



Osher Lifelong Learning Institute, Winter 2022
**Contemporary Economic Policy:
Economic Inequality**

Dominican University
Fall, 2022

National Economic Education Delegation

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Available NEED Topics Include:

- US Economy
- Healthcare Economics
- 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
- Healthcare Economics

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Course Outline

- **Contemporary Economic Policy**

- Week 1 (10/13): Economic Inequality (Jennifer Alix-Garcia, Oregon St. Univ.)
- **Week 2 (10/20): Economic Mobility (Jon Haveman, NEED)**
- Week 3 (10/27): The Black-White Wealth Gap (Jon Haveman, NEED)
- Week 4 (11/3): The Gender Wage Gap (Mallika Pung, University of New Mexico)



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.**
 - Happy to stick around after class is over if there is interest.
- **Slides will be available on Need website(www.NEEDelegation.org)**





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Economic Mobility

Jon Haveman, Ph.D.

NEED

October 20, 2022



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Credits and Disclaimer

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

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- **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.
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Outline

- I. What do we mean by economic mobility?
- II. Empirical patterns of economic mobility
- III. What is the desirable level of economic mobility?
- IV. Exploring channels/barriers to upward mobility and policy options

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I. What do we mean by economic mobility?

Definition and motivation

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I. What do we mean by economic mobility?

Economic Mobility – Defined

- **Economic Mobility – Our working definition:**
 - Ability to advance beyond the status of your parents.

- **Variety of measures:**
 - Income
 - Wealth
 - Education level
 - Occupation
 - Home ownership

More Broadly:

The ability to improve your socioeconomic class.

We will consider *intergenerational mobility in INCOME*.



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I. What do we mean by economic mobility?

Absolute and Relative Mobility

- **Absolute mobility:** the difference in income from one's parents.
 - You're higher on the escalator than your parents were.
 - It is possible for *everyone* to experience upward absolute mobility, especially if the escalator is going up.

- **Relative mobility:** the change in income rank from one's parents.
 - You have fewer people above you on the escalator than your parents did.
 - Increased relative mobility requires both upward and downward movement.



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I. What do we mean by economic mobility?

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 change in 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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I. What do we mean by economic mobility?

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 for 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 of Economic Mobility

What are the facts?



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II. Empirical Patterns of Economic Mobility

Mobility – Big Picture for Absolute Mobility

Decline in *absolute* mobility in the United States:

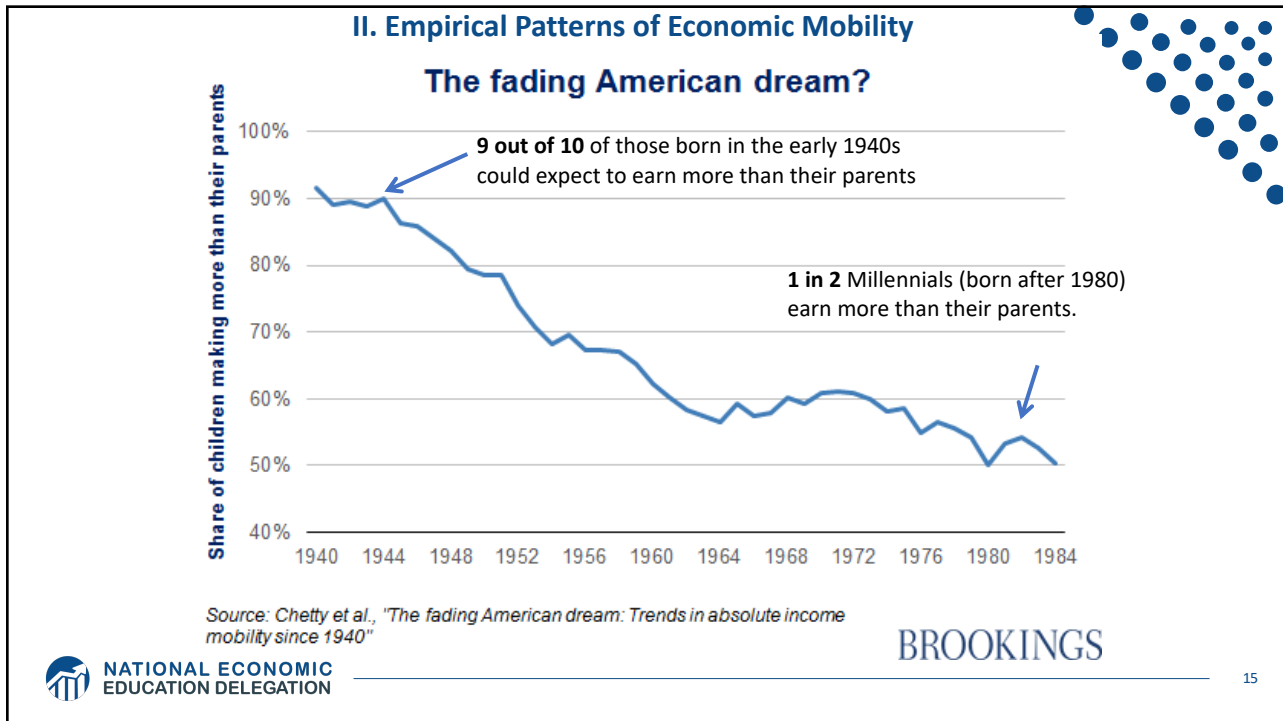
- 90% of those born in the early 1940s could expect to earn more than their parents in real terms. For millennials, the fraction is closer to 50%.
- Below-median earnings have not increased in real terms since the 1970s.
 - "real terms" means inflation adjusted.



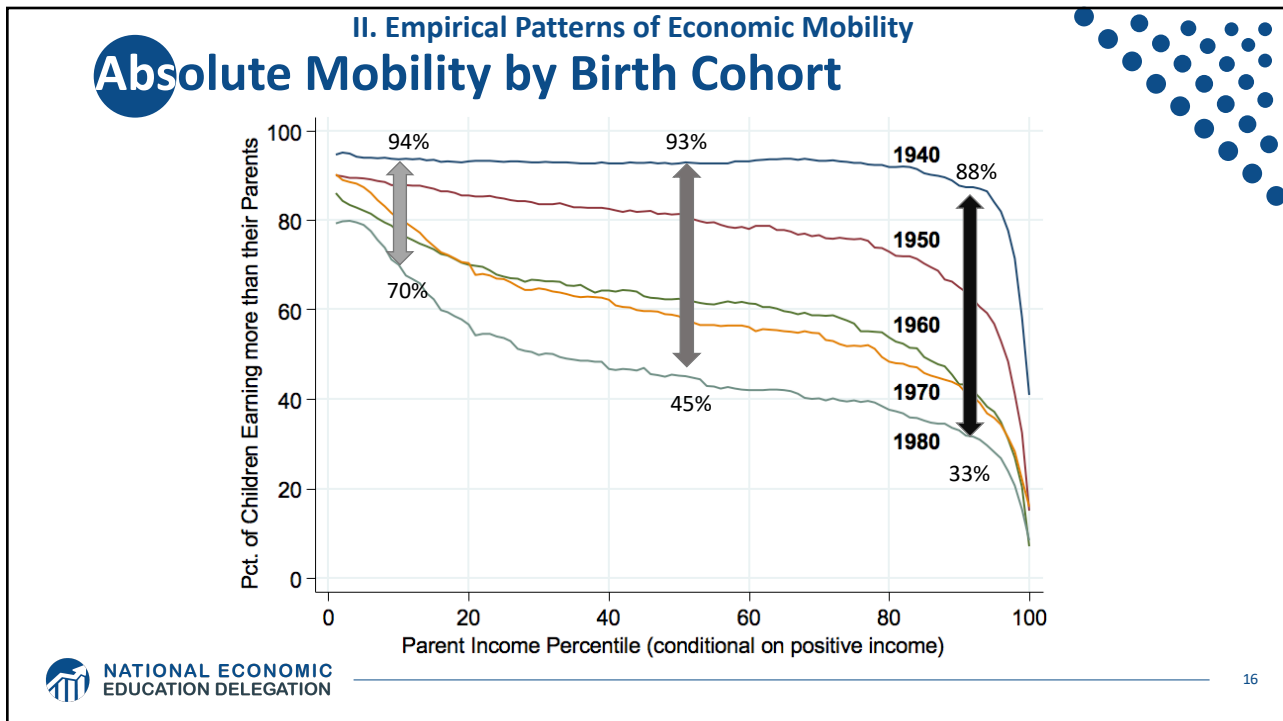
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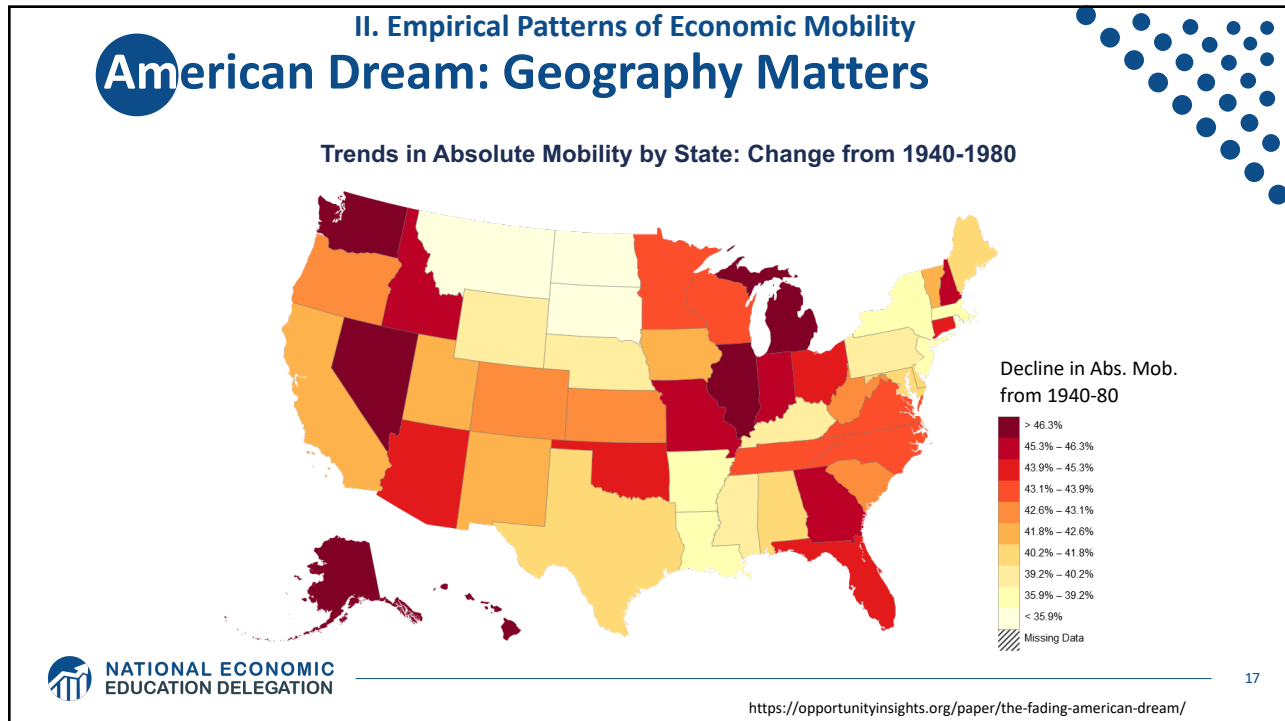
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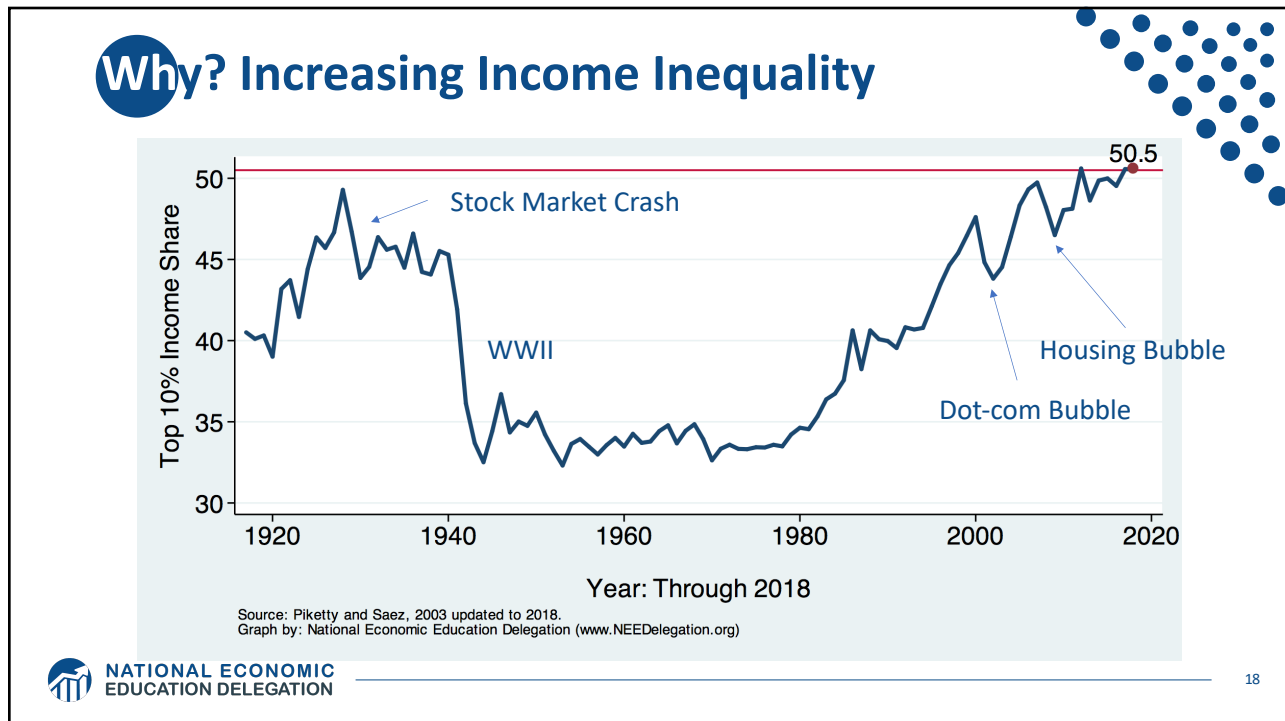
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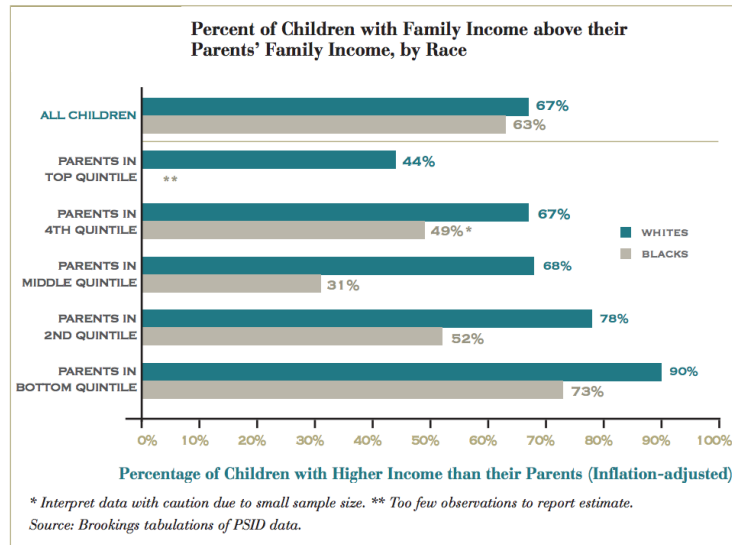
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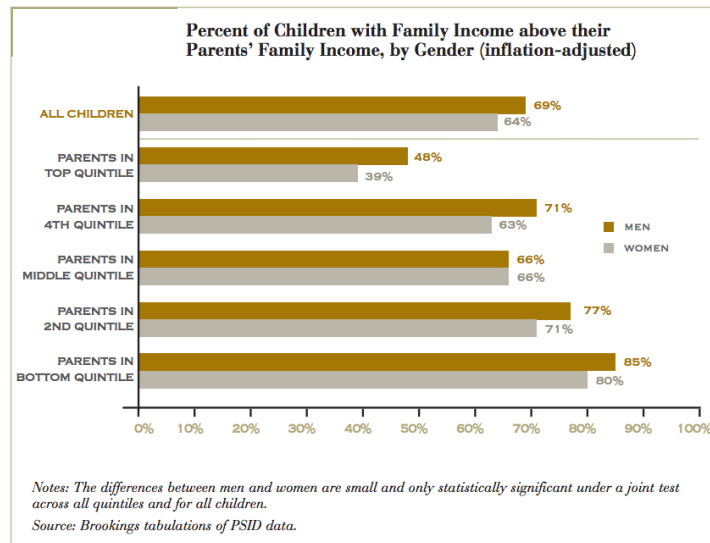
II. Empirical Patterns of Economic Mobility

Absolute Mobility: Race



II. Empirical Patterns of Economic Mobility


Absolute Mobility: Gender



II. Empirical Patterns of Economic Mobility

Measuring Relative Mobility

- **Reminder:** *Relative mobility* is the change in income rank from one's parent.
- **Transition Probabilities:** Likelihood that an individual ends up in a different income quintile than their parents.
- **Perfect Equality:** For each of the parental income quintiles, 20% of their offspring end up in each income quintile as adults.



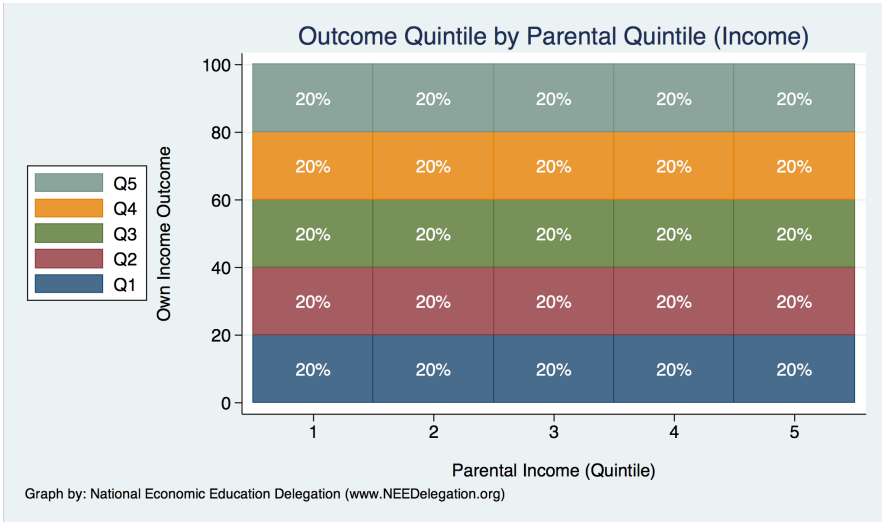
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Perfect Mobility/Equality

Outcome Quintile by Parental Quintile (Income)



Graph by: National Economic Education Delegation (www.NEEDelegation.org)

Parental Income (Quintile)	Q1	Q2	Q3	Q4	Q5
1	20%	20%	20%	20%	20%
2	20%	20%	20%	20%	20%
3	20%	20%	20%	20%	20%
4	20%	20%	20%	20%	20%
5	20%	20%	20%	20%	20%

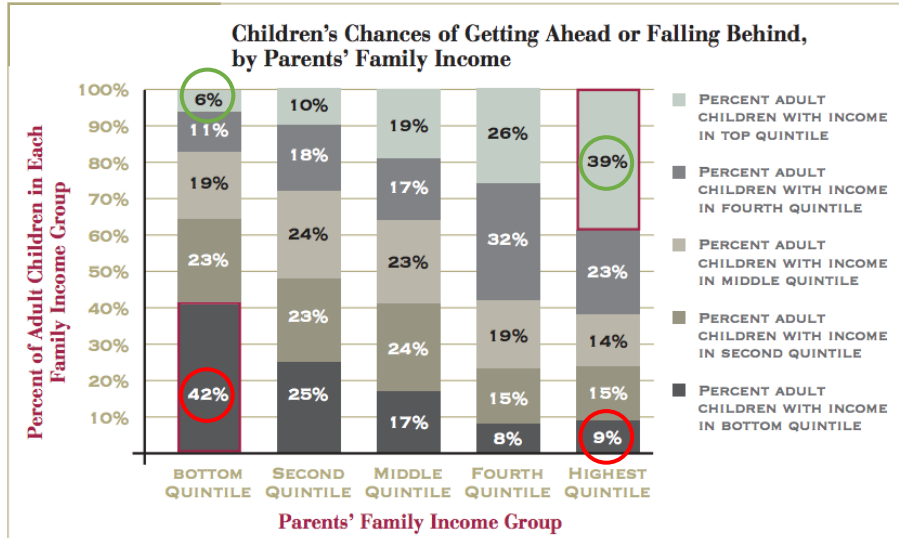


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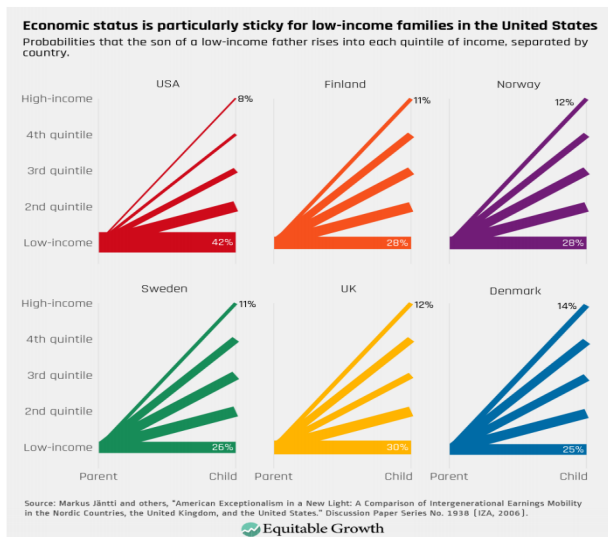
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II. Empirical Patterns of Economic Mobility Transition Probabilities in the United States

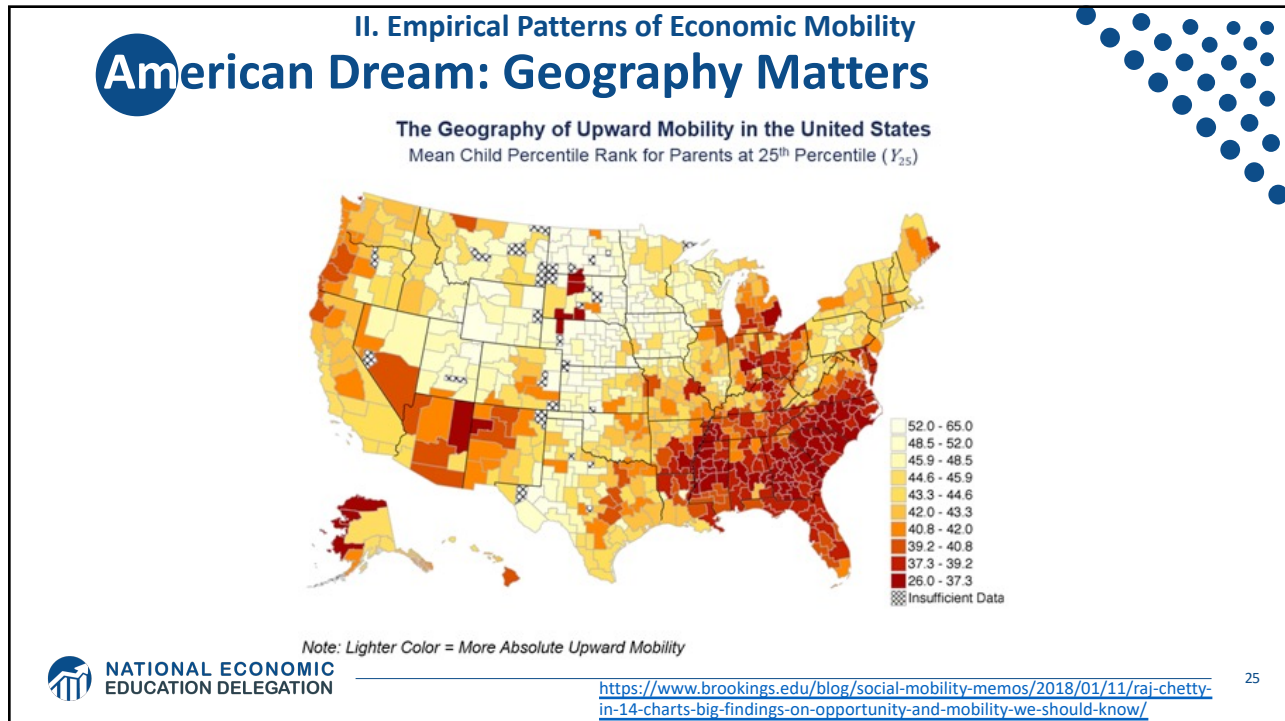


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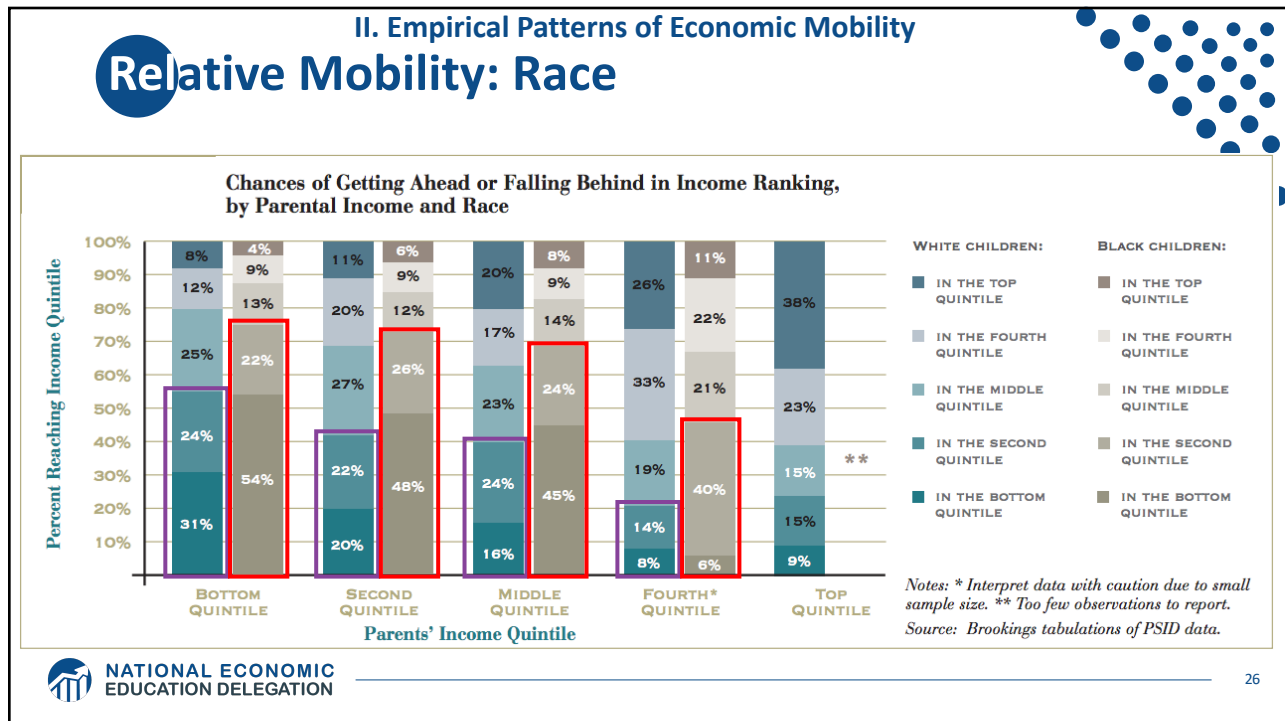
II. Empirical Patterns of Economic Mobility Transitions: International Comparisons



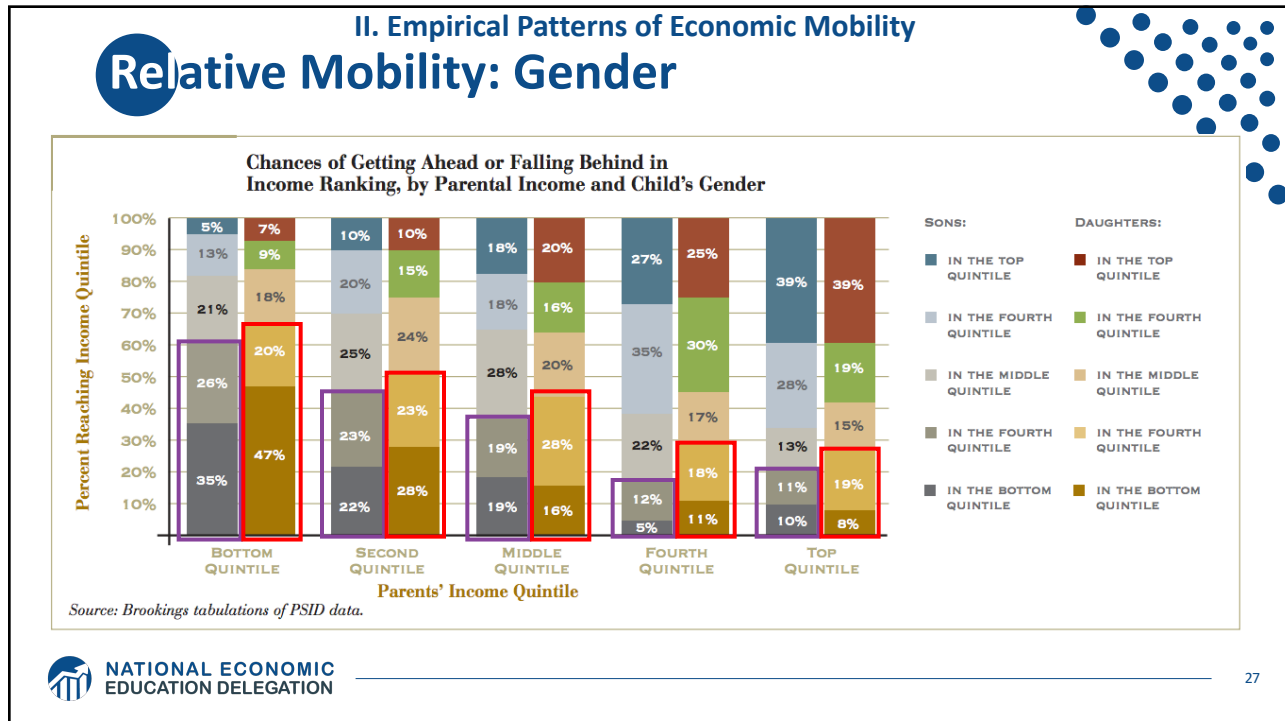
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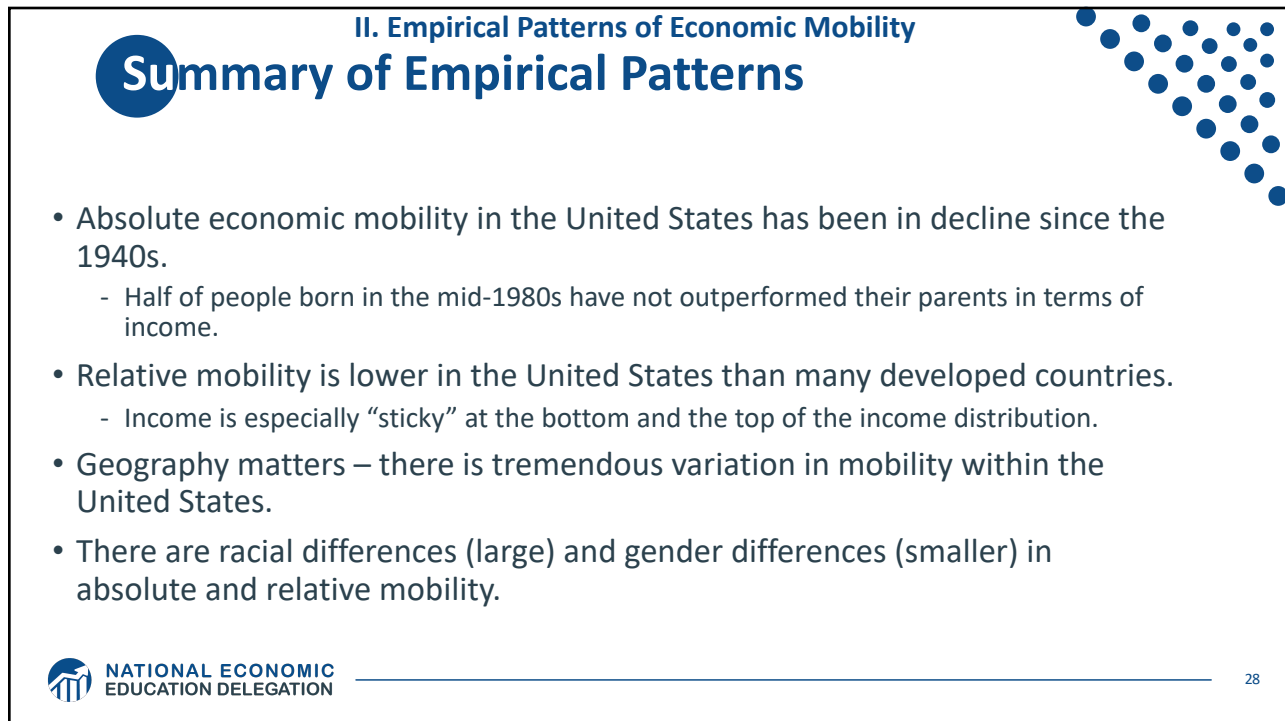
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III. What is the desirable level of economic mobility?

Economically what is optimal? What do people think is optimal?
Mobility and Inequality

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III. What is the Desirable Level of Economic Mobility

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*.

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III. What is the Desirable Level of Economic Mobility

The “Right” Level of Relative Mobility

- **Efficiency**

- Want to provide incentives in order to get economic growth.

- **Equity**

- Want a system that is “fair”.

What is the *optimal* level of relative mobility?

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

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

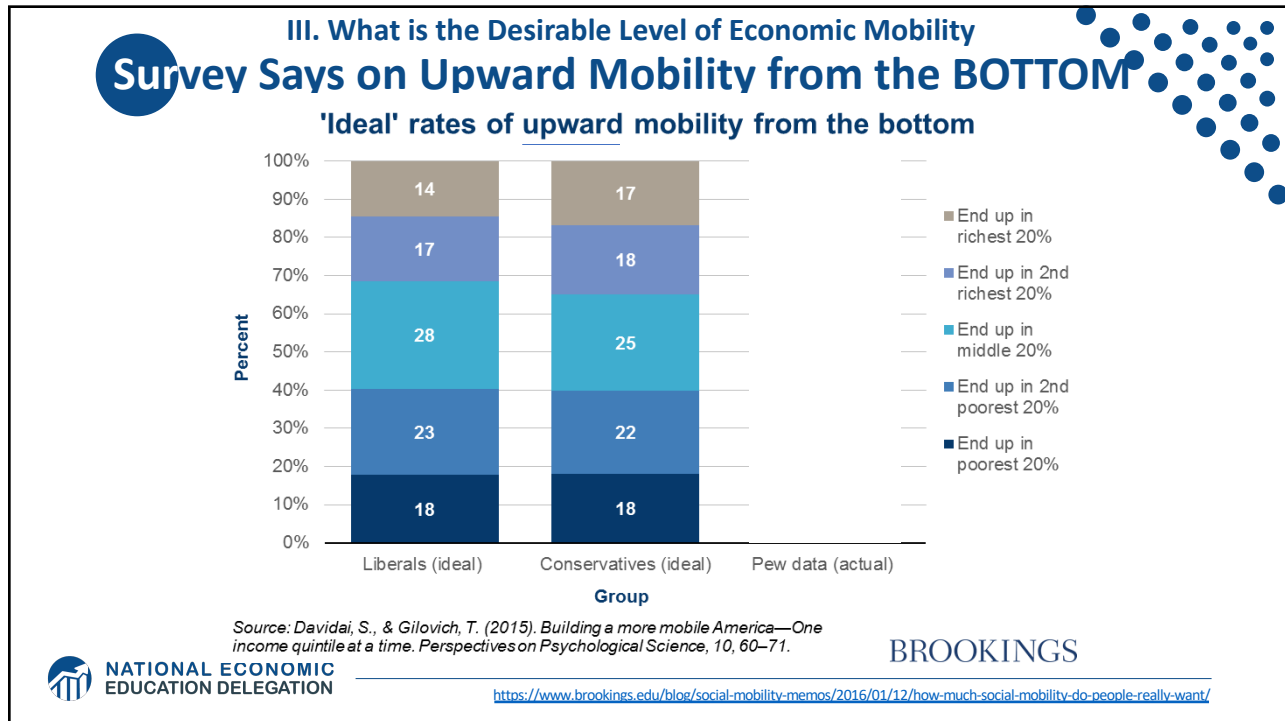
The answer would suggest the best (incremental) policy steps to take towards a better outcome.

III. What is the Desirable Level of Economic Mobility

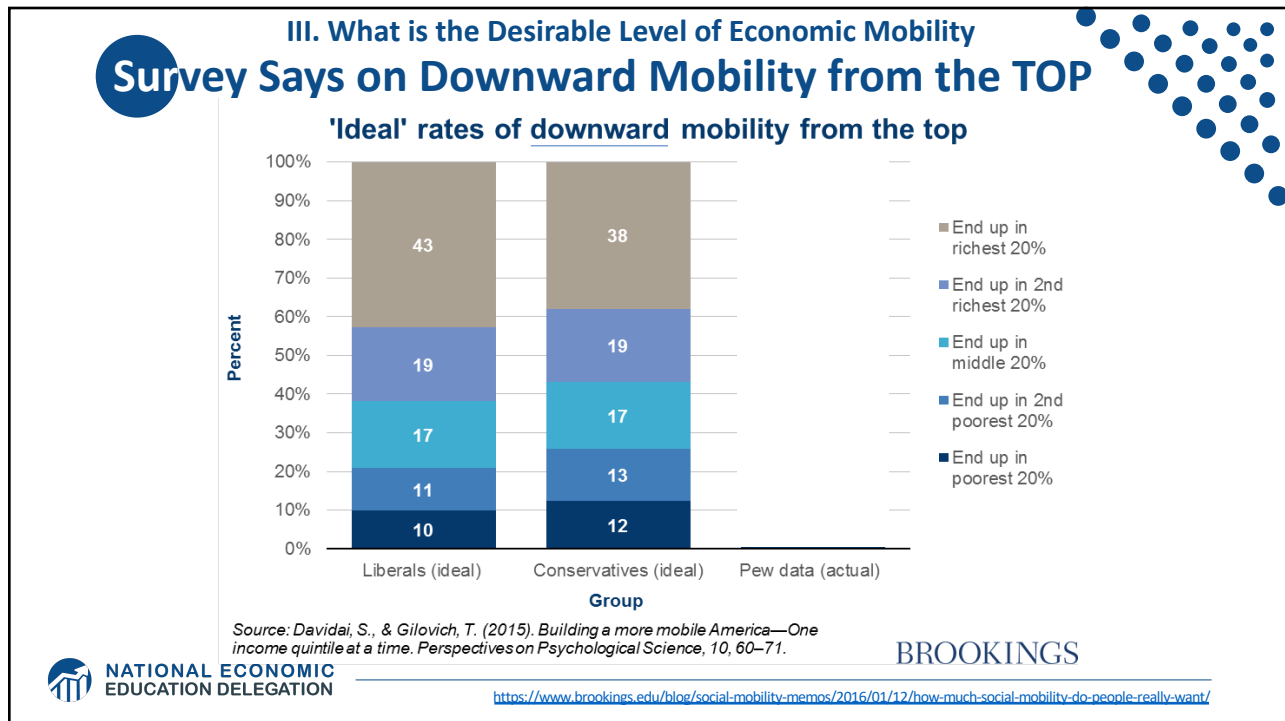
How is the Mobility Porridge?

- **How might we answer the second question: Is mobility too low or too high?**

- Common sense judgement.
 - o 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?
 - o 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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III. What is the Desirable Level of Economic Mobility

Preferences hit Awkward Truth: Math

- **Again: relative mobility is a zero-sum game**
 - There are only so many spots in the top quintile (only 20% of population can be there)
 - 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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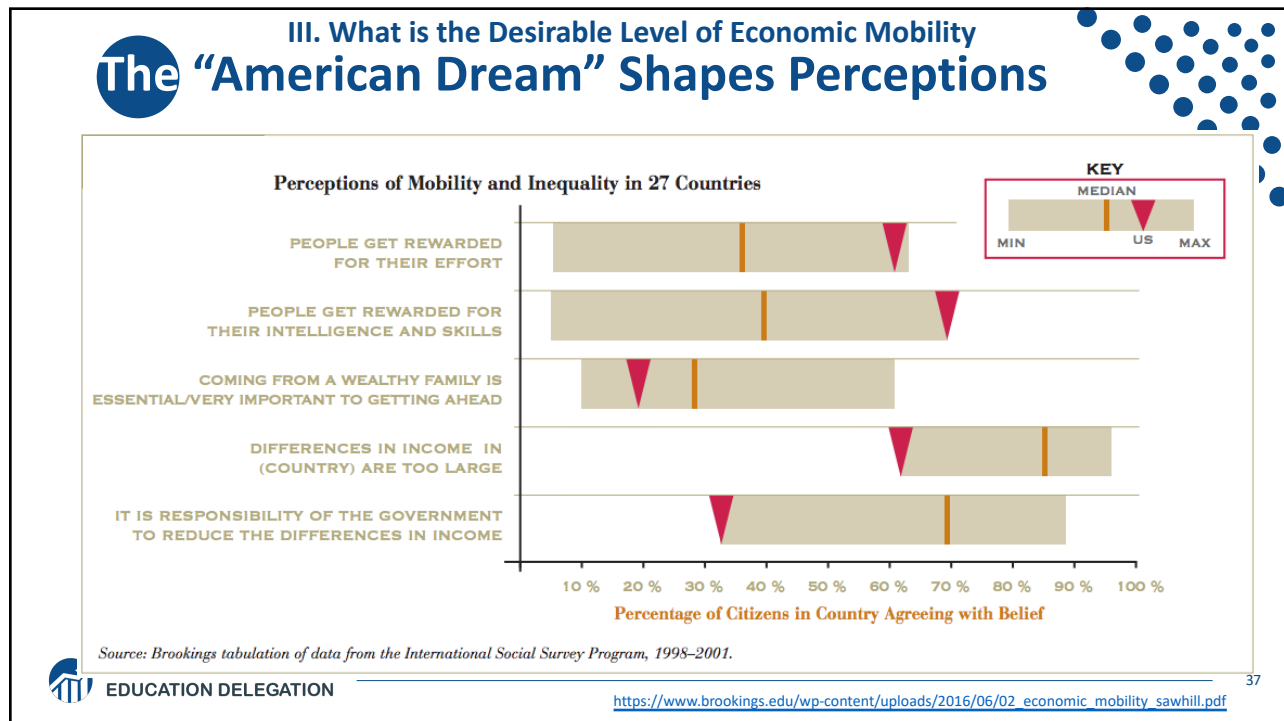
III. What is the Desirable Level of Economic Mobility

Public Perception and Sentiment

- **Perception: “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
 - The American Dream plays a significant part in national identity.
- **Reality: Overestimate of actual mobility**
 - Common perception is incorrect.

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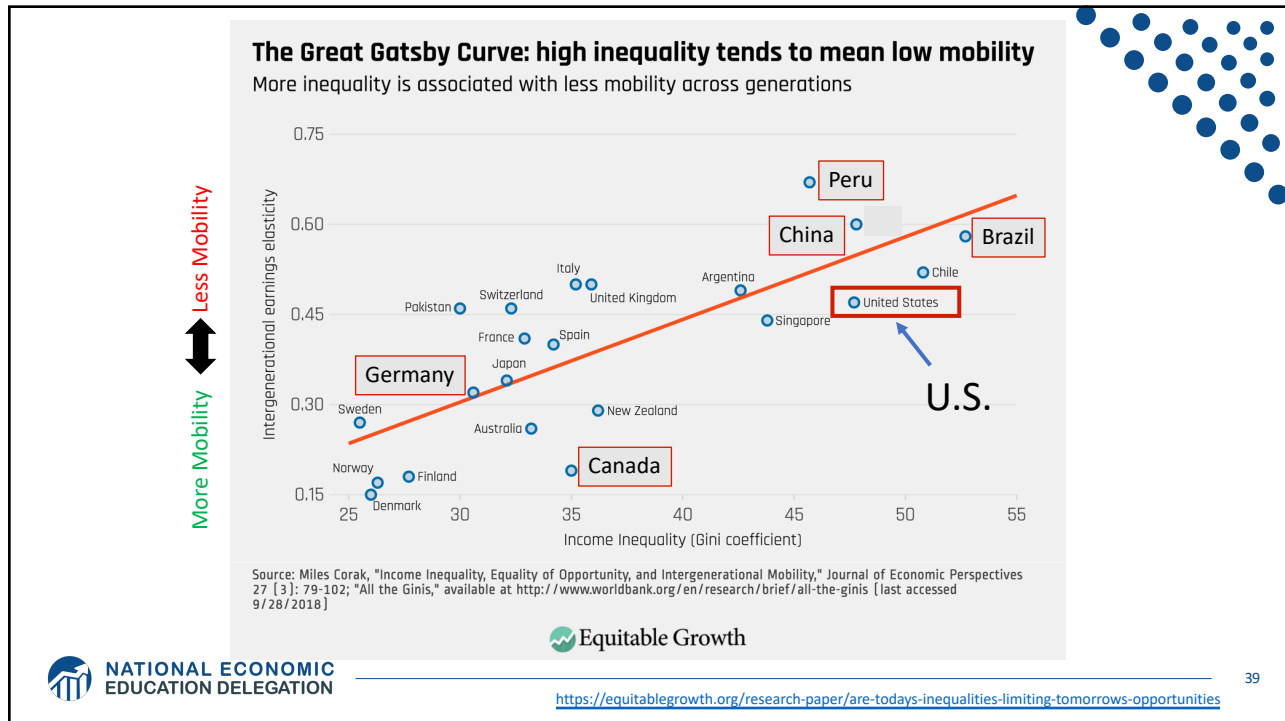
III. What is the Desirable Level of Economic Mobility

Mobility and Inequality

- Lower mobility may have implications for the desired level of inequality.
- More inequality makes both absolute and relative mobility more difficult.
 - Absolute: more of the gains go to the top.
 - Relative: the top is further away from the bottom.

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IV. Exploring channels/barriers to upward mobility and policy options

Focus on Education and Career Opportunities

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IV. Exploring Channels/Barriers to Upward Mobility and Policy Options

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



IV. Exploring Channels/Barriers to Upward Mobility and Policy Options

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.



IV. Exploring Channels/Barriers to Upward Mobility and Policy Options

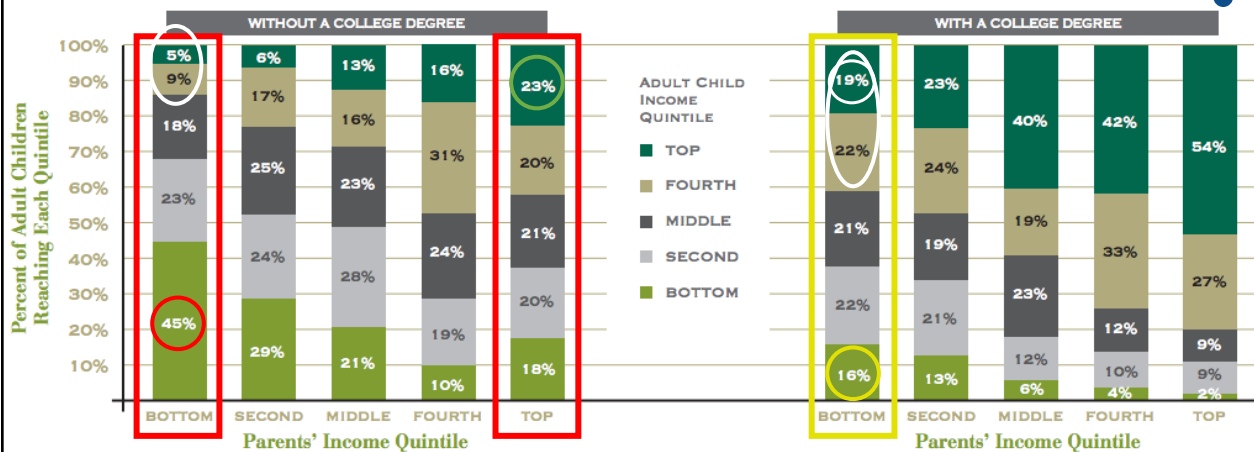
Barriers to Upward Mobility – Structural

- **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...
- **Access to entrepreneurship and invention**
 - Initial capital and insurance against negative shocks, social networks.
- **Direct transmission of income-earning assets**

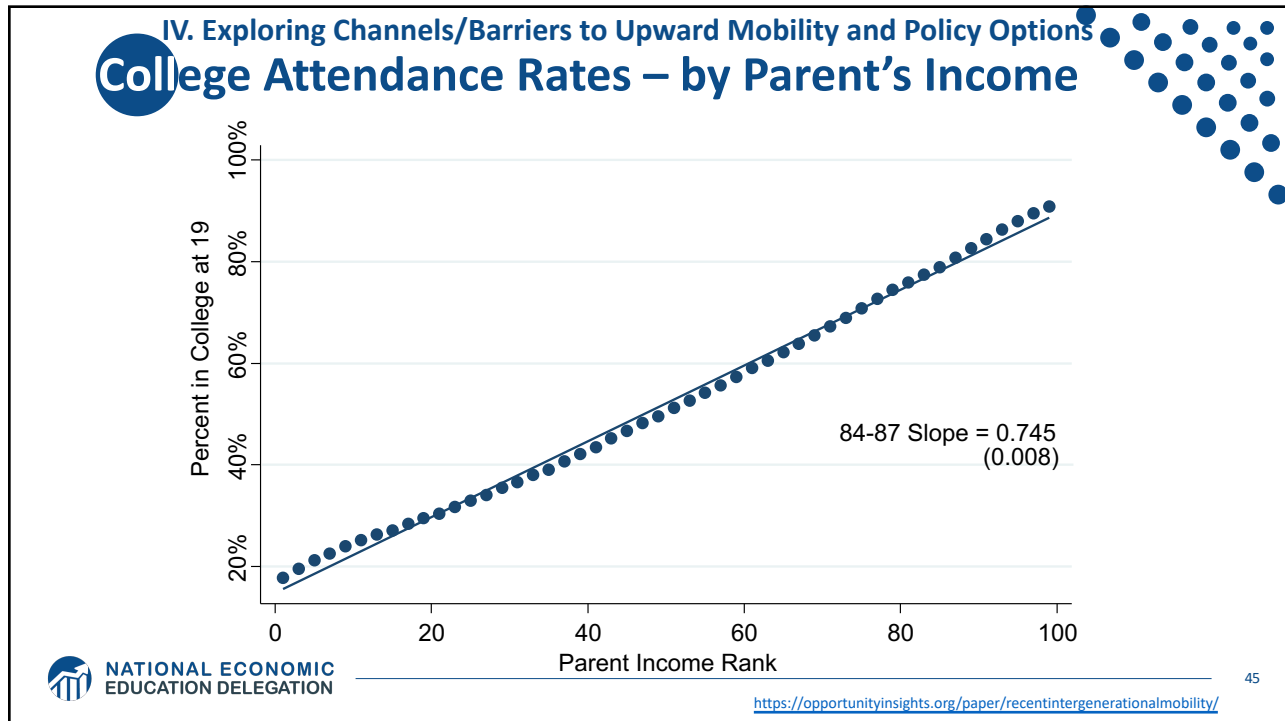
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IV. Exploring Channels/Barriers to Upward Mobility and Policy Options

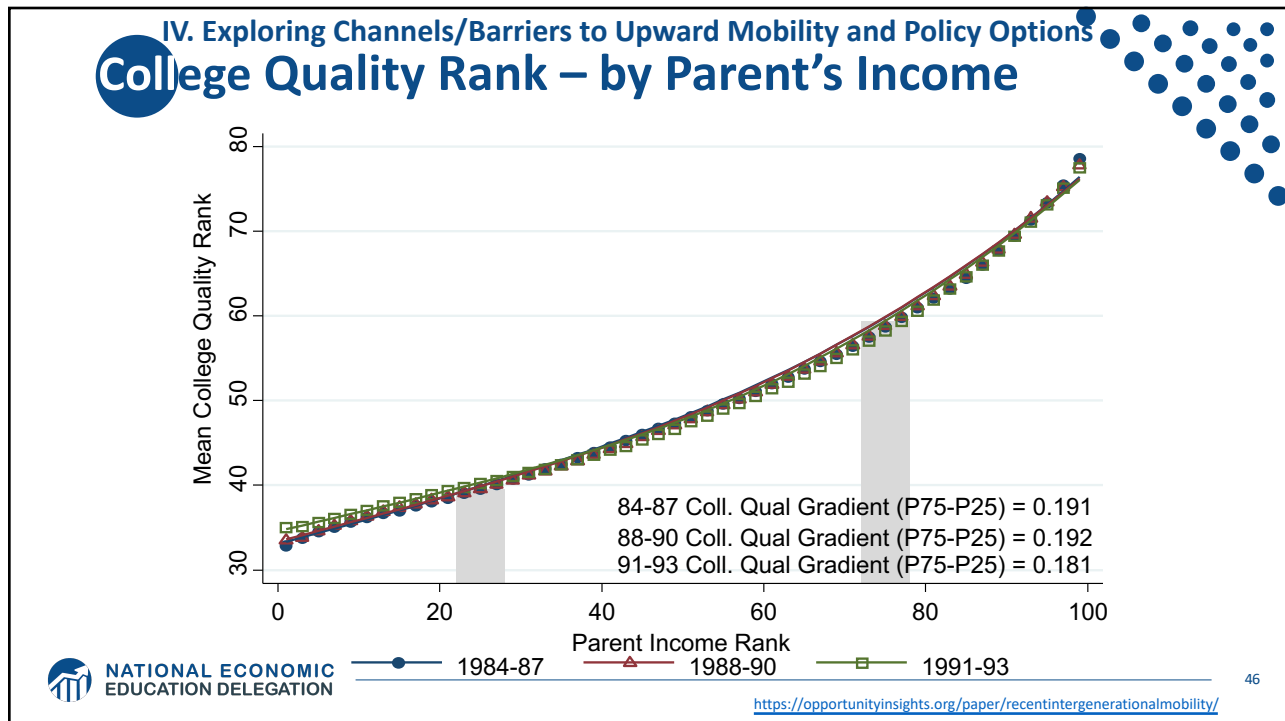
Education: an Avenue and Barrier to Mobility



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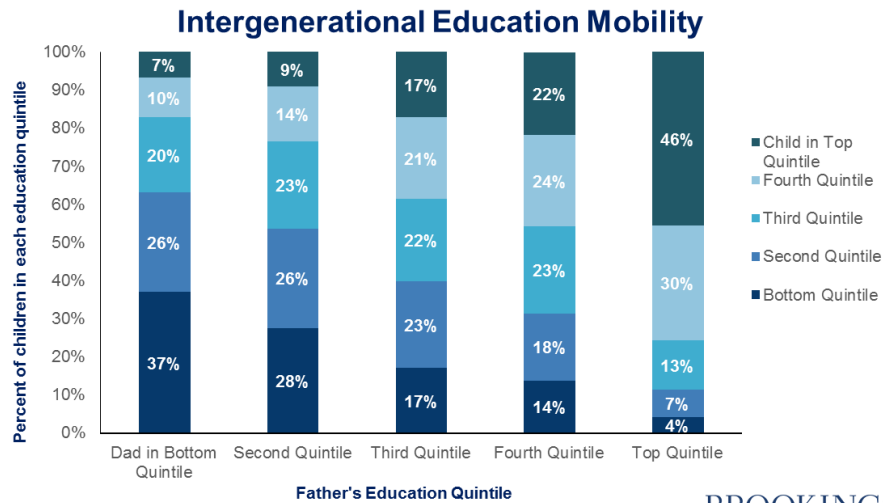


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IV. Exploring Channels/Barriers to Upward Mobility and Policy Options
Educational Mobility



Source: Author's tabulations of PSID data.

BROOKINGS



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

IV. Exploring Channels/Barriers to Upward Mobility and Policy Options
Career Opportunities:
 an **Avenue** and **Barrier** to Mobility

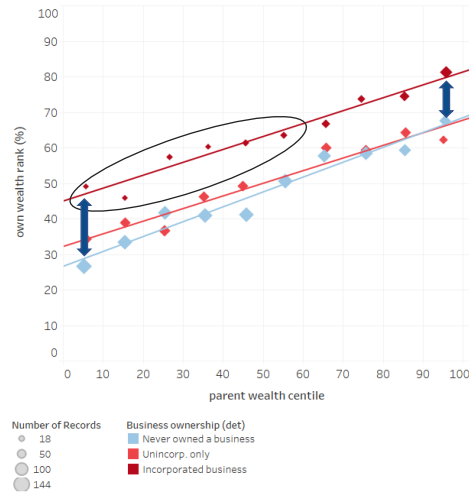
- Business Ownership
- Inventions
- Job Networks



IV. Exploring Channels/Barriers to Upward Mobility and Policy Options Career Opportunities – Business Incorporation

- Ownership of a business is a big indicator of wealth accumulation.
- Children from a wealthy family are more likely to incorporate a business.

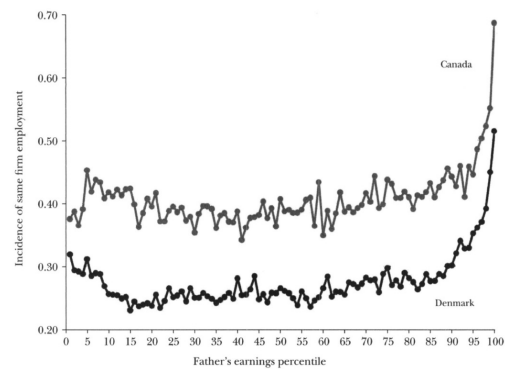
Average outcome rank by parent wealth decile - by business ownership



IV. Exploring Channels/Barriers to Upward Mobility and Policy Options Career Opportunities – 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)

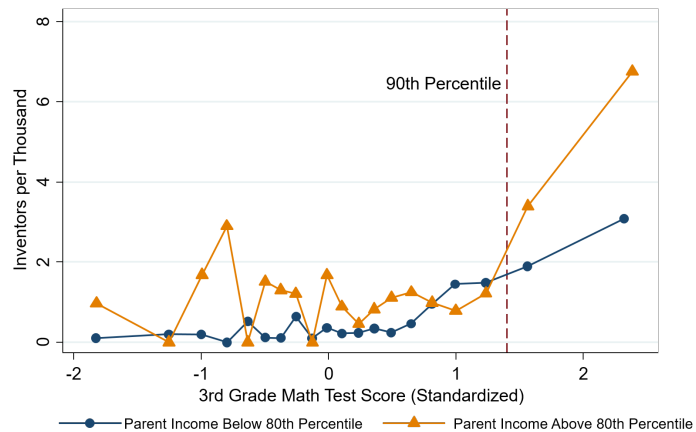


IV. Exploring Channels/Barriers to Upward Mobility and Policy Options

Career Opportunities – 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.)



IV. Exploring Channels/Barriers to Upward Mobility and Policy Options

Policy Options

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

Summary: Economic Mobility

I. What do we mean by economic mobility?

- Absolute vs Relative Mobility

II. Empirical patterns of economic mobility

- 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".

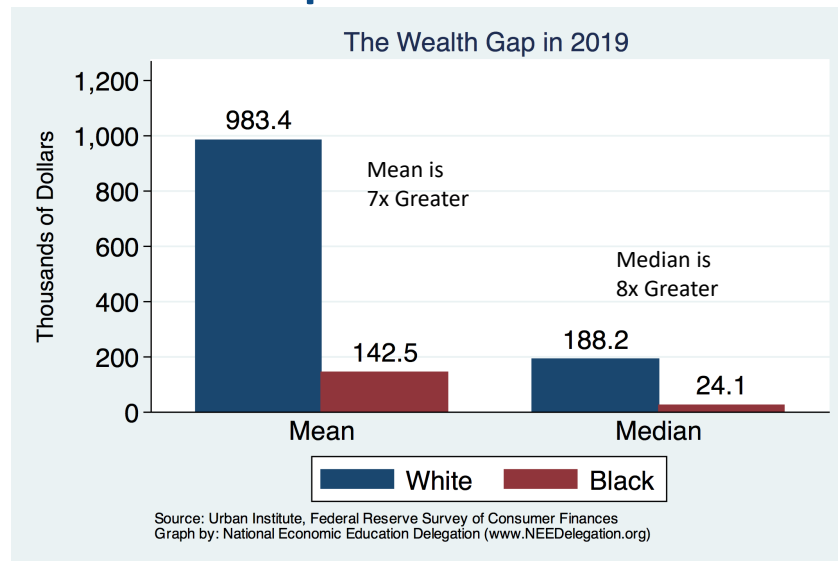
III. What is the desirable level of economic mobility?

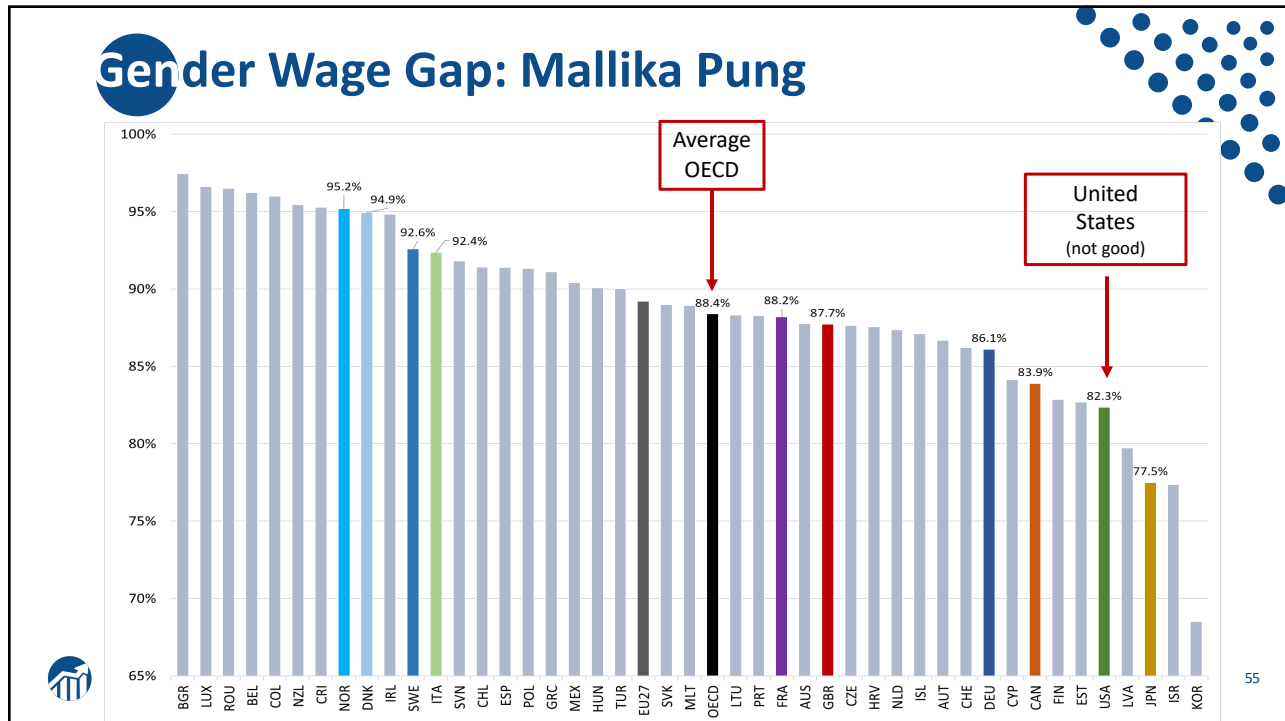
- Absolute: concern that 50% of kids are treading water or falling behind.
- Relative: not as much as people seem to think there is.

IV. Exploring channels/barriers to upward mobility and policy options

- Often what is an avenue to mobility at the individual level may be a barrier at the societal level due to structural factors (i.e., Education and Career Opportunities)
- There are plenty of levers to pull to increase mobility.

The B-W Wealth Gap





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Thank you!

Any Questions?

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