Osher Lifelong Learning Institute, Winter 2022
Contemporary Economic Policy

American University
March-May, 2022

Host: Jon Haveman, Ph.D.
National Economic Education Delegation

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Available NEED Topics Include:

- **Coronavirus Economics**
- **US Economy**
- **Climate Change**
- **Economic Inequality**
- **Economic Mobility**
- **Trade and Globalization**
- **Minimum Wages**

- **Immigration Economics**
- **Housing Policy**
- **Federal Budgets**
- **Federal Debt**
- **Black-White Wealth Gap**
- **Autonomous Vehicles**
- **US Social Policy**

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Course Outline

- **Contemporary Economic Policy**
  - Week 1 (3/11):   US Economy & Coronavirus Economics
  - Week 2 (3/18):   Federal Debt (Brian Peterson, Central College)
  - Week 3 (3/25):   Trade and Globalization (Alan Deardorff, Univ. of Michigan)
  - Week 4 (4/1):   Healthcare Economics (Veronika Dolar, SUNY-Old Westbury)
  - Week 5 (4/8):   Economics of Immigration (Jennifer Alix-Garcia, Oregon St. Univ.)
  - Week 6 (4/15):   Economic Inequality (Kyle Montanio, Colorado University - Denver)
  - **Week 7 (4/22):   Economic Mobility (Kathryn Wilson, Kent State University)**
  - Week 8 (4/29):   Discrimination in US Policy History (Jon Haveman, NEED)
  - Week 9 (5/6):   The Black-White Wealth Gap (Mike Shor, Univ. of Connecticut)
  - Week 10 (5/13): The Gender Wage Gap (Mallika Pung, Univ. of New Mexico)

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Submitting Questions

- **Please submit questions of clarification in the chat.**
  - I will try to handle them as they come up.
- **We will do a verbal Q&A once the material has been presented.**
- **OLLI allowing, we can stay beyond the end of class to have further discussion.**
- **Slides will be available from the NEED website tomorrow (https://needelegation.org/delivered_presentations.php)**

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Economic mobility

Kathryn Wilson, Ph.D.

American University
April 22, 2022

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Credits and Disclaimer

- **This slide deck was authored by:**
  - Oana Tocoian, UCSD
  - 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).

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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.

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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.
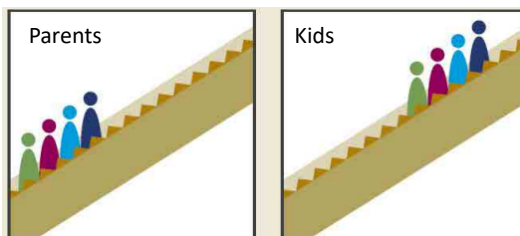

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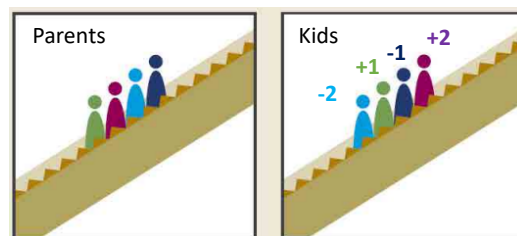
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More on Absolute vs Relative Mobility

- **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.

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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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The fading American dream?

9 out of 10 of those born in the early 1940s could expect to earn more than their parents

1 in 2 Millennials (born after 1980) earn more than their parents.
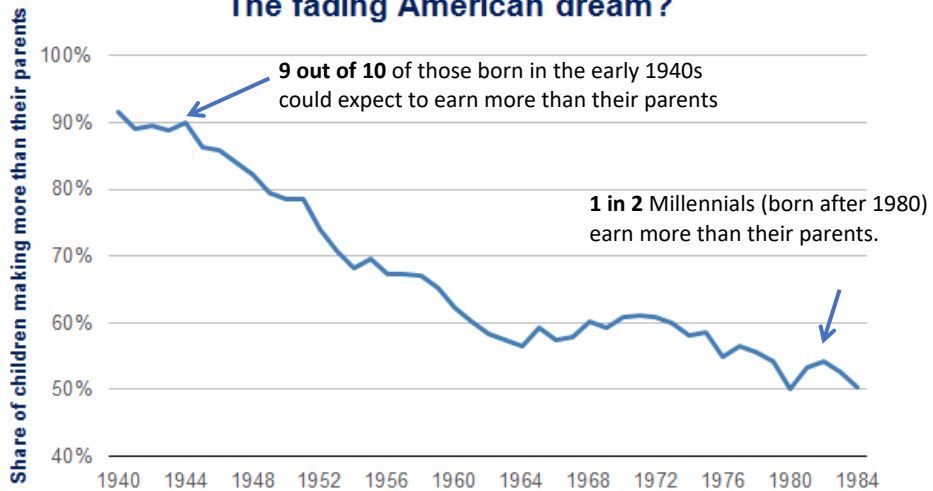
Source: Chetty et al., "The fading American dream: Trends in absolute income mobility since 1940"

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Absolute Mobility by Birth Cohort

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American Dream: Geography Matters

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

Note: Lighter Color = More Absolute Upward Mobility

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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

Trends in Absolute Mobility by State: Change from 1940-1980

Decline in Abs. Mob. from 1940-80

- > 46.3%
- 45.3% – 46.3%
- 43.9% – 45.3%
- 43.1% – 43.9%
- 42.6% – 43.1%
- 41.8% – 42.6%
- 40.2% – 41.8%
- 39.2% – 40.2%
- 35.9% – 39.2%
- < 35.9%
- Missing Data

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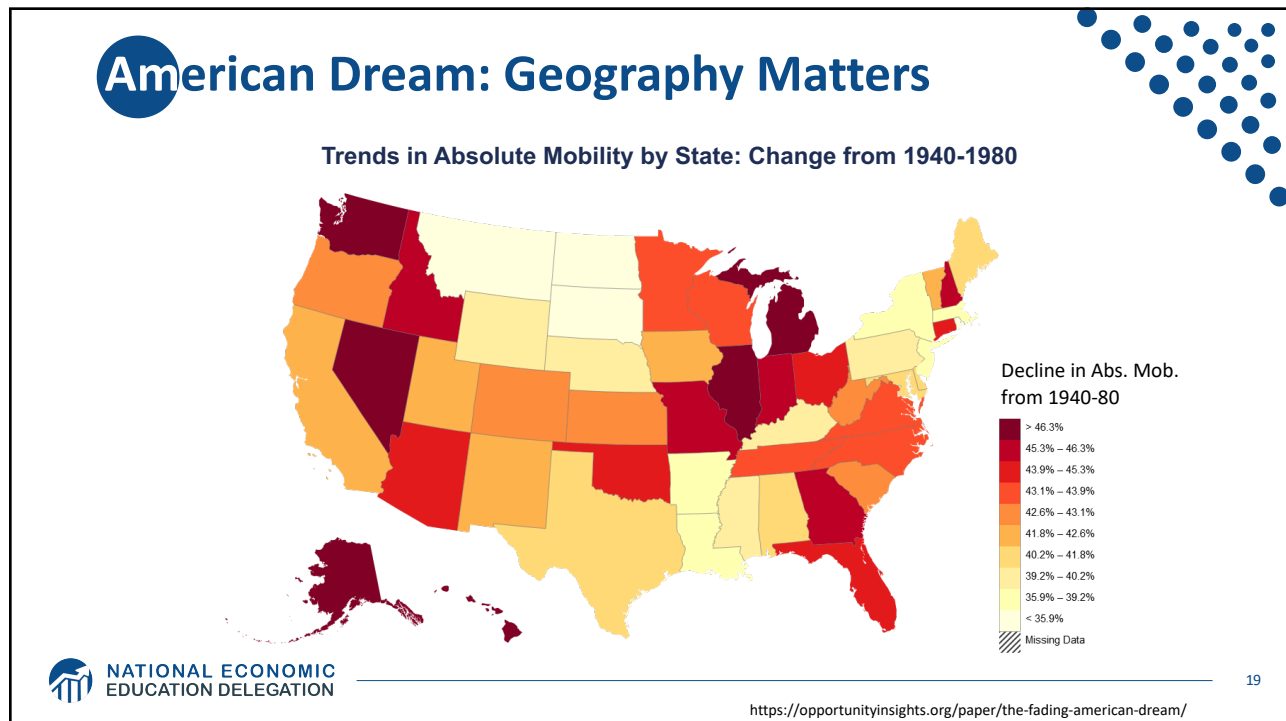https://opportunityinsights.org/paper/the-fading-american-dream/
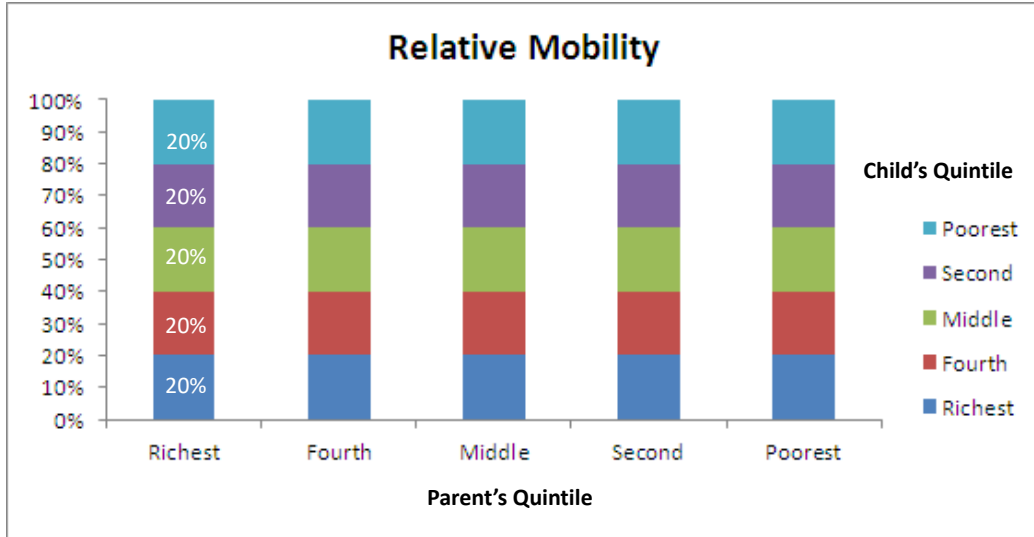
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Relative Mobility

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

  - Movement across quintiles in the income distribution.

  - Rank correlation of parent and child's incomes.
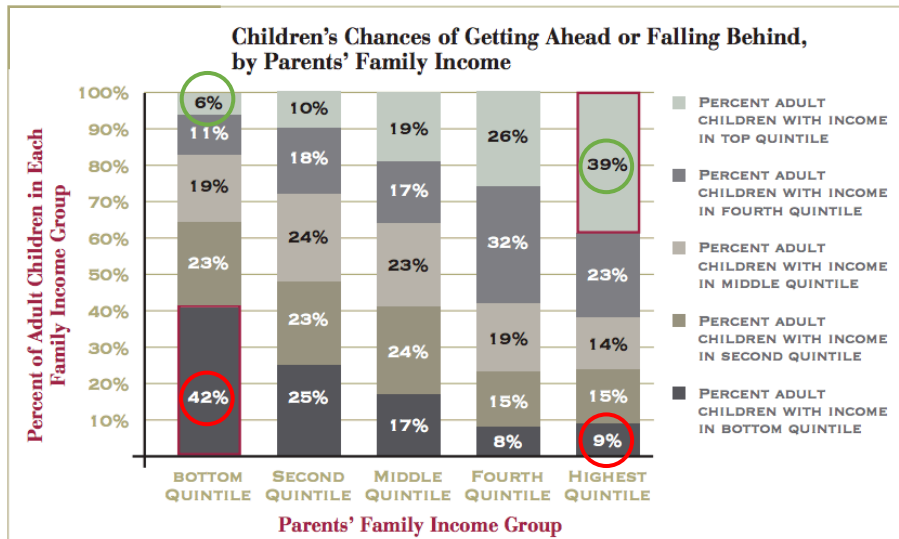
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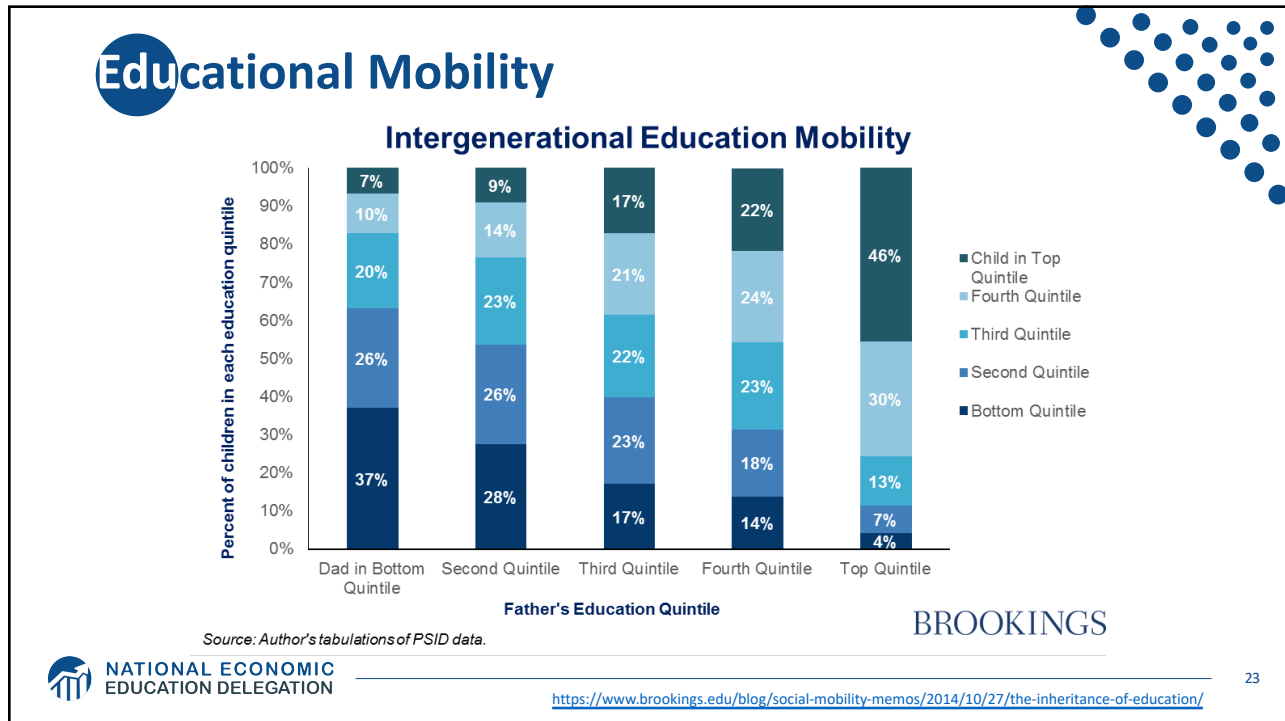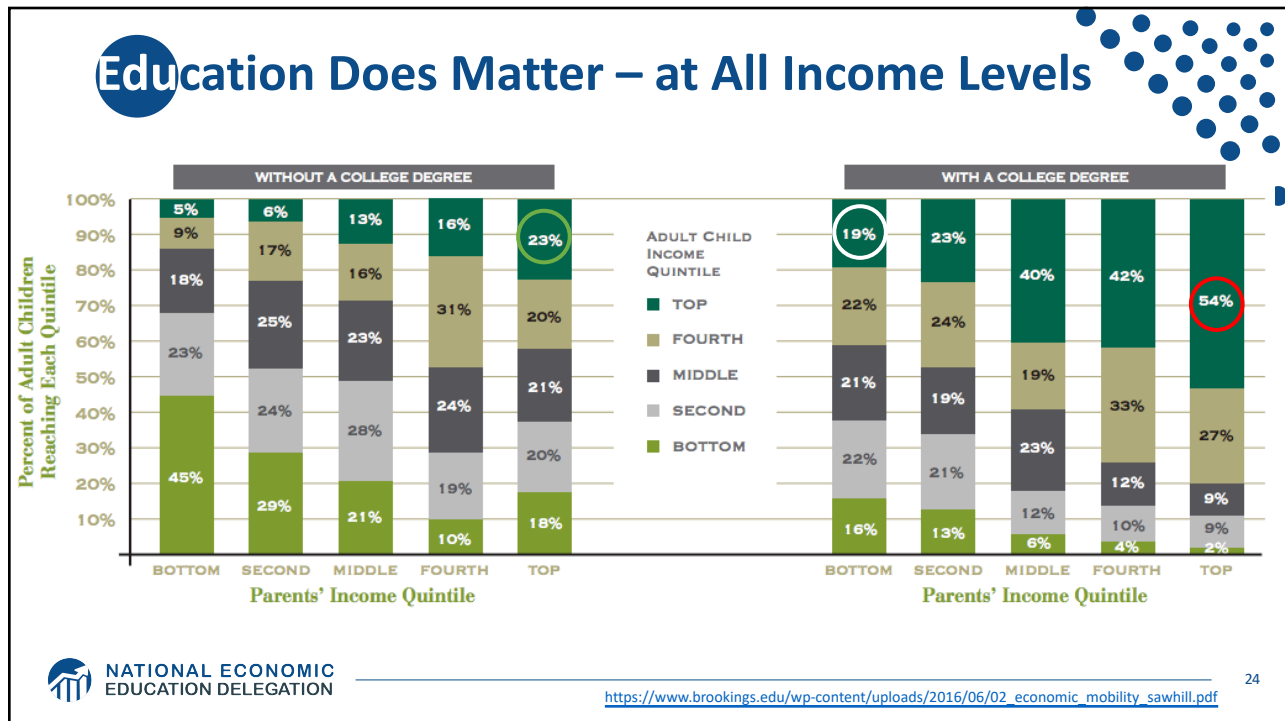
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Mobility Example: Perfect Relative Mobility

Relative Mobility

Child's Quintile
- Poorest
- Second
- Middle
- Fourth
- Richest

Parent's Quintile

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https://www.demos.org/blog/absolute-and-relative-mobility-short-primer

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Transition Probabilities in the United States

Children's Chances of Getting Ahead or Falling Behind, by Parents' Family Income

- PERCENT ADULT CHILDREN WITH INCOME IN TOP QUINTILE
- PERCENT ADULT CHILDREN WITH INCOME IN FOURTH QUINTILE
- PERCENT ADULT CHILDREN WITH INCOME IN MIDDLE QUINTILE
- PERCENT ADULT CHILDREN WITH INCOME IN SECOND QUINTILE
- PERCENT ADULT CHILDREN WITH INCOME IN BOTTOM QUINTILE

Parents' Family Income Group

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https://www.brookings.edu/wp-content/uploads/2016/06/11_generations_isaacs.pdf

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Educational Mobility

Intergenerational Education Mobility

Source: Author's tabulations of PSID data.

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https://www.brookings.edu/blog/social-mobility-memos/2014/10/27/the-inheritance-of-education/

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Education Does Matter – at All Income Levels

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https://www.brookings.edu/wp-content/uploads/2016/06/02_economic_mobility_sawhill.pdf
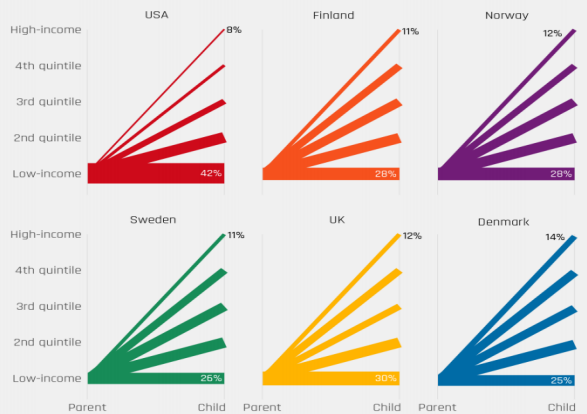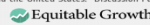
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Transitions: International Comparisons

Economic status is particularly sticky for low-income families in the United States
Probabilities that the son of a low-income father rises into each quintile of income, separated by country.

Source: Markus Jäntti and others, "American Exceptionalism in a New Light: A Comparison of Intergenerational Earnings Mobility in the Nordic Countries, the United Kingdom, and the United States." Discussion Paper Series No. 1938 (IZA, 2006).
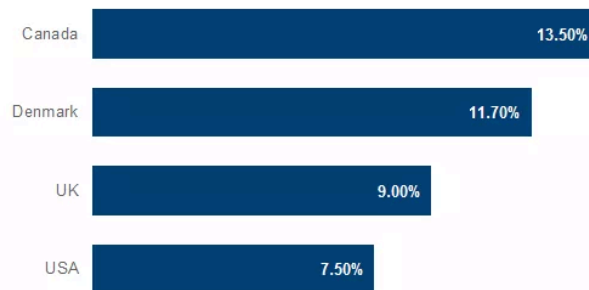
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Source: : https://equitablegrowth.org/research-paper/are-todays-inequalities-limiting-tomorrows-opportunities
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Reflections on the American Dream

Relative mobility is almost twice as high in Canada

Country	Percent
Canada	13.50%
Denmark	11.70%
UK	9.00%
USA	7.50%

■ Probability that a child born to parents in the bottom fifth of the income distribution reaches the top fifth

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)

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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?
  o Rank children based on their incomes relative to other children in the same birth cohort
  o Rank parents of these children based on their incomes relative to other parents

- Ask: How correlated are these measures?
  o Answer: How much does a child's income rank in adulthood depend on their parent's income rank when they were growing up?
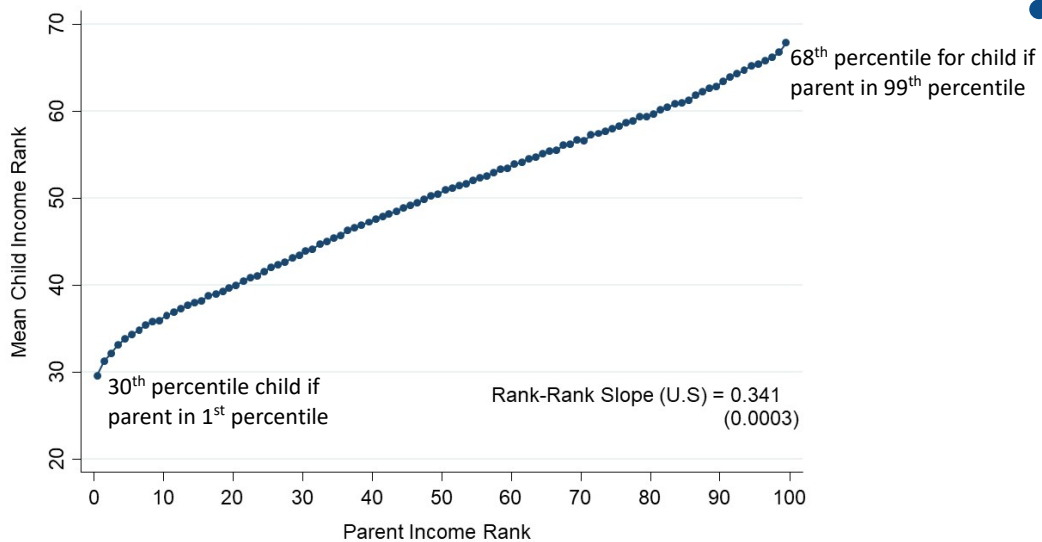
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Mean Child Percentile Rank vs. Parent Percentile Rank

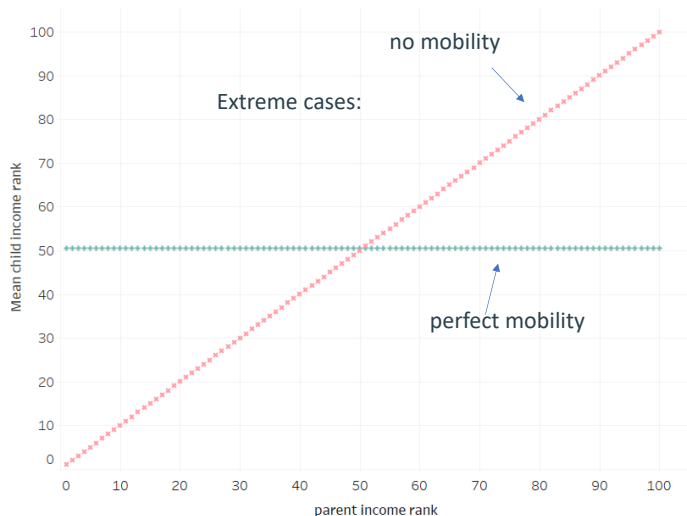68th percentile for child if parent in 99th percentile

30th percentile child if parent in 1st percentile

Rank-Rank Slope (U.S) = 0.341
(0.0003)

Mean Child Income Rank

Parent Income Rank

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Graph from Chetty et al (2014)

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Intergenerational Mobility – The Abstract

Extreme cases:

no mobility

perfect mobility

Mean child income rank — parent income rank

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Intergenerational Mobility – The Abstract

no mobility
slope=1

actual mobility
slope=0.34

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

perfect mobility
slope=0

Mean child income rank — parent income rank

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An International Comparison

Intergenerational Mobility in the United States vs. Denmark

Rank-Rank Slope (U.S) = 0.341
Rank-Rank Slope (Denmark) = 0.180

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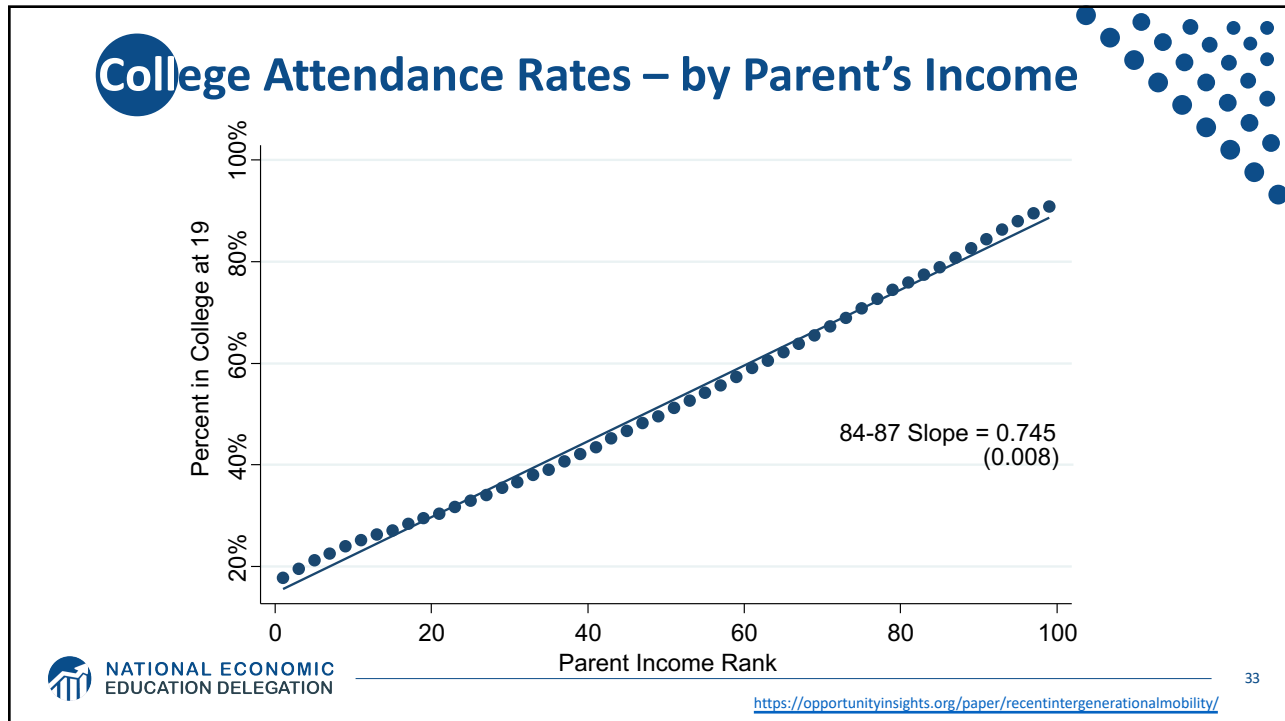https://scholar.harvard.edu/files/hendren/files/geo_slides.pdf
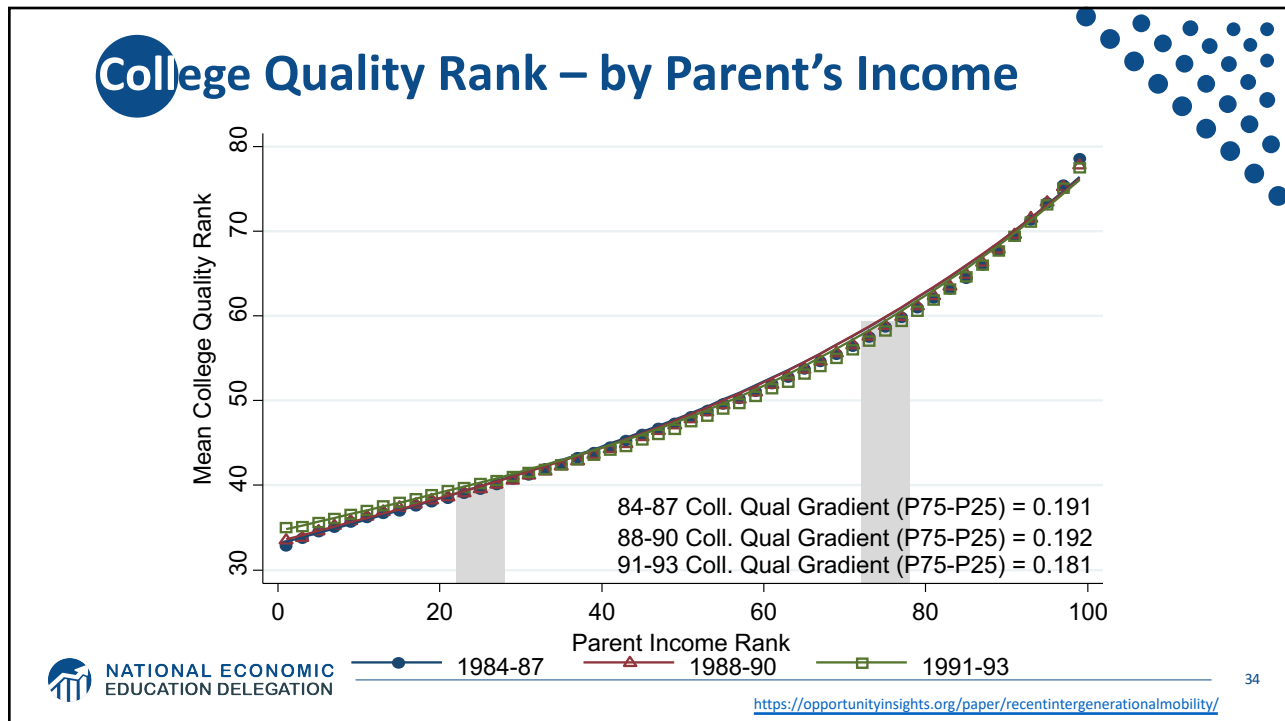
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Mobility – What's the Right Amount?

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.

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College Attendance Rates – by Parent's Income

Percent in College at 19

84-87 Slope = 0.745
(0.008)

Parent Income Rank

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https://opportunityinsights.org/paper/recentintergenerationalmobility/

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College Quality Rank – by Parent's Income

Mean College Quality Rank

84-87 Coll. Qual Gradient (P75-P25) = 0.191
88-90 Coll. Qual Gradient (P75-P25) = 0.192
91-93 Coll. Qual Gradient (P75-P25) = 0.181

Parent Income Rank

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1984-87   1988-90   1991-93

https://opportunityinsights.org/paper/recentintergenerationalmobility/

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Public Perception and Sentiment

- **Perception: "American Dream" vs "Old World"**
  - General belief is that the U.S. has *greater mobility* than elsewhere.
    - o Fewer explicit barriers – no nobility titles.
    - o More meritocratic – "rags to riches", Heratio Alger
    - o The American Dream plays a significant part in national identity.

- **Reality: Overestimate of actual mobility**
  - Common perception is incorrect.

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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?
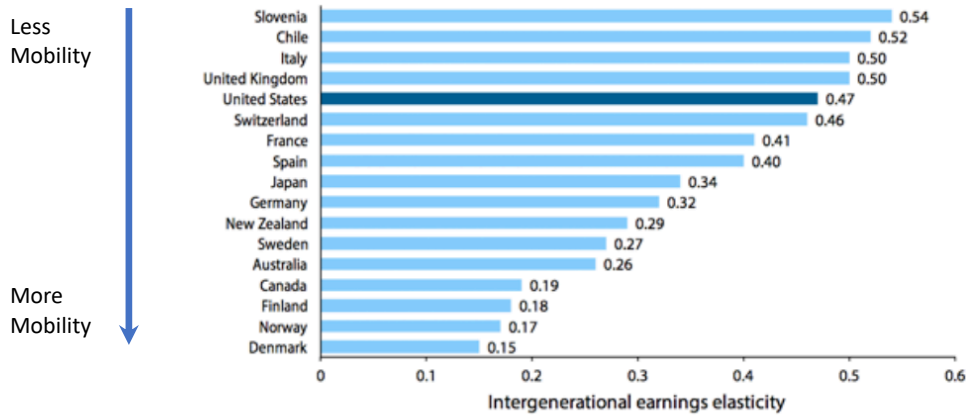   - o A lower IGE implies more economic mobility
- **Problems with IGE:**
  - Strongly influenced by income inequality.
  - Strongly affected by data used:
    - o Age range
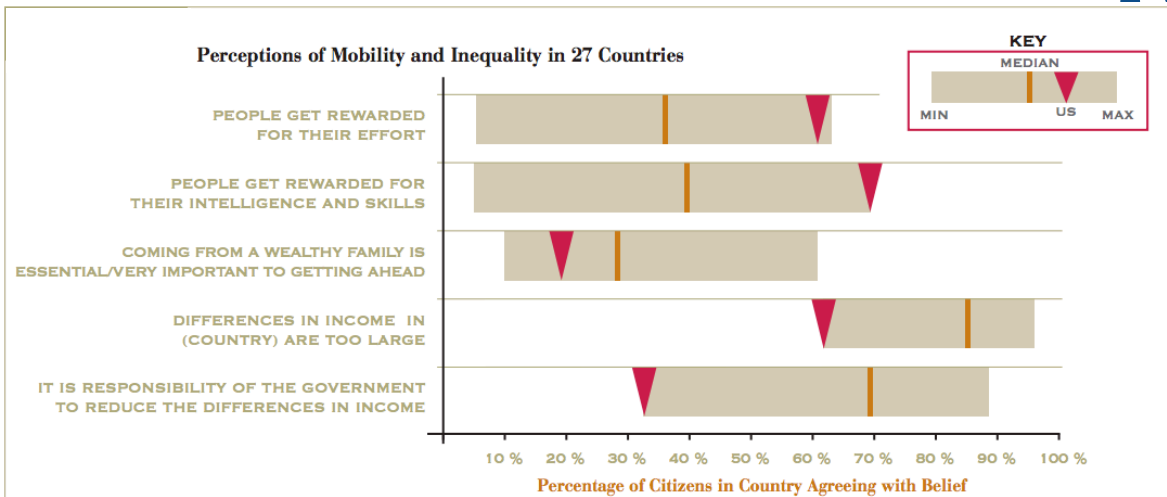   - o Can't include people with zero earnings
    - o Etc.

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IGE: U.S. in International Comparison

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

Less Mobility

More Mobility

Country	Value
Slovenia	0.54
Chile	0.52
Italy	0.50
United Kingdom	0.50
United States	0.47
Switzerland	0.46
France	0.41
Spain	0.40
Japan	0.34
Germany	0.32
New Zealand	0.29
Sweden	0.27
Australia	0.26
Canada	0.19
Finland	0.18
Norway	0.17
Denmark	0.15

Intergenerational earnings elasticity

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

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https://www.epi.org/publication/usa-lags-peer-countries-mobility/

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The "American Dream" Shapes Perceptions

Perceptions of Mobility and Inequality in 27 Countries

KEY
MEDIAN
MIN   US   MAX

- PEOPLE GET REWARDED FOR THEIR EFFORT
- PEOPLE GET REWARDED FOR THEIR INTELLIGENCE AND SKILLS
- COMING FROM A WEALTHY FAMILY IS ESSENTIAL/VERY IMPORTANT TO GETTING AHEAD
- DIFFERENCES IN INCOME IN (COUNTRY) ARE TOO LARGE
- IT IS RESPONSIBILITY OF THE GOVERNMENT TO REDUCE THE DIFFERENCES IN INCOME

10 % 20 % 30 % 40 % 50 % 60 % 70 % 80 % 90 % 100 %

Percentage of Citizens in Country Agreeing with Belief

Source: Brookings tabulation of data from the International Social Survey Program, 1998–2001.

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https://www.brookings.edu/wp-content/uploads/2016/06/02_economic_mobility_sawhill.pdf

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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?
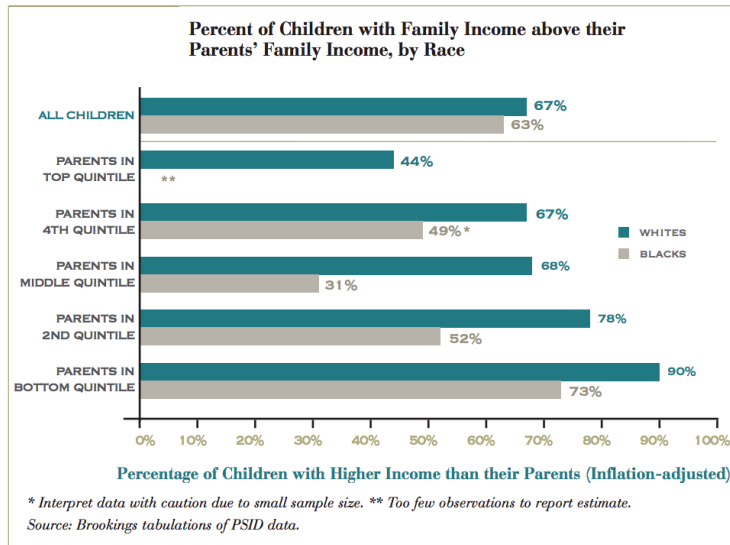 - Makes both absolute and relative mobility more difficult.

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The Great Gatsby Curve: high inequality tends to mean low mobility
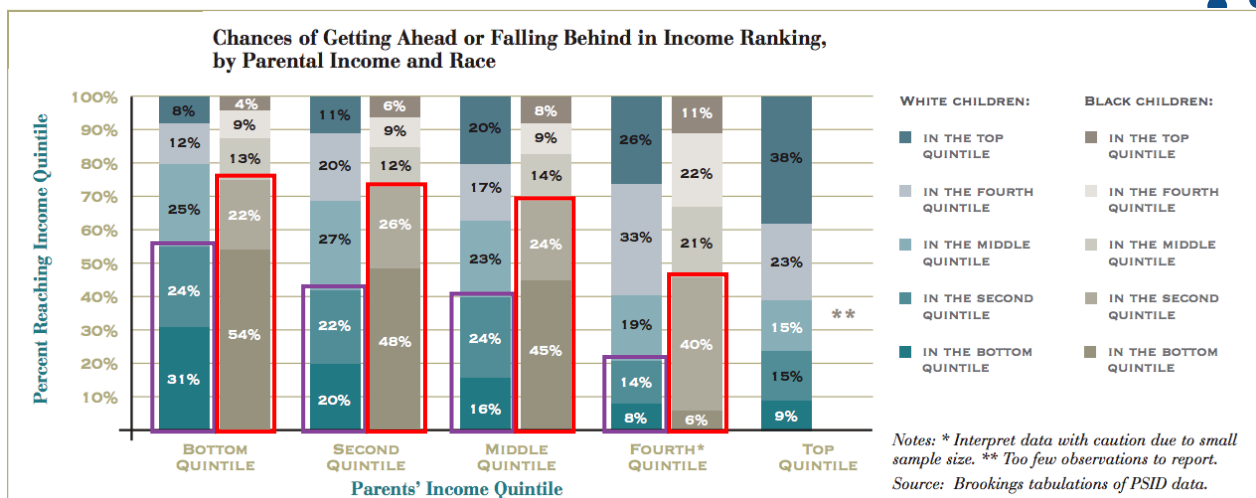More inequality is associated with less mobility across generations
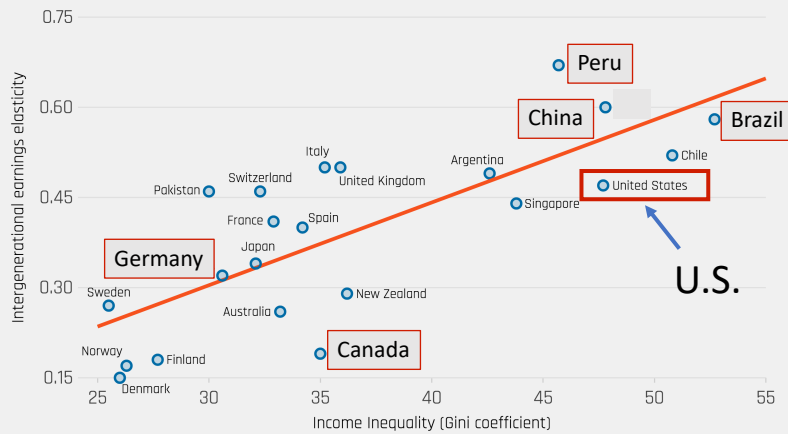
Source: Miles Corak, "Income Inequality, Equality of Opportunity, and Intergenerational Mobility," Journal of Economic Perspectives 27 (3): 79-102; "All the Ginis," available at http://www.worldbank.org/en/research/brief/all-the-ginis (last accessed 9/28/2018)

Equitable Growth

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https://equitablegrowth.org/research-paper/are-todays-inequalities-limiting-tomorrows-opportunities

Absolute Mobility: Race

Relative Mobility: Race

Absolute Mobility: Gender

**Percent of Children with Family Income above their
Parents' Family Income, by Gender (inflation-adjusted)**

Notes: The differences between men and women are small and only statistically significant under a joint test across all quintiles and for all children.
Source: Brookings tabulations of PSID data.

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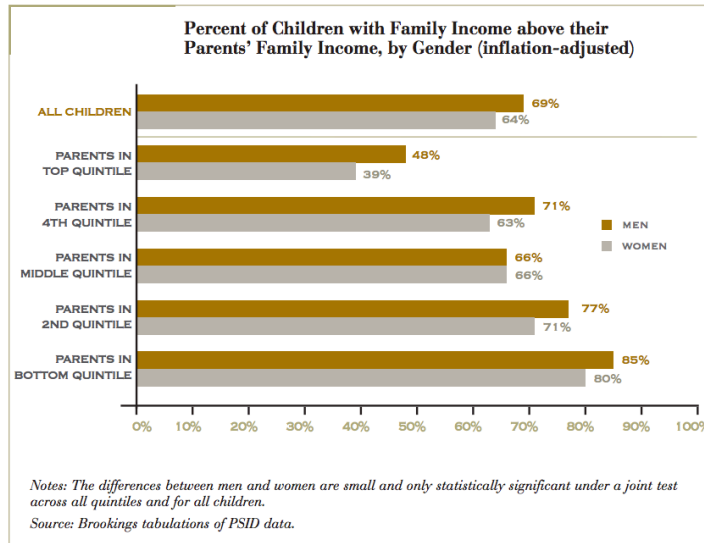
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Relative Mobility: Gender

**Chances of Getting Ahead or Falling Behind in
Income Ranking, by Parental Income and Child's Gender**

Source: Brookings tabulations of PSID data.

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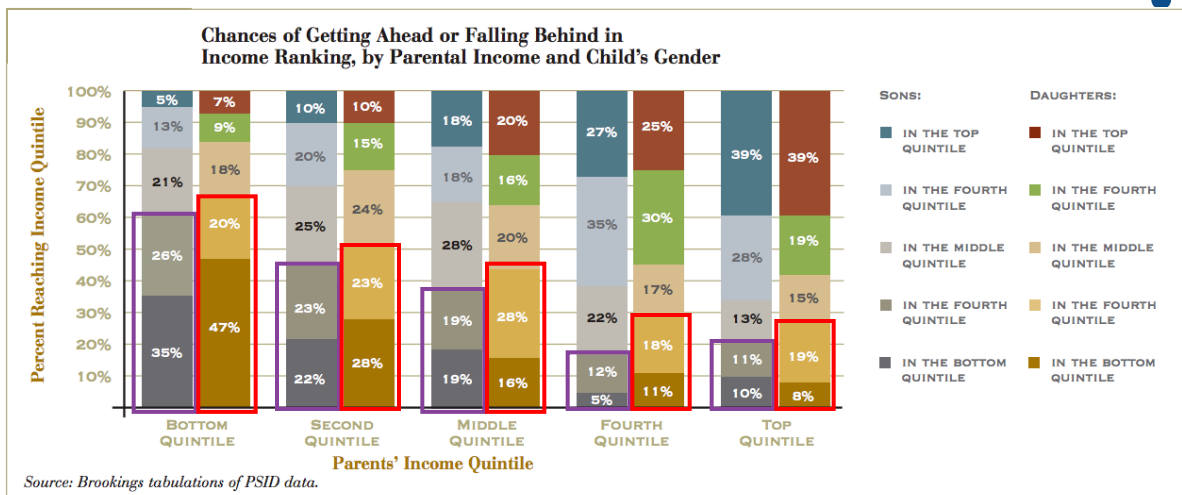
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III. What can we make of this?

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

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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?**

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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.

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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

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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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*Ho*w *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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*Ho*w 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)

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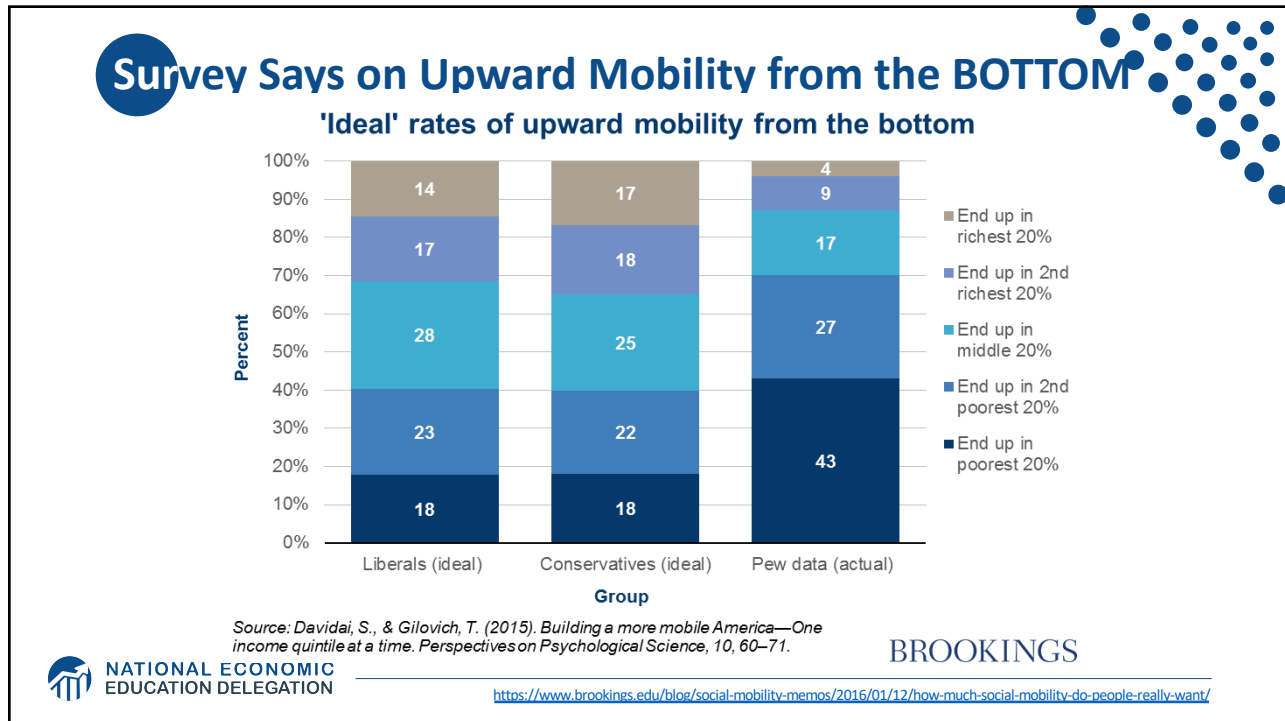
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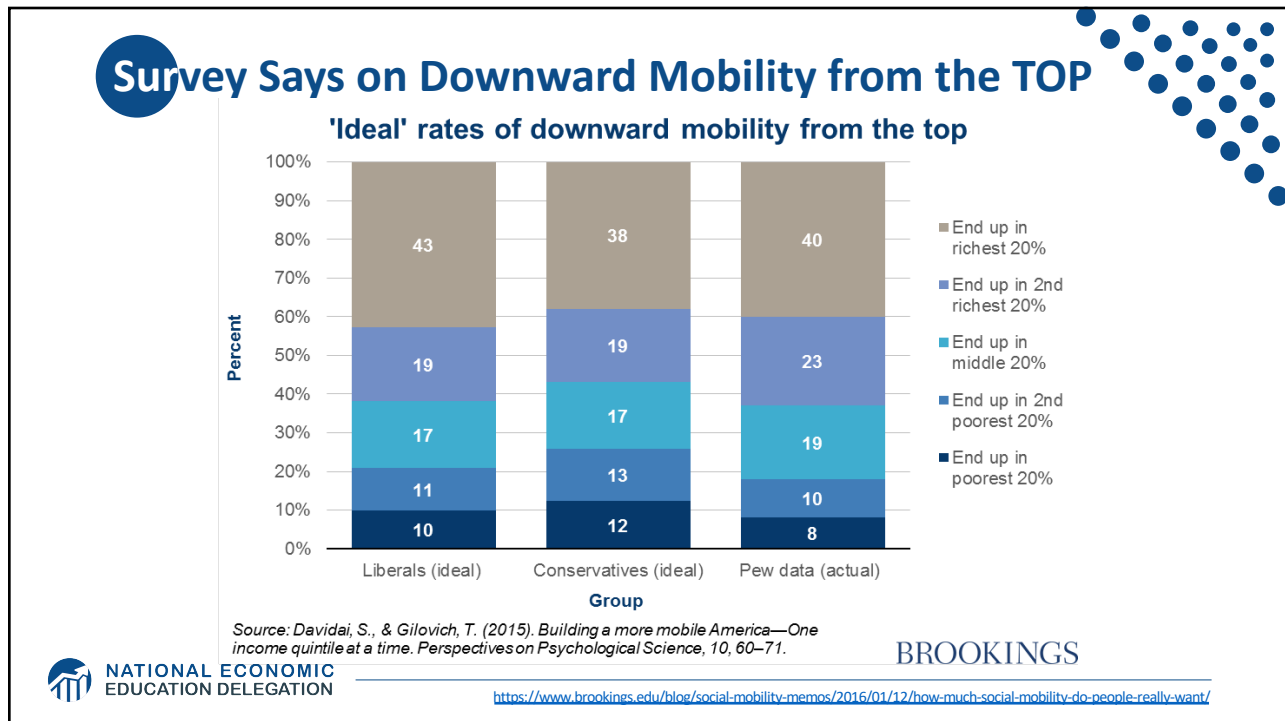
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Preferences hit Awkward Truth: Math

- **Again: relative mobility is a zero-sum game**
  - There are only so many spots in the top quintile
    - o 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
    - o 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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IV. Exploring different barriers to upward mobility – empirical evidence

Findings and suggested policy interventions

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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:*
        - Inherited ability, medical conditions, psychological traits

    - *Environmental factors:*
        - **In utero**: pre-natal care, mother's nutrition, exposure to abuse or stress.
        - **Home environment** which promotes healthy development, transmission of family values
        - Availability of **role models**, mentors, neighborhood effects.
        - 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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Barriers: Findings

- **Role of elite universities and selective admission**
  - Only a minority of top universities are engines for social mobility.
    - o Ivy league is successful, but small numbers of low income students.
    - o Second tier state schools are less successful, but larger numbers.
- **Propensity to be an inventor**
  - Exposure to innovative activity encourages own innovation.
    - o 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
    - o 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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# 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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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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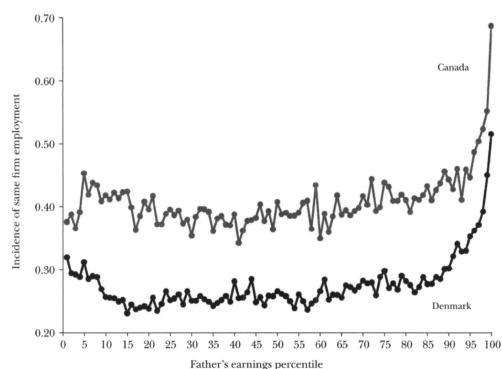
Channels of upward mobility – inventions

High math-ability 3rd 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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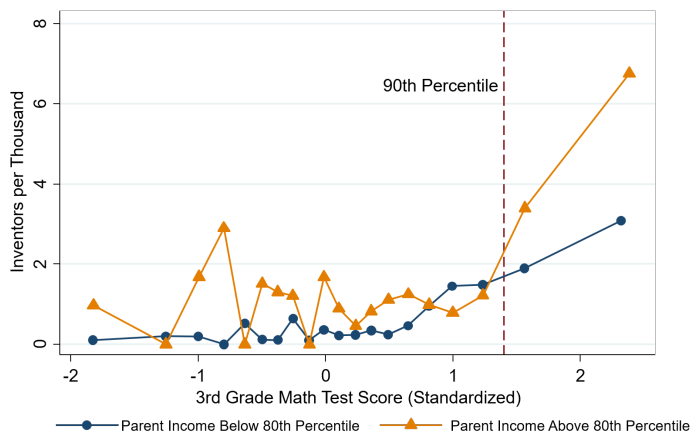
Summary: Policy Options

- **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: Economic Mobility

- **Definitions:**
  - Absolute vs Relative Mobility
- **Levels:**
  - Absolute mobility is in decline
  - Relative mobility is much lower in the U.S. than elsewhere.
    - o Brings into question the notion of the "American dream".
- **Enough mobility? Hard to say.**
  - Absolute: concern that 50% of kids are treading water or falling behind.
  - Relative: not as much as people seem to think there is.
- **Policy options?**
  - There are plenty of levers to pull to increase mobility.

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Discrimination in Policy History: Jon Haveman

- **Slave trade**
  - The first deprivation.
- **Slavery**
- **40 acres (and a mule)**
  - The second deprivation.
  - Discriminatory distribution of land.
- **Freedmen's Bank**
  - Lax oversite and dissolution.
- **Jim Crow Laws & Economic Policy**
  - Convict leasing, debt peonage, chain-gang, sharecropping, and lynching.

- **Homestead Act**
  - Discriminatory distribution of land.
- **Land theft and destruction**
  - E.g., Black Wall Street – Tulsa, 1921.
- **GI Bill**
  - Discriminatory access – Levittown
- **Federal Housing Authority**
  - Redlining
- **And many more.**

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Thank you!

Any Questions?

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