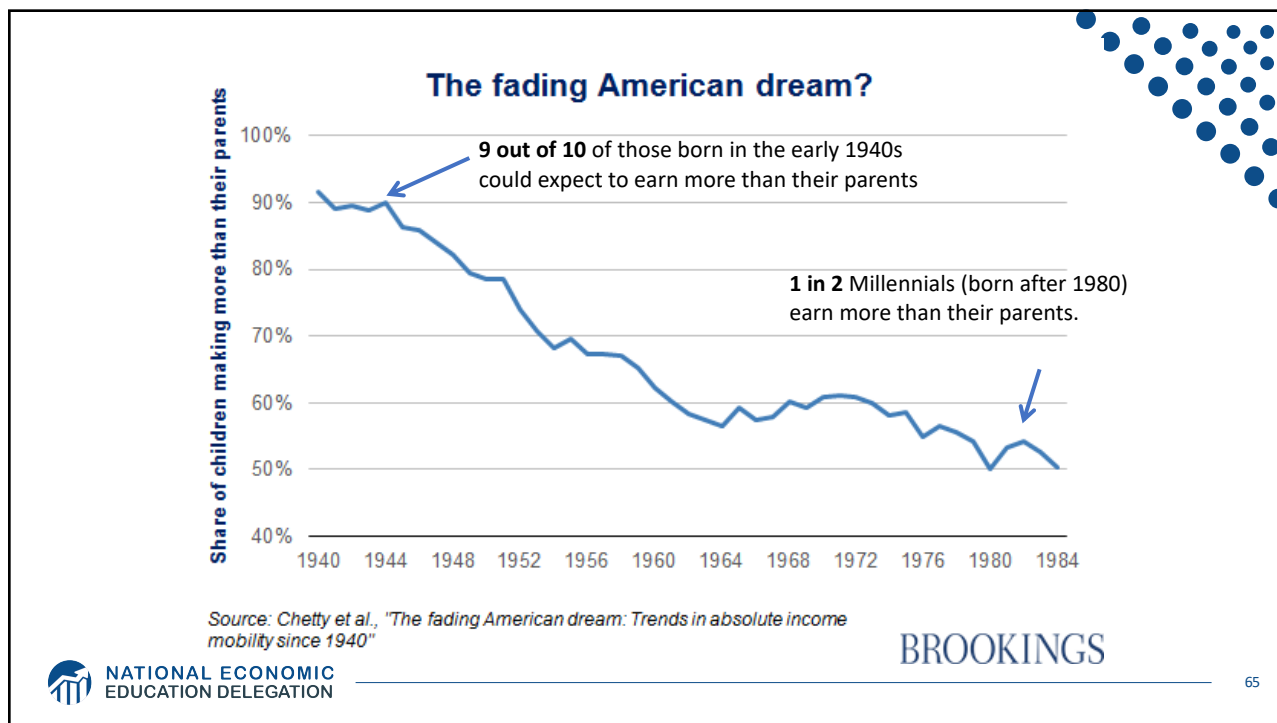


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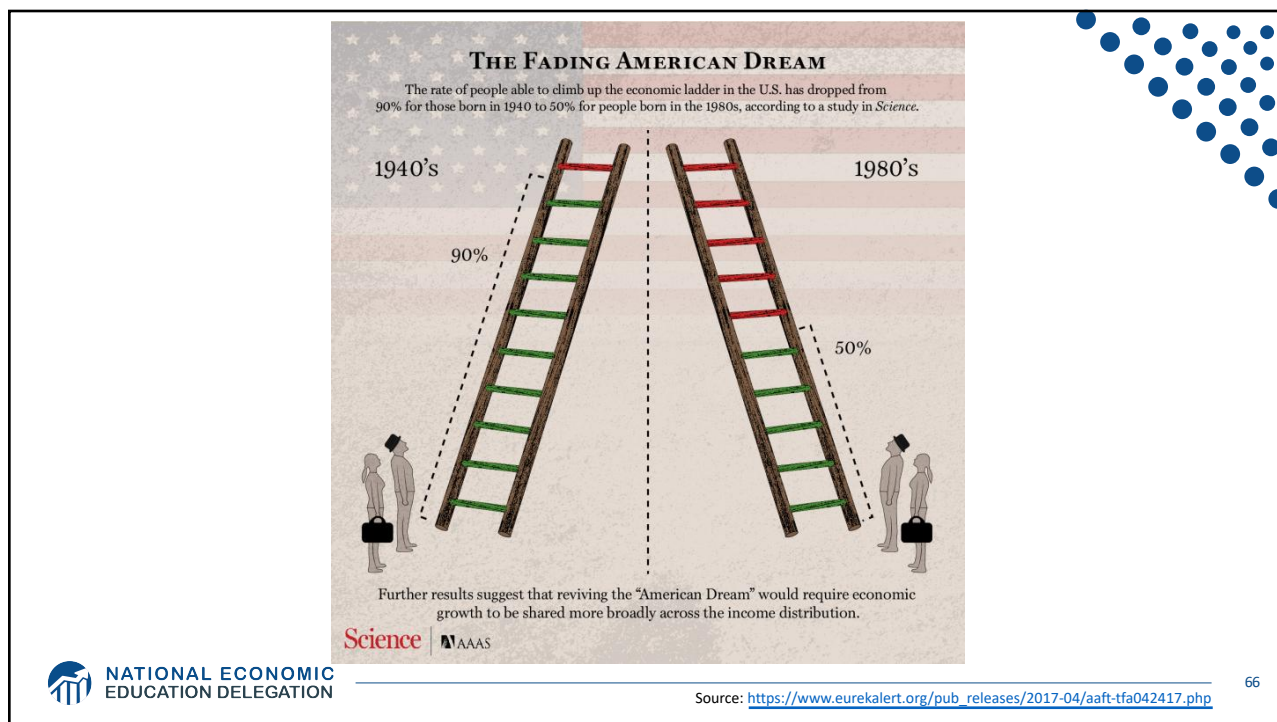
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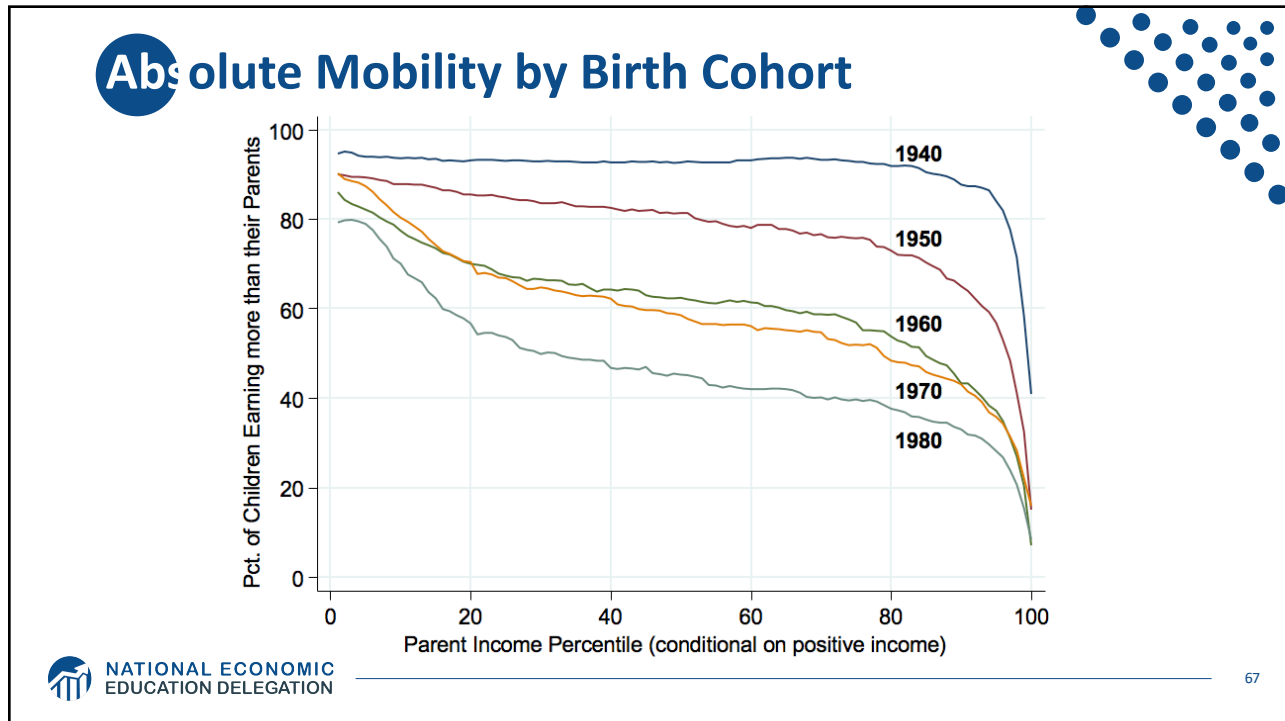




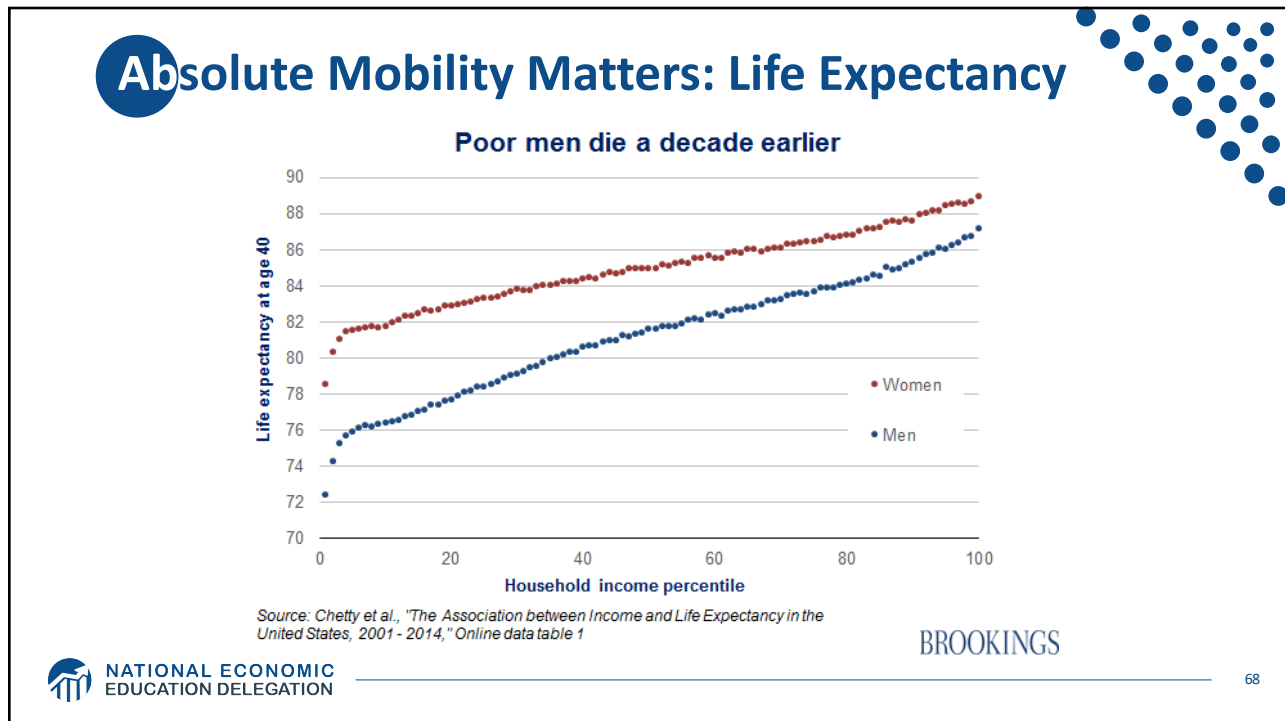
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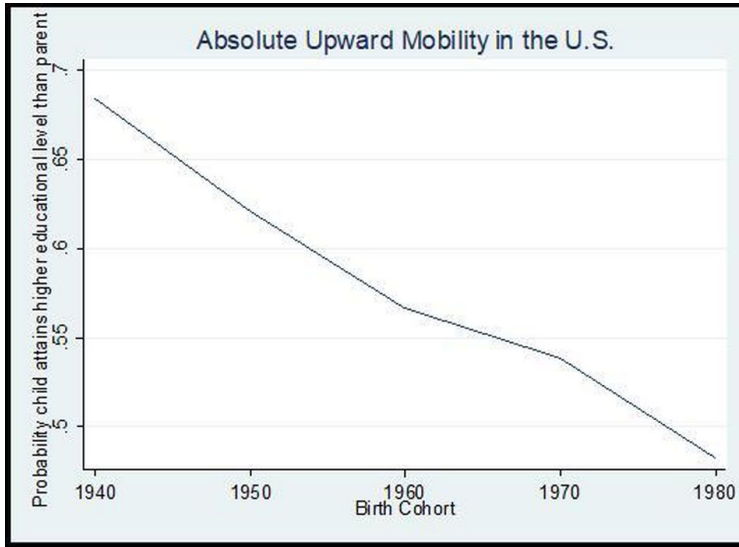


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## Educational Mobility is Also in Decline



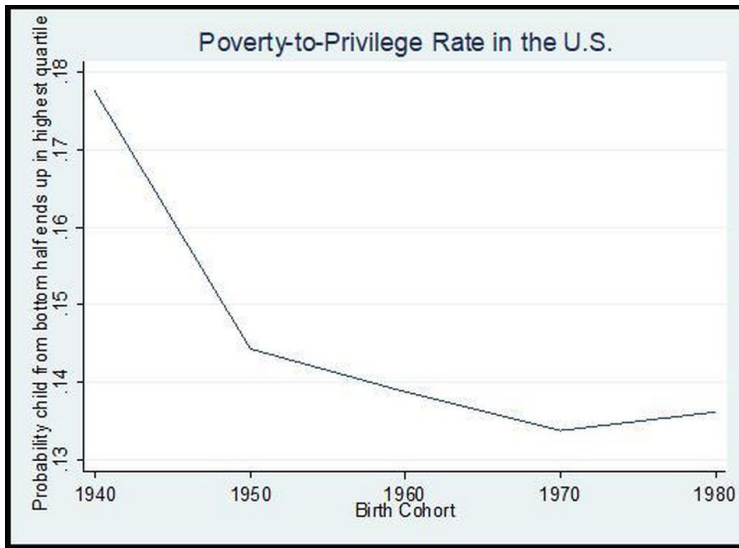
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<https://www.forbes.com/sites/aparnamathur/2018/07/16/the-u-s-does-poorly-on-yet-another-metric-of-economic-mobility/#5566a6726a7b>

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## Poor Kids Are Less Likely to "Out Learn" Parents



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<https://www.forbes.com/sites/aparnamathur/2018/07/16/the-u-s-does-poorly-on-yet-another-metric-of-economic-mobility/#5566a6726a7b>

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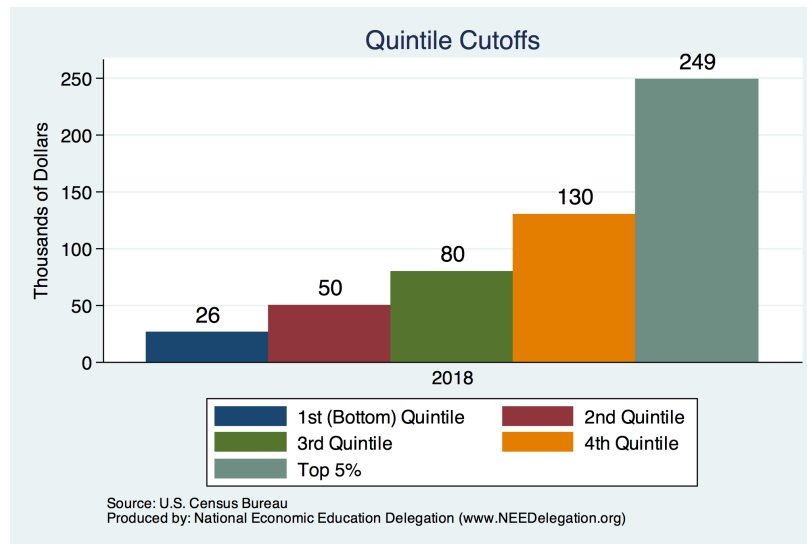
# Relative Mobility

- **Multiple ways to measure changes in relative mobility:**

- Movement across quintiles in the income distribution.
- Rank correlation of parent and child's incomes.

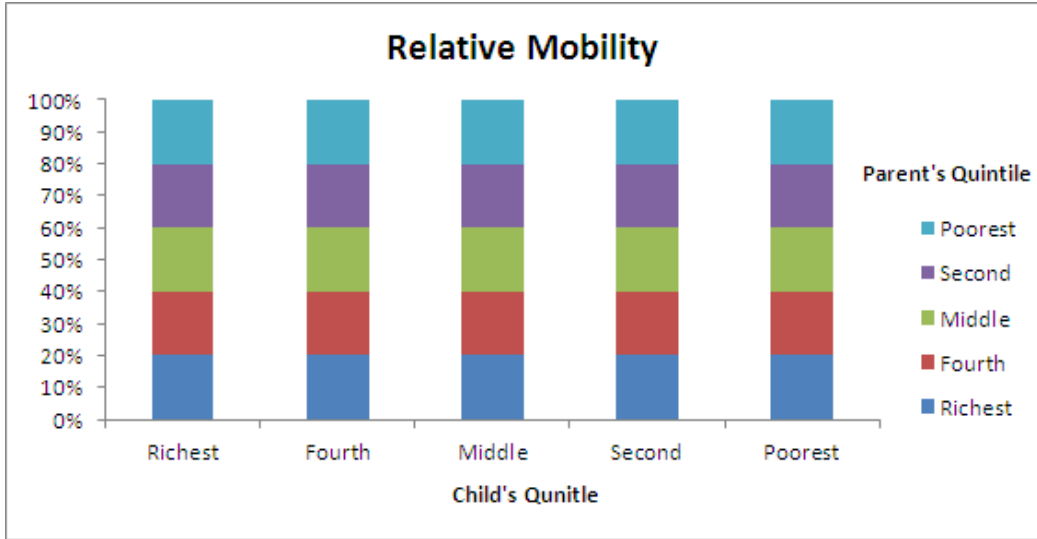
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# Quintile Cutoffs



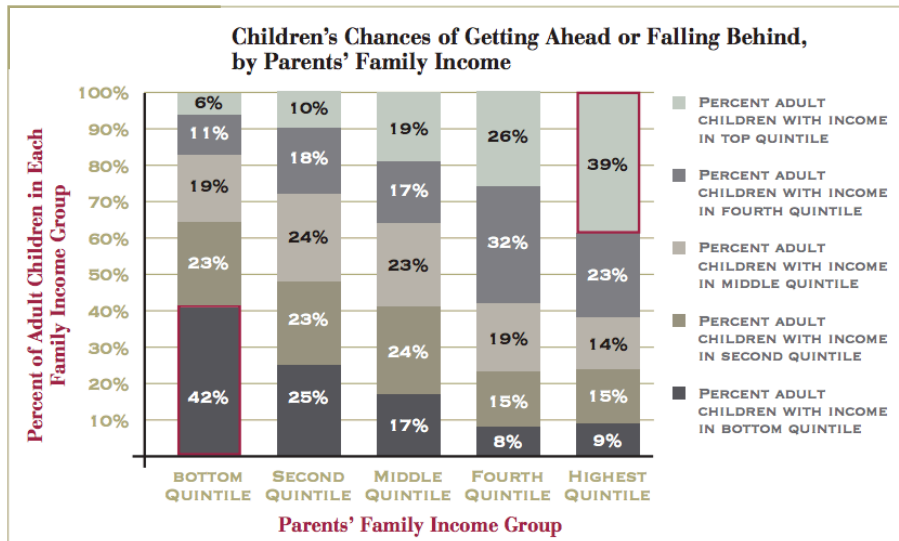
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## Mobility Example: Perfect Mobility



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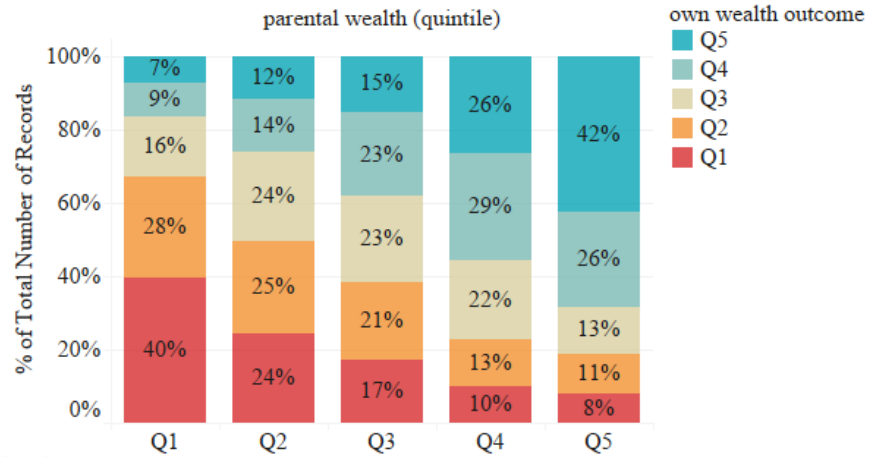
## Transition Probabilities in the United States



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# Wealth Mobility

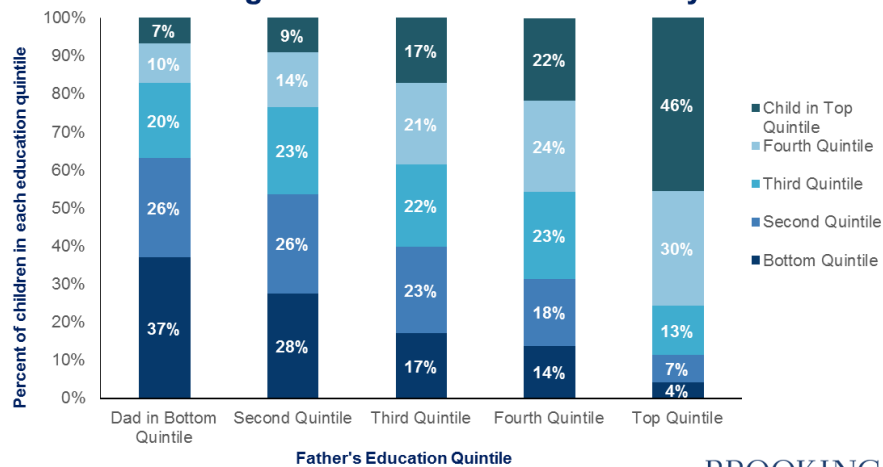
Outcome quintile by parental quintile (wealth)



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# Educational Mobility

Intergenerational Education Mobility

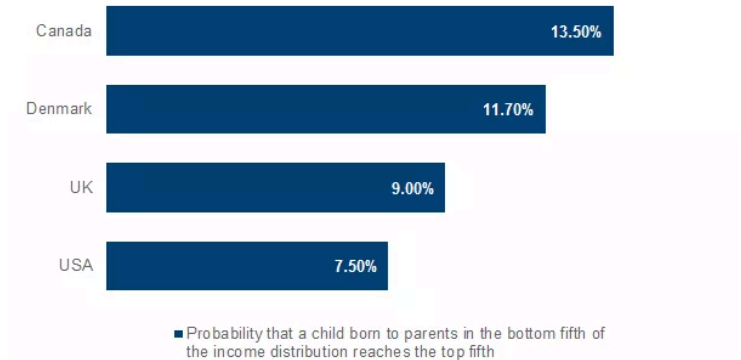


Source: Author's tabulations of PSID data.

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# Reflections on the American Dream

Relative mobility is almost twice as high in Canada



Sources: Chetty et al., "Where is the land of opportunity? The geography of intergenerational mobility in the United States" (USA); Blanden and Machin, "Up and down the generational income ladder in Britain: Past changes and future prospects," (UK); Boserup, Kopczuk, and Kreiner, "Intergenerational Wealth Mobility: Evidence from Danish Wealth Records of Three Generations," (Denmark); Corak and Heisz, "The intergenerational earnings and income mobility of Canadian men: Evidence from longitudinal tax data" (Canada)

BROOKINGS



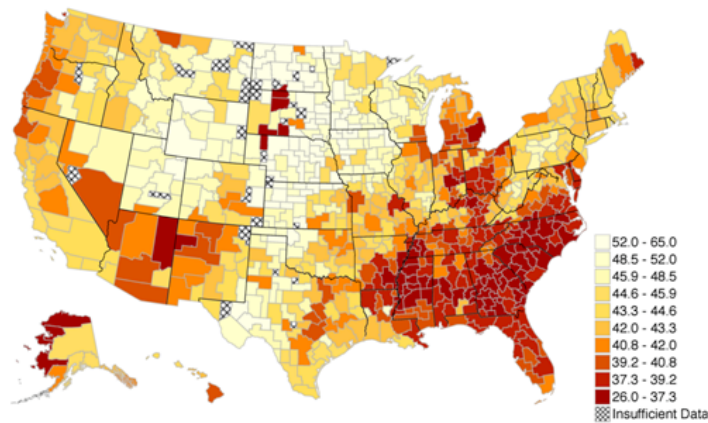
<https://www.brookings.edu/blog/social-mobility-memos/2018/01/11/raj-chetty-in-14-charts-big-findings-on-opportunity-and-mobility-we-should-know/>

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# American Dream: Geography Matters

The Geography of Upward Mobility in the United States  
Mean Child Percentile Rank for Parents at 25<sup>th</sup> Percentile ( $Y_{25}$ )



Note: Lighter Color = More Absolute Upward Mobility



<https://www.brookings.edu/blog/social-mobility-memos/2018/01/11/raj-chetty-in-14-charts-big-findings-on-opportunity-and-mobility-we-should-know/>

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## Relative Mobility – Rank Correlation

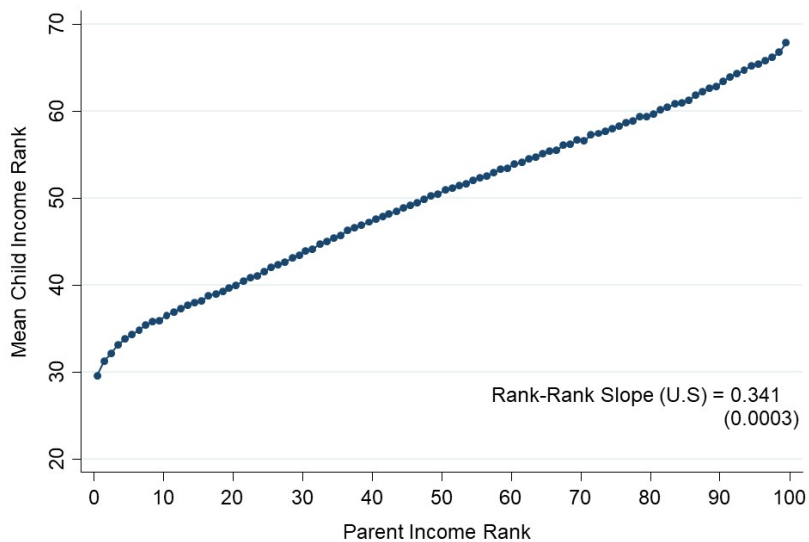
- Rank-based correlation

- What are the ranks?
  - Rank children based on their incomes relative to other children in the same birth cohort
  - Rank parents of these children based on their incomes relative to other parents
- Ask: How correlated are these measures?
  - Answer: How much does a child's income rank in adulthood depend on their parent's income rank when they were growing up?



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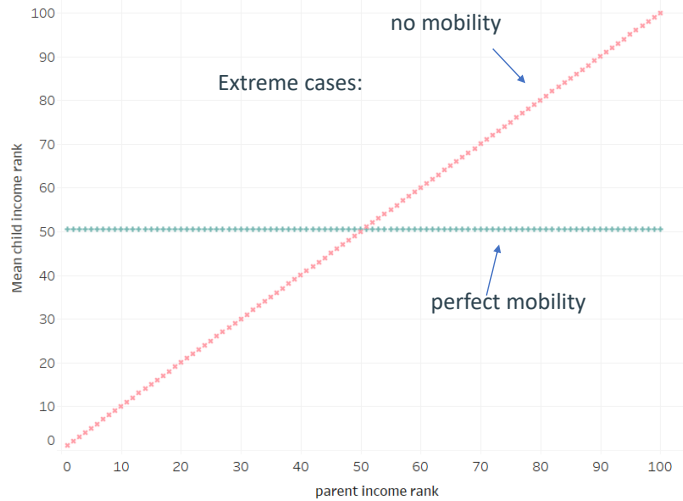
Mean Child Percentile Rank vs. Parent Percentile Rank



80

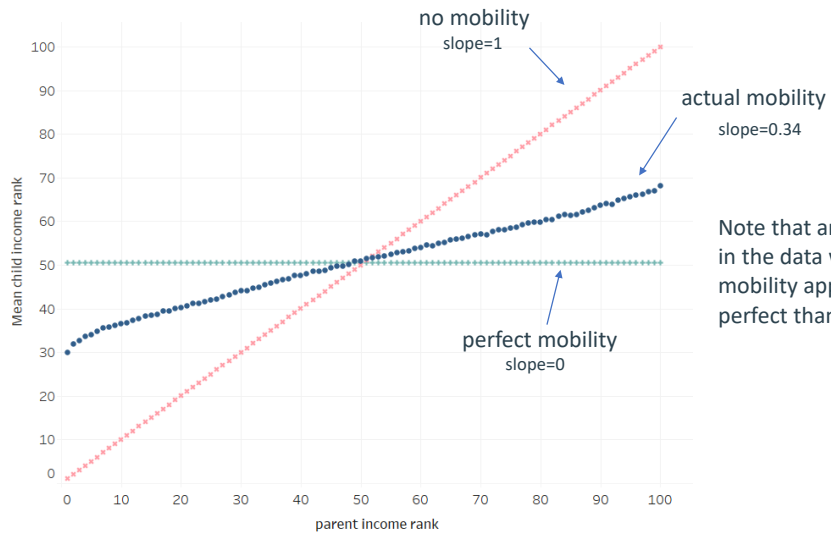


# Intergenerational Mobility – The Abstract



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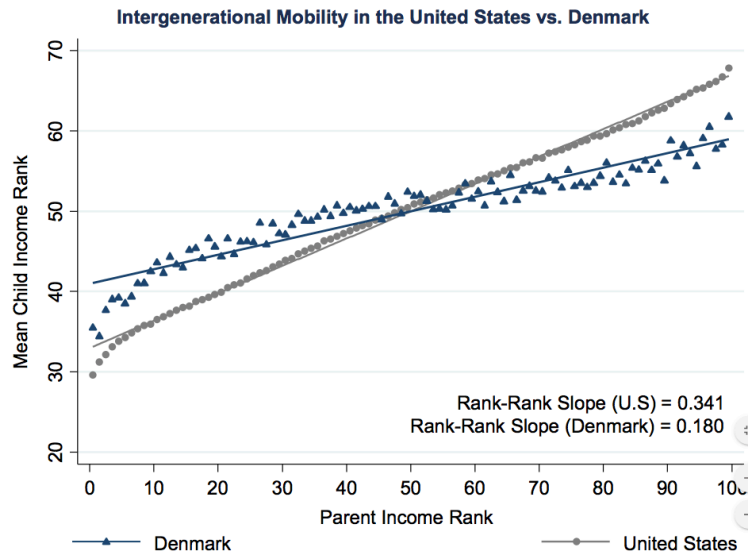
# Intergenerational Mobility – The Abstract



Note that any imprecision in the data will make mobility appear closer to perfect than it is.

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## An International Comparison



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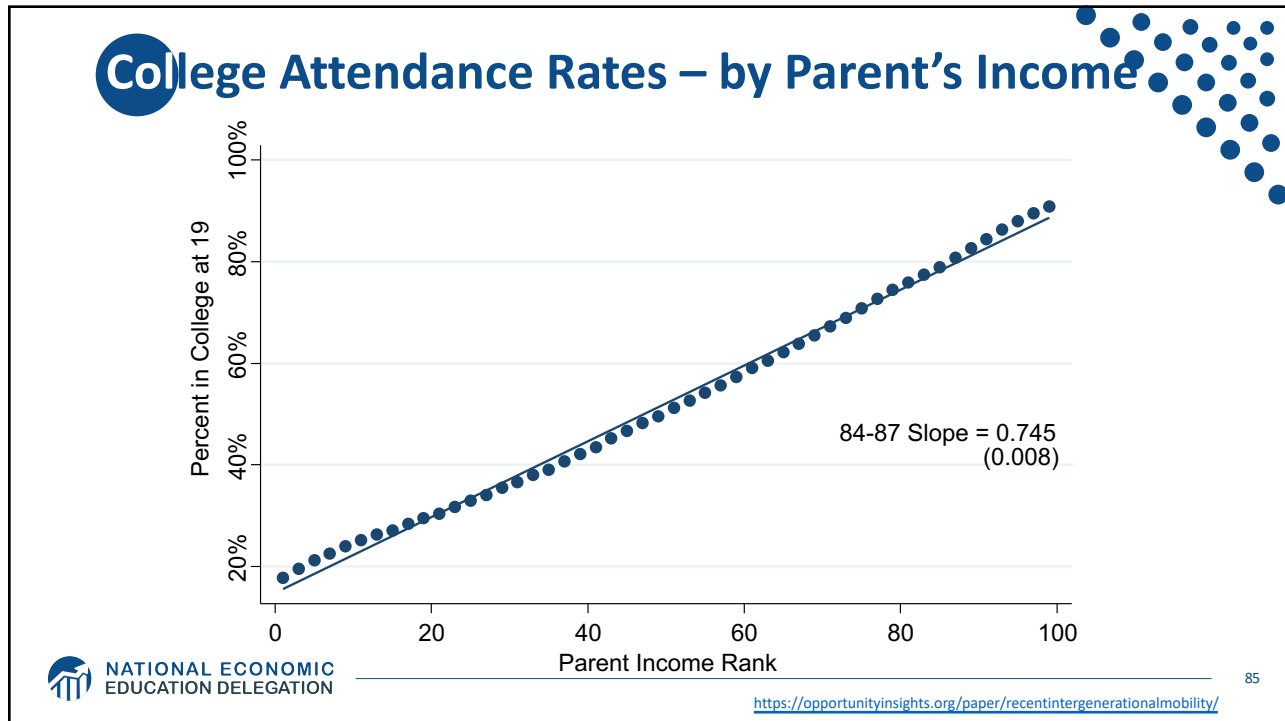
## Mobility – What's the Right Amount?

### Rank-based correlation, cont'd

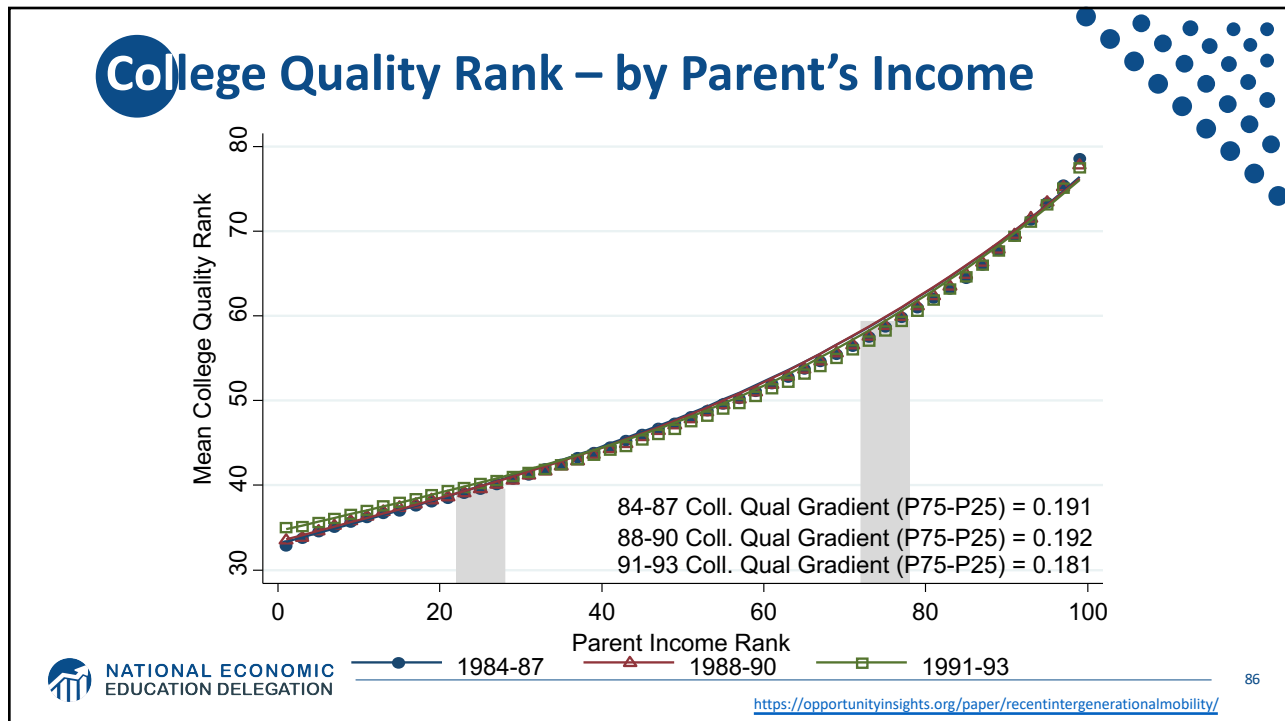
- Is 0.34 too high or is it reasonable?
- This number has not changed significantly in the past 50 years. But inequality (the spread of the distribution) has increased, meaning that which family one is born into has greater consequences for one's quality of life.

Rank-based correlation only speaks to *average* outcomes, and does not tell us – for instance – how likely disadvantaged children are to climb to the top of the income distribution.

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## Public Perception and Sentiment

- **Relative: “American Dream” vs “Old World”**
  - General belief is that the U.S. has *greater mobility* than elsewhere.
    - Fewer explicit barriers – no nobility titles.
    - More meritocratic – “rags to riches”, Heratio Alger
- **Absolute: Overestimate of actual mobility**
  - The American Dream plays a significant part in national identity.
  - Common perception is incorrect.



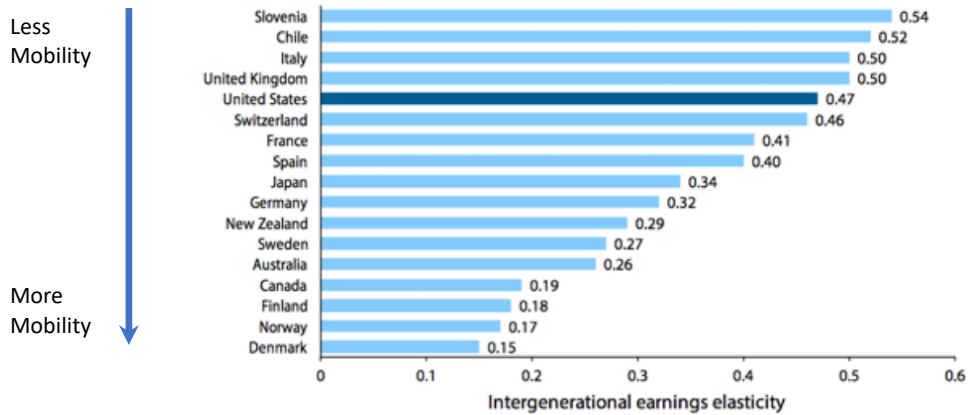
## Intergenerational Elasticity – of Income

- **Most common measure of relative mobility (IGE):**
  - Q: What is the relationship between the family income of parents and the family income of their child?
    - A lower IGE implies more economic mobility
- **Problems with IGE:**
  - Strongly influenced by income inequality.
  - Strongly affected by data used:
    - Age range
    - Can't include people with zero earnings
    - Etc.



# IGE: U.S. in International Comparison

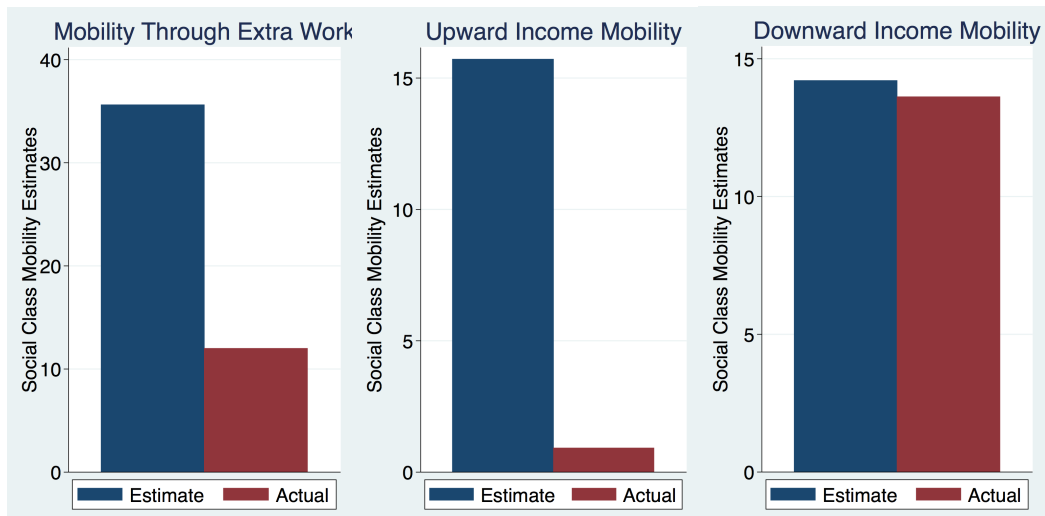
**Figure 3H** Intergenerational correlations between the earnings of fathers and sons in OECD countries



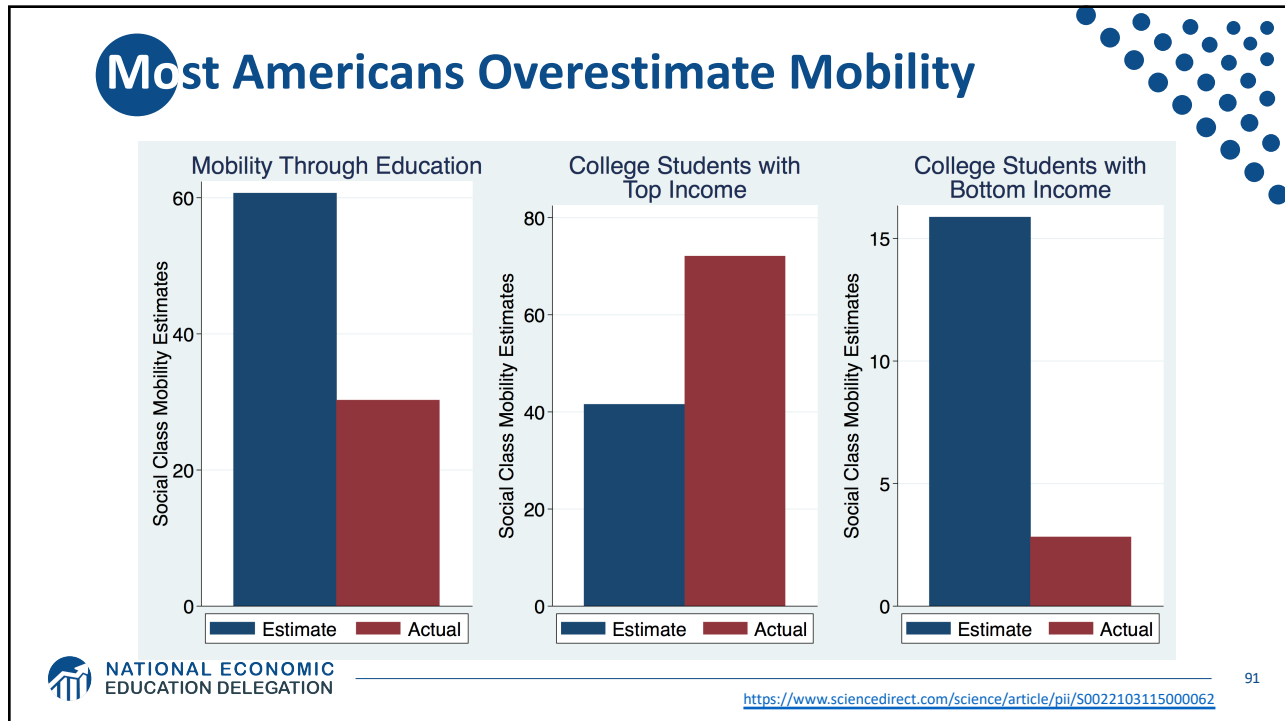
Note: The higher the intergenerational elasticity, the lower the extent of mobility.

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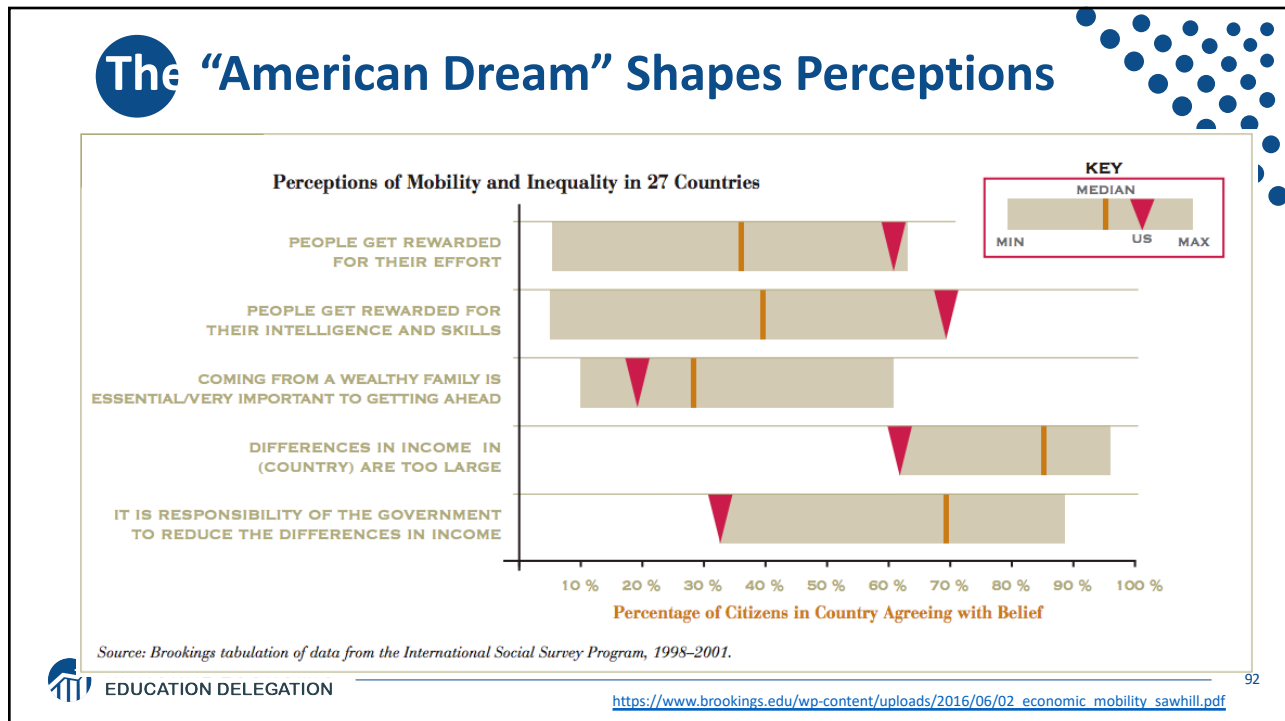
# Most Americans Overestimate Mobility



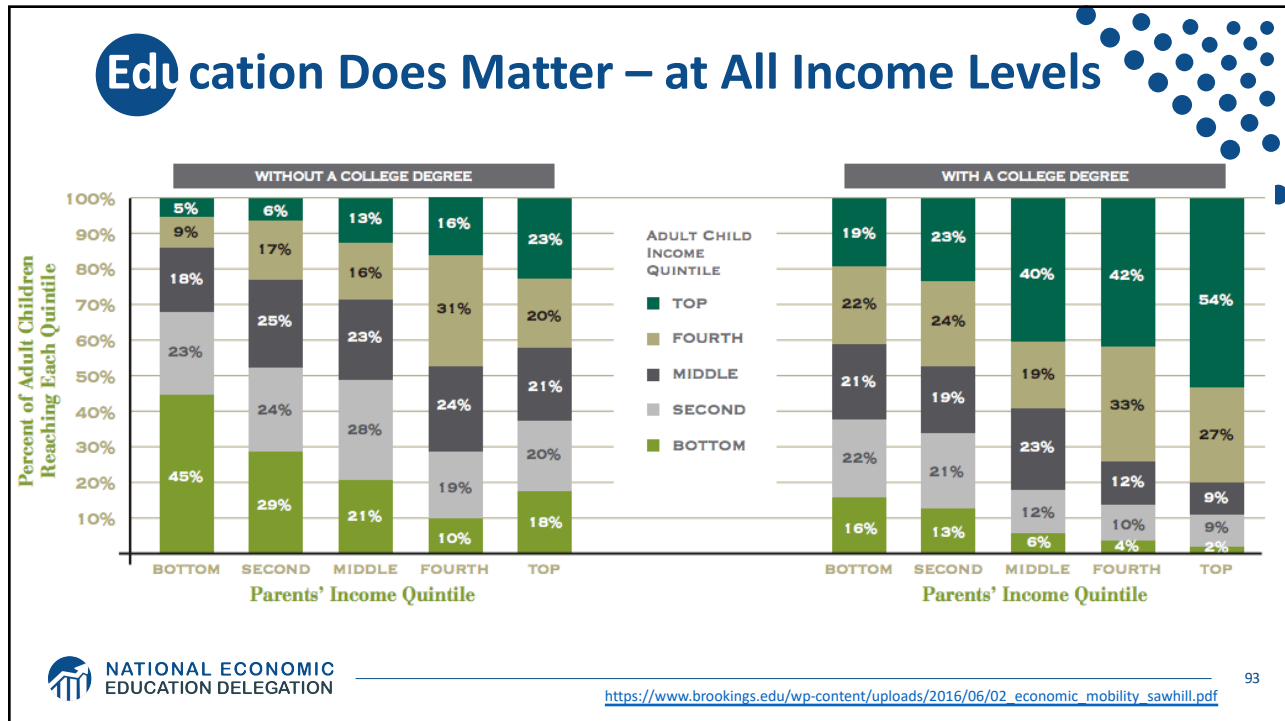
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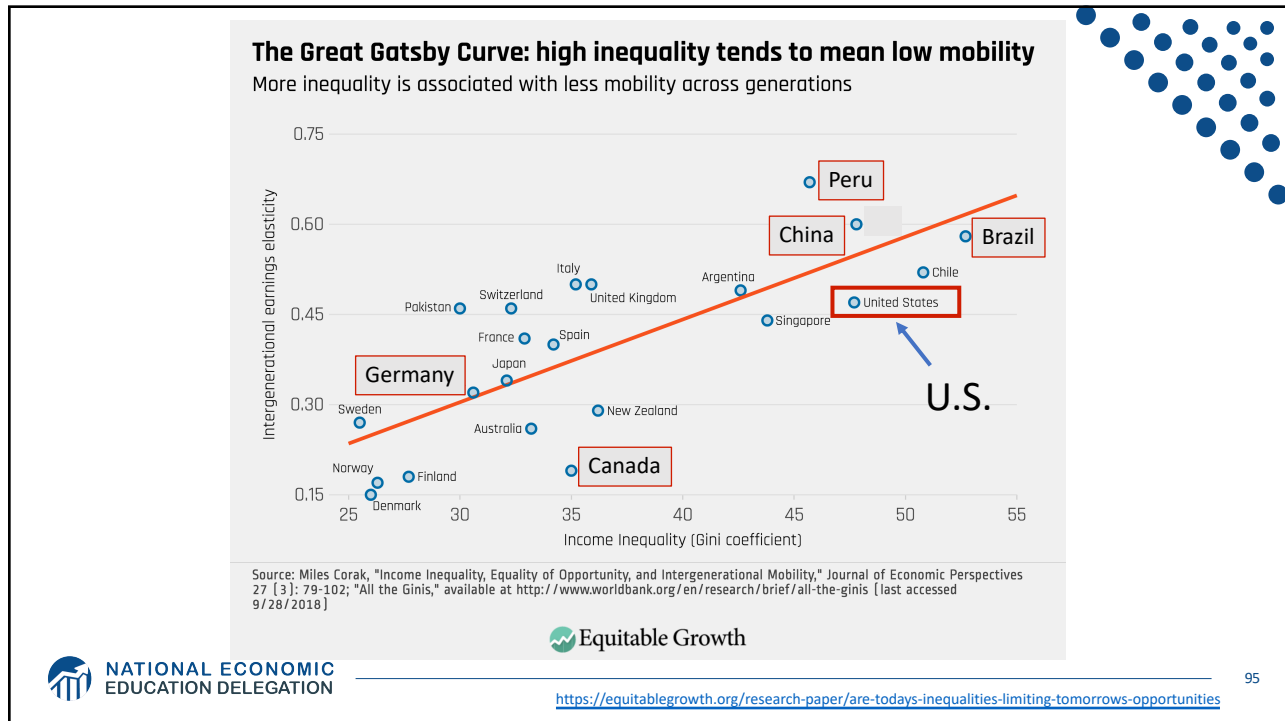
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## Mobility – Important Relationships

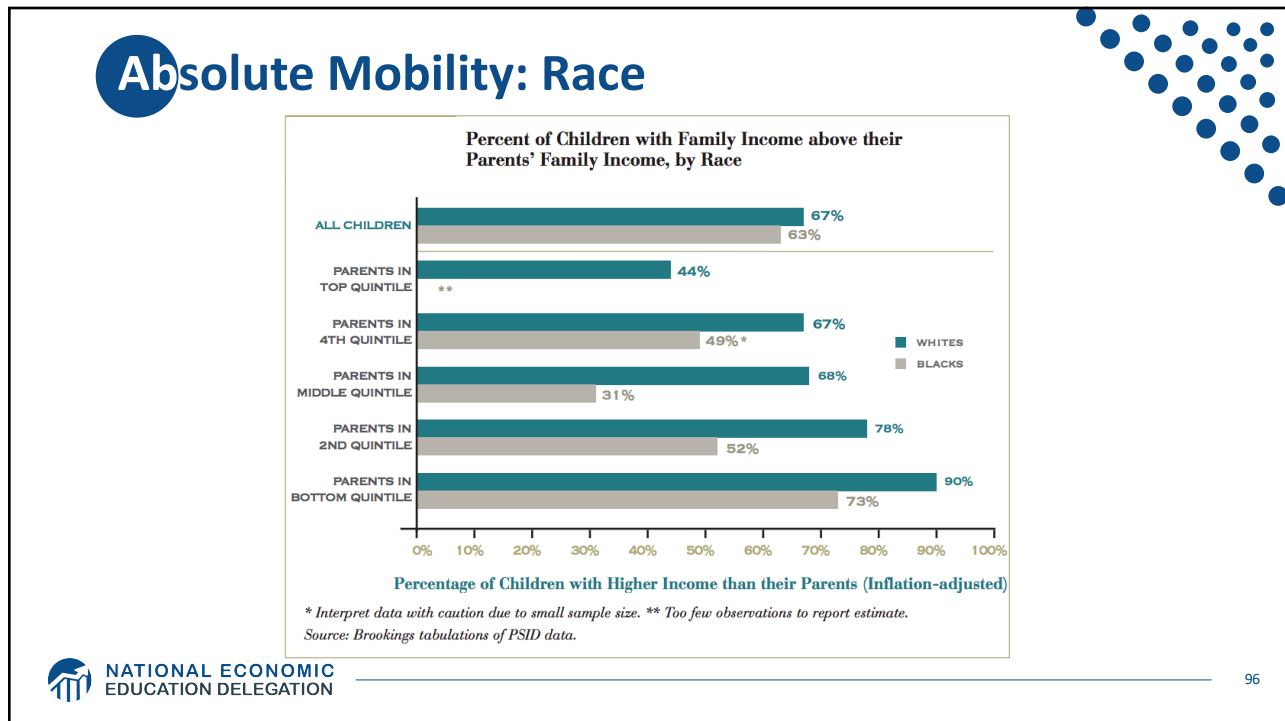
- **Mobility and Growth**
  - What is the relationship between the two?
  - Growth drives absolute mobility.
  - Mobility drives growth.
    - Primarily through individual actions: investments in productive capacity and effort.
- **Mobility and Inequality**
  - What is the relationship between the two?
  - Makes both absolute and relative mobility more difficult.

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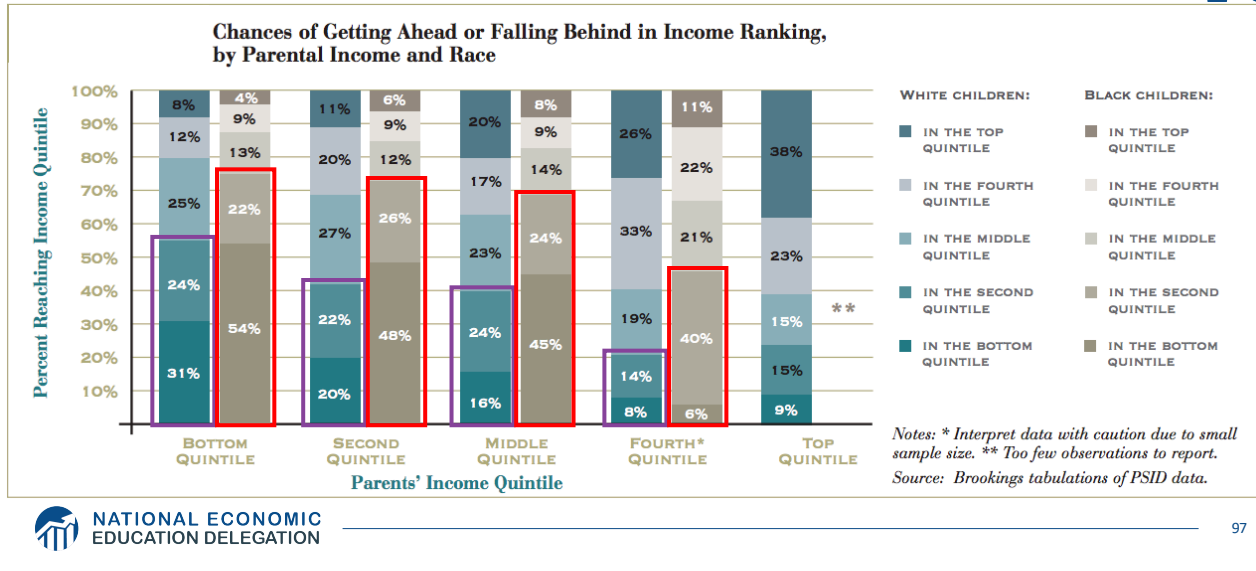
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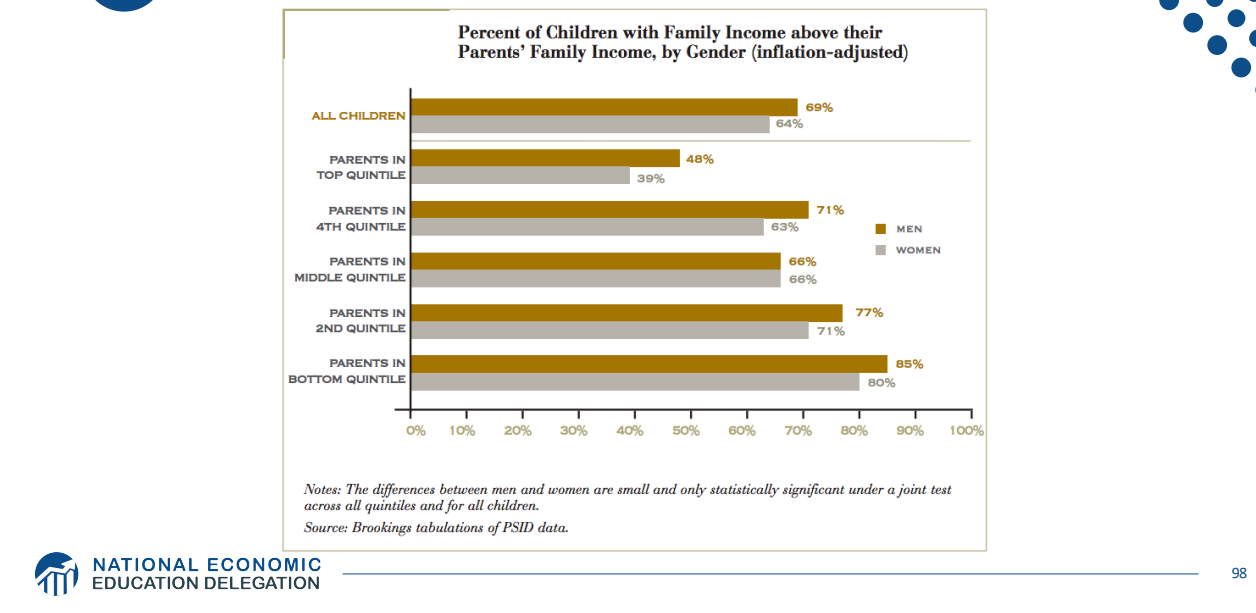


# Relative Mobility: Race



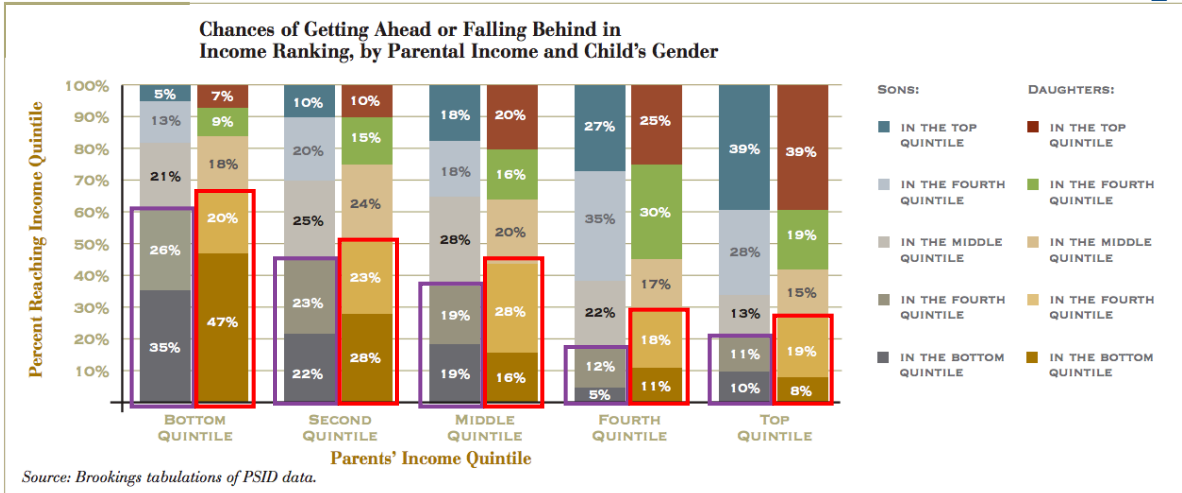
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# Absolute Mobility: Gender



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# Relative Mobility: Gender



## III. What can we make of this?

What does the data tell us, and what is to be done?

## Why Should We Care?

- **Efficiency**

- Does mobility affect economic growth?

- **Equity**

- Is there a sense of fairness that is in play here?
- Would greater equity provide societal benefits?

- **Is there a tradeoff or are these concerns reinforcing?**



## Private Issue with Public Consequences?

### The “left-behind” and low-to-middle-class malaise

- Evidence that absolute mobility has dropped the most in the Industrial Midwest, and for men relative to their fathers
  - These are the groups which revolted against traditional political candidates in 2016 and voted for Trump.
- Not a uniquely American phenomenon
  - See Brexit and the rise of populist candidates throughout developed countries.
- Decreased economic mobility is likely to be seen as increasingly important in the future.



## Absolute or Relative Mobility?

- Upward *absolute* mobility of the whole population is unambiguously desirable (it's hard to defend *not* wanting everyone to be better off!)  
The fact that half the population is treading water should worry us.
- But, *relative* mobility is a *zero-sum game*: for some people to rank higher than their parents did, others have to rank *lower*.  
Why is social churn desirable? (Is it?!)  
Are people not merely being petty when, after getting a raise, they are displeased to find out that a coworker got a bigger raise?

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## Is PERFECT Relative Mobility Desirable?

There are persuasive arguments why perfect relative mobility is sub-optimal: (i.e. we shouldn't expect children's outcomes to be entirely uncorrelated with their parents')

- *Fairness argument*: highly skilled parents earn higher incomes, and they also have--on average--more highly-skilled children, who thus deserve higher earnings.
- What's more, it is better for everyone if talent is recognized, so that resources can be put to the most efficient use (instrumental argument).
  - [A related argument is that we want to encourage parents to invest more in their children – but, these investments are not always productive and can decrease overall wellbeing (e.g. SAT prep arms race)]

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## Is ZERO Relative Mobility Desirable?

Similarly, there are arguments why zero relative mobility is sub-optimal:

- *Fairness*: it is highly unlikely that *zero* relative mobility is ever *fair*, since two extreme conditions would have to be met:
  - Parental generation outcomes would have had to be perfectly fair
  - Abilities, traits, and effort would have to be perfectly correlated across generations
- *Instrumental*: a perfectly rigid society is one where people feel powerless. They think the game is “rigged”, and from this follows civic disengagement, slow economic growth, social unrest, etc.



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## How Much Relative Mobility is Desirable?

If perfect mobility is too much and zero is too little, it seems reasonable to ask:

### What is the *optimal* level of relative mobility?

This is a hard question, one which we may not be able to answer.

Luckily, it’s almost as useful to ask a less ambitious question:

### Is current relative mobility too low (or too high)?

The answer would suggest the best incremental steps to take towards a better outcome, and policy changes are best done in incremental steps in any case.



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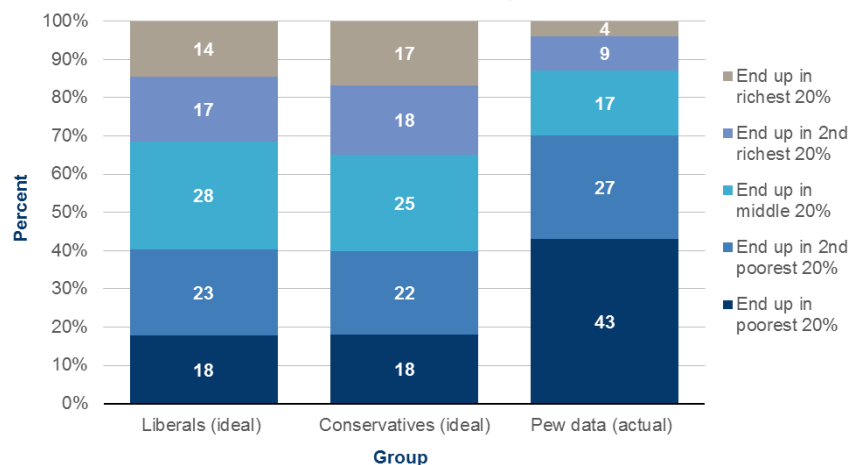
# How is the Mobility Porridge?

## How might we answer the second question (is mobility too low/ too high)?

- Common sense judgement
  - E.g. is it plausible that – due to merit alone – a child from the top 1% would be 77 times as likely to attend an Ivy League school than a child from the bottom quintile?  
What if the likelihood was 5-fold?
  - Forget merit: is it *wise* for a society to exclude large segments of the population from the circles of its future leaders?
- Examination of the channels through which relative mobility can occur, how they relate to family resources and how they respond to investigative changes (see next section)

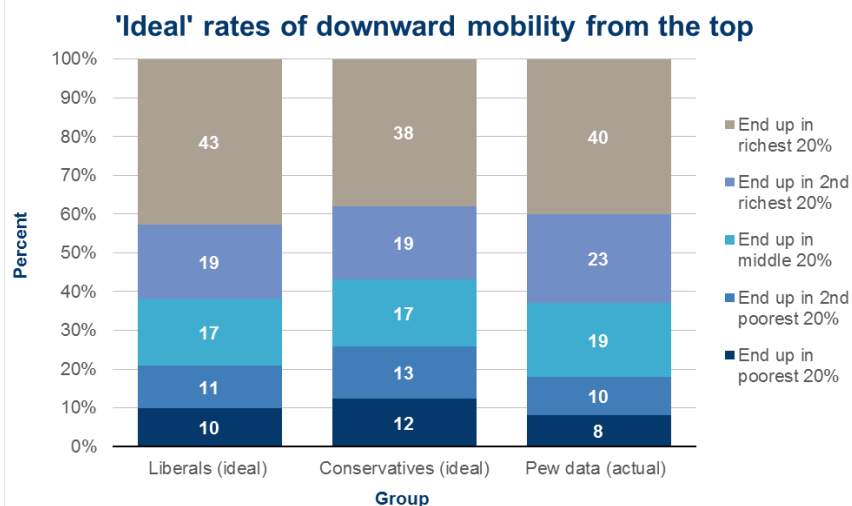
# Survey Says on Upward Mobility from the BOTTOM

'Ideal' rates of upward mobility from the bottom



Source: Davidai, S., & Gilovich, T. (2015). Building a more mobile America—One income quintile at a time. *Perspectives on Psychological Science*, 10, 60–71.

## Survey Says on Downward Mobility from the TOP



Source: Davidai, S., & Gilovich, T. (2015). Building a more mobile America—One income quintile at a time. *Perspectives on Psychological Science*, 10, 60–71.



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BROOKINGS

<https://www.brookings.edu/blog/social-mobility-memos/2016/01/12/how-much-social-mobility-do-people-really-want/>

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## Preferences hit Awkward Truth: Math

- **Again: relative mobility is a zero-sum game**
  - There are only so many spots in the top quintile
    - Preferences want:
      - 43% of them for kids born into the top
      - 16% for those born into the bottom
      - Leaves about 14% for each of the other 3 quintiles
    - Preferences are inconsistent
      - Greater upward mobility for the bottom than the middle?
- **Results are intuitive:**
  - Stickiness at the top
  - Mobility from the bottom
- **...but inconsistent:**
  - What about the middle?



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## Barriers to Upward Mobility

- **Key Question:**

What are the factors that might prevent someone born in a low-income household from doing as well as their richer counterpart?

- **Answers:**

- Birth Lottery
- Structural barriers



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## Barriers to Upward Mobility – Birth Lottery

- **Early advantages**

- *Innate (genetic) advantages:*
  - o Inherited ability, medical conditions, psychological traits
- *Environmental factors:*
  - o **In utero:** pre-natal care, mother's nutrition, exposure to abuse or stress.
  - o **Home environment** which promotes healthy development, transmission of family values
  - o Availability of **role models**, mentors, neighborhood effects.
  - o Availability of **good educators**, facilities, peers



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## Structural Barriers to Upward Mobility

- **Selective access to quality higher education**
  - Preferential admission for legacy and donor families.
  - Expectation of extra-curricular activities, AP classes, etc.
- **Effective access to family planning (sex ed, contraceptives, abortion)**
  - Teen births reduce outcomes for both mother and child.
- **Access to lucrative employment:**
  - Reliance on personal connections, homophily, racism, sexism...



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## Structural Barriers to Upward Mobility (2)

- **Exposure and access to avenues of wealth creation:**
  - e.g. tax-deferred education accounts (529), investment strategies, also tax avoidance loopholes, etc.
- **Access to entrepreneurship:**
  - initial capital and insurance against negative shocks, social networks.
- **Direct transmission of income-earning assets.**



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## Barriers to Upward Mobility – Drilling Down

- These and other channels each play a role.
- We will review and discuss some of them, keeping the following questions in mind:
  - What is the magnitude of the effect?
  - Is it *fair* to benefit from an advantage along this dimension?
  - Are there plausible public interventions that would increase fairness and efficiency?



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## IV. Exploring different barriers to upward mobility – empirical evidence

Findings and suggested policy interventions



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## Barriers: Findings

- **Role of elite universities and selective admission**
  - Only a minority of top universities are engines for social mobility.
    - Ivy league is successful, but small numbers of low income students.
    - Second tier state schools are less successful, but larger numbers.
- **Propensity to be an inventor**
  - Exposure to innovative activity encourages own innovation.
    - Importance of *role models* and *exposure to an activity*.
- **Rates of business ownership**
  - Children from wealthy families are far more likely to own a business.
- **Location of birth**
  - Where one grows up matters
    - Socio-economic *segregation* across neighborhoods.



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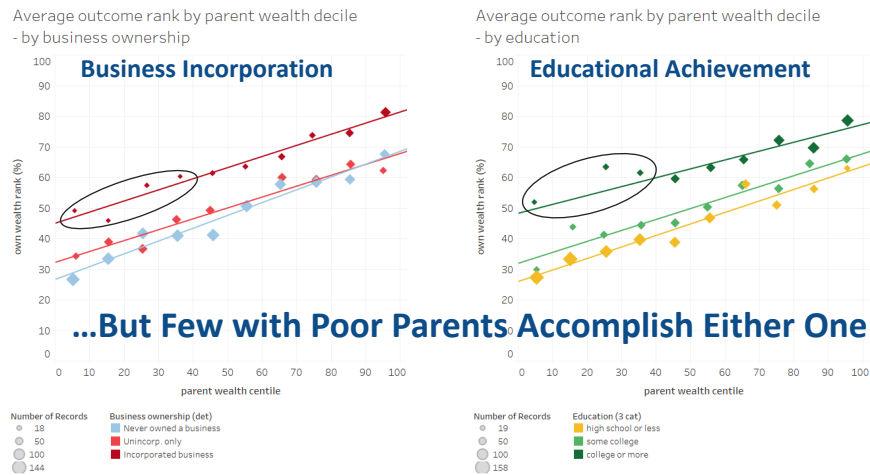
## Channels of Upward Mobility – business ownership vs. higher education

- **Households that own a business amass significantly more wealth.**
  - But, households with little initial wealth have low odds of starting a successful business.
    - Availability of capital, ability to absorb risk.
    - Propensity to innovate:
      - evidence that much of the difference in patenting rates is due to exposure effects, both from parents and from the neighborhood.
- **Children who graduate from elite colleges and come from poor backgrounds do almost as well as their richer classmates.**
  - But, low income students are dramatically UNDER-represented at elite colleges.



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## Incorporating a Business and College Diploma Both Matter Significantly



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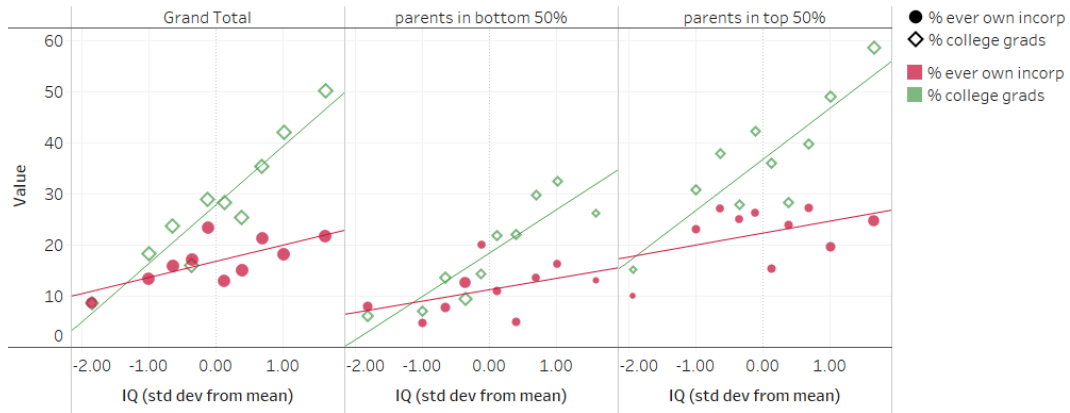
## Mobility: Business Ownership vs. College

- **Business ownership and higher education play similar roles:**
  - Both facilitate wealth accumulation for all.
    - Incorporating the business and graduating from a prestigious university, respectively, is where most of the gains come from.
- **Even if only few benefit, is selection meritocratic?**
  - Controlling for parental wealth, access to education is more meritocratic (i.e. positively linked to ability) than access to business ownership.

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# Ability (IQ) Drives College Achievement - less so Business Ownership

Upward mobility channels - does higher ability lead to greater access?

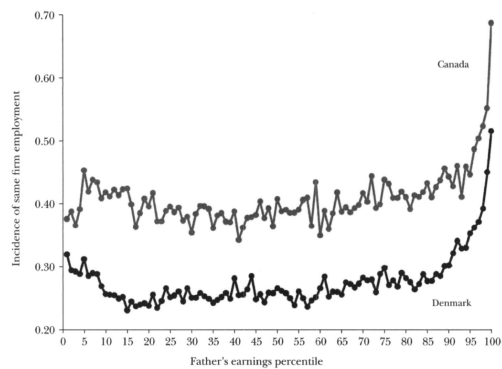


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# Channels of upward mobility – employment networks

- 2 out of 3 sons of the top earners in Canada get access to their father’s employer.
- Much less access at lower levels of parental earnings.

Proportion of Sons Currently Employed or Employed at Some Point with an Employer their Father had Worked for in the Past: Canada and Denmark (by father’s earnings percentile)

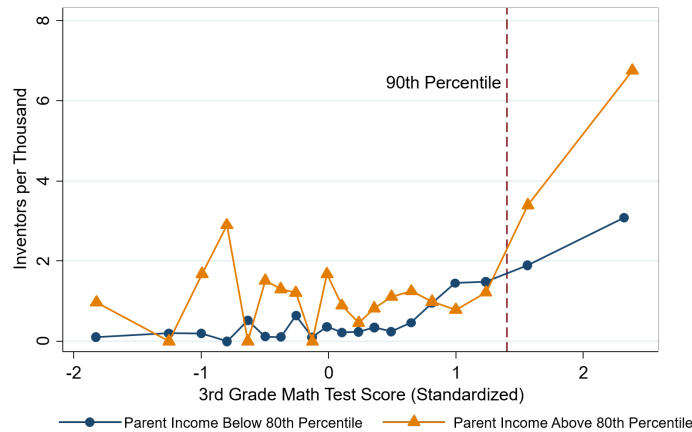


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## Channels of upward mobility – inventions

High math-ability 3<sup>rd</sup> graders go on to become inventors *if* their family is well-off.

(Also if they grow up in high-innovation areas)



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Graph from Bell et al (2018)

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## Public interventions

What are some possible policy interventions suggested by these patterns?

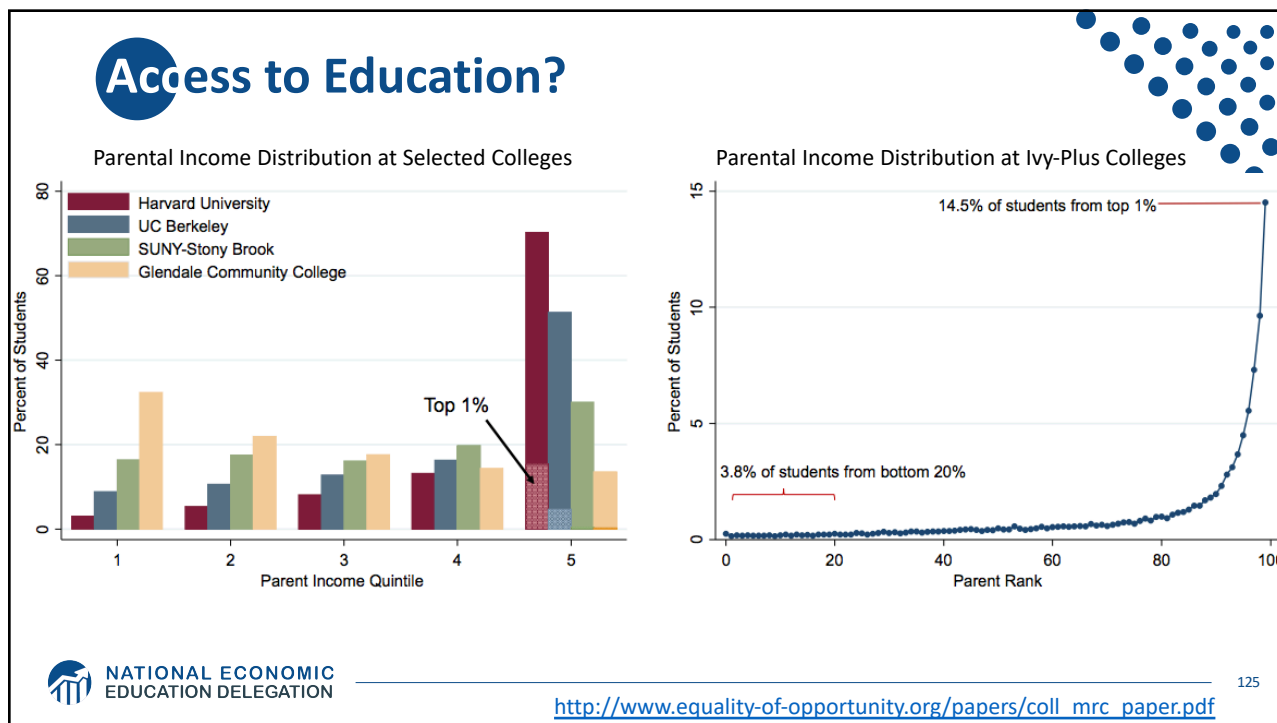
- Low-income housing assistance for families with young children (since neighborhood and school quality matter)
- Closing the gap in education, access to information and role models
  - Public provision of quality Pre-K programs
  - Counseling for college applications, affordable college tuition
  - Class visits from a diverse set of successful professionals; Big Brother/Big Sister-type programs.
- Access to family planning services
- Creating access to internships
- Mentoring by established entrepreneurs and business owners
- [...]



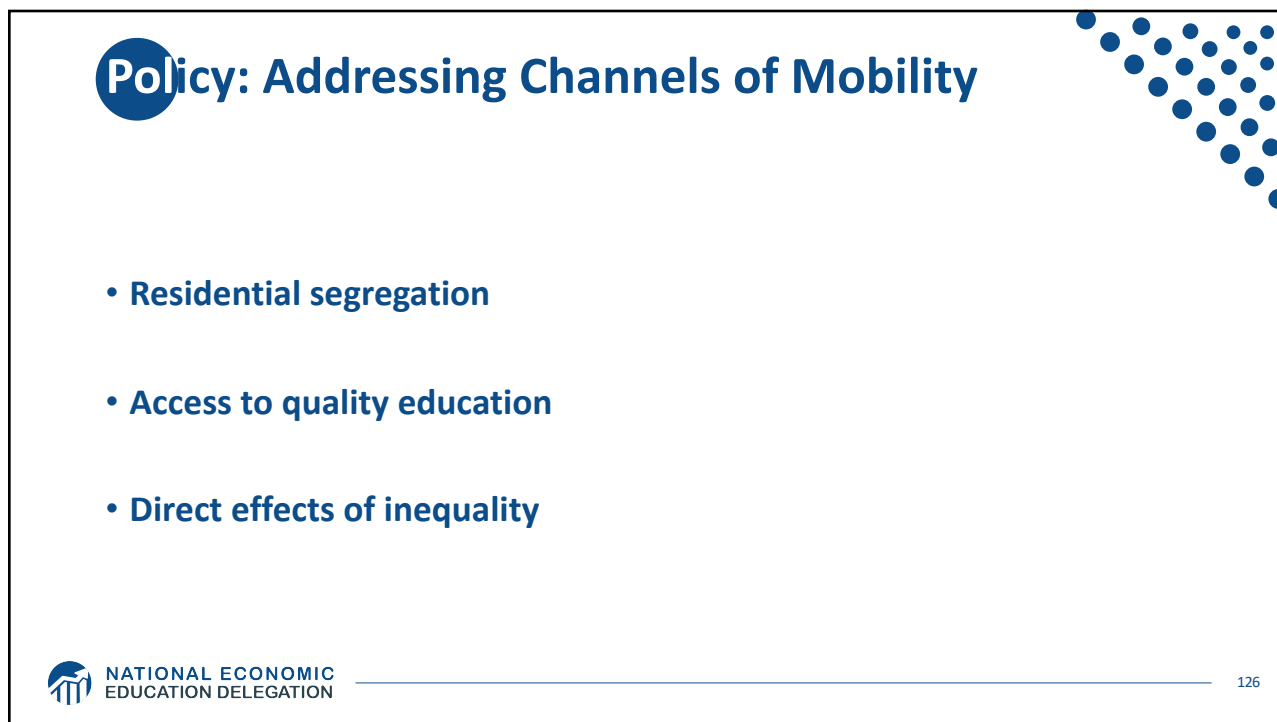
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## Summary: Policy Options

- **Housing vouchers, public housing, zoning laws**
  - Help underprivileged children grow up in neighborhoods conducive to mobility.
- **Investments in education**
  - Make preparedness for college more universally available.
- **Entrepreneurship**
  - Introduce children to it at an early age.
- **Implement policies to reduce inequality.**



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## Summary

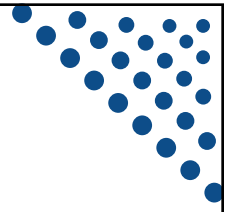
- **Absolute vs Relative mobility**
- **Mobility has declined relative to the past**
- **Evidence that mobility in the U.S. is lower than elsewhere**
  - No evidence that it is higher, so American dream is in question.
- **There are many sources of mobility.**
  - Policy responses should correspond to weaknesses in access to these sources among low-income households.



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**Thank you!**



## Any Questions?

[www.NEEDelegation.org](http://www.NEEDelegation.org)

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