

# *Osher Lifelong Learning Institute, Spring 2023* **Contemporary Economic Policy**

OLLI - University of Pittsburgh  
May-June, 2023

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



## **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



## Course Outline

- **Contemporary Economic Policy**

- Week 1 (5/24): US Economic Update (Geoffrey Woglom, Amherst College)
- Week 2 (5/31): Federal Debt (Brian Peterson, Lagrange College)
- Week 3 (6/7): Economics of Immigration (Jon Haveman, NEED)
- **Week 4 (6/14): Economic Mobility (Jon Haveman)**
- Week 5 (6/21): The Gender Wage Gap (Jon Haveman)



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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.**
- **Slides will be available from the NEED website shortly ([https://needecon.org/delivered\\_presentations.php](https://needecon.org/delivered_presentations.php))**



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# Economic mobility

Jon Haveman  
NEED  
June 14, 2023



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- 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.
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# Outline

- I. What do we mean by economic mobility?
- II. Empirical patterns of economic mobility
- III. What is the desired 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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## 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 status.

We will consider *intergenerational mobility in INCOME*.

## Absolute and Relative Mobility

- **Absolute mobility:** the difference in income from one's parent.

- You're higher on the escalator than your parents were at the same age.
- 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 parent.

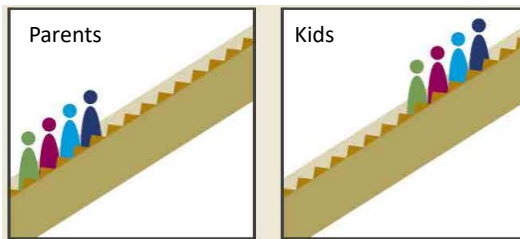
- You have fewer people above you on the escalator than your parents did.
- Increased relative mobility requires both upward and downward movement.



## More on Absolute vs Relative Mobility

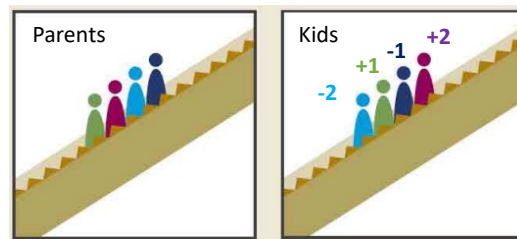
- **Can there be absolute mobility with NO relative mobility?**

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



- **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 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?

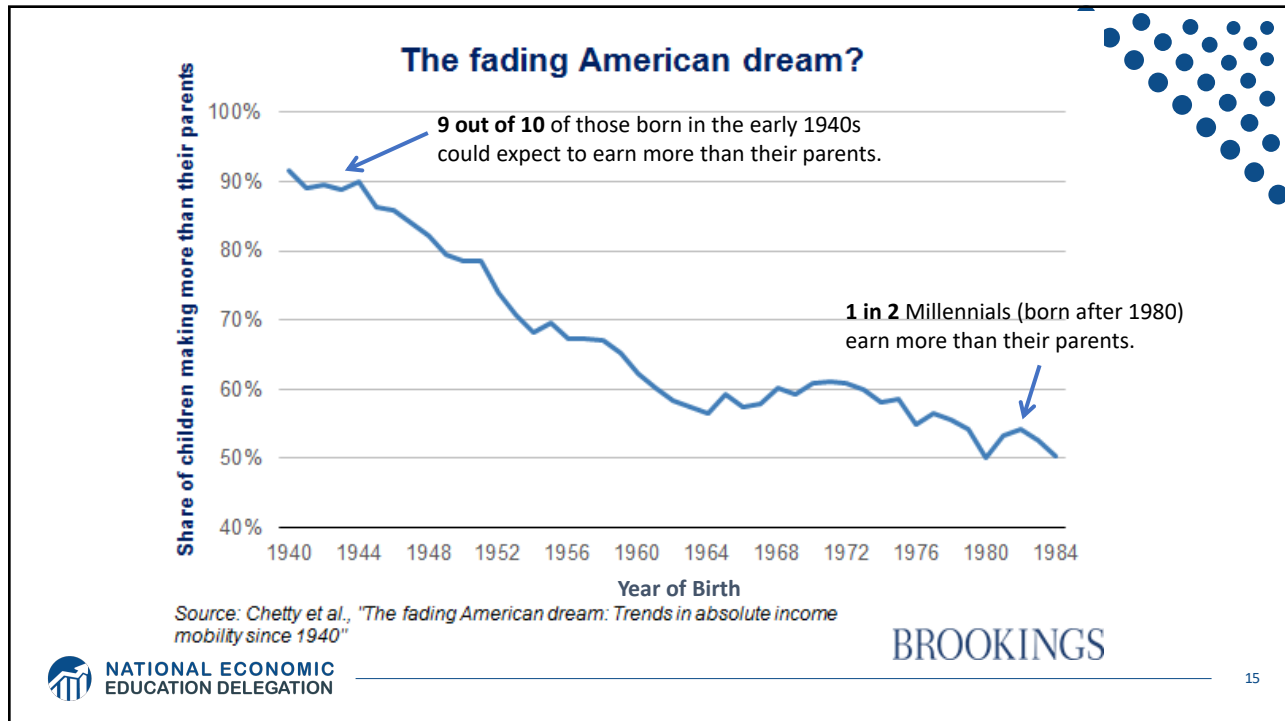
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## Mobility – Big Picture for Absolute Mobility

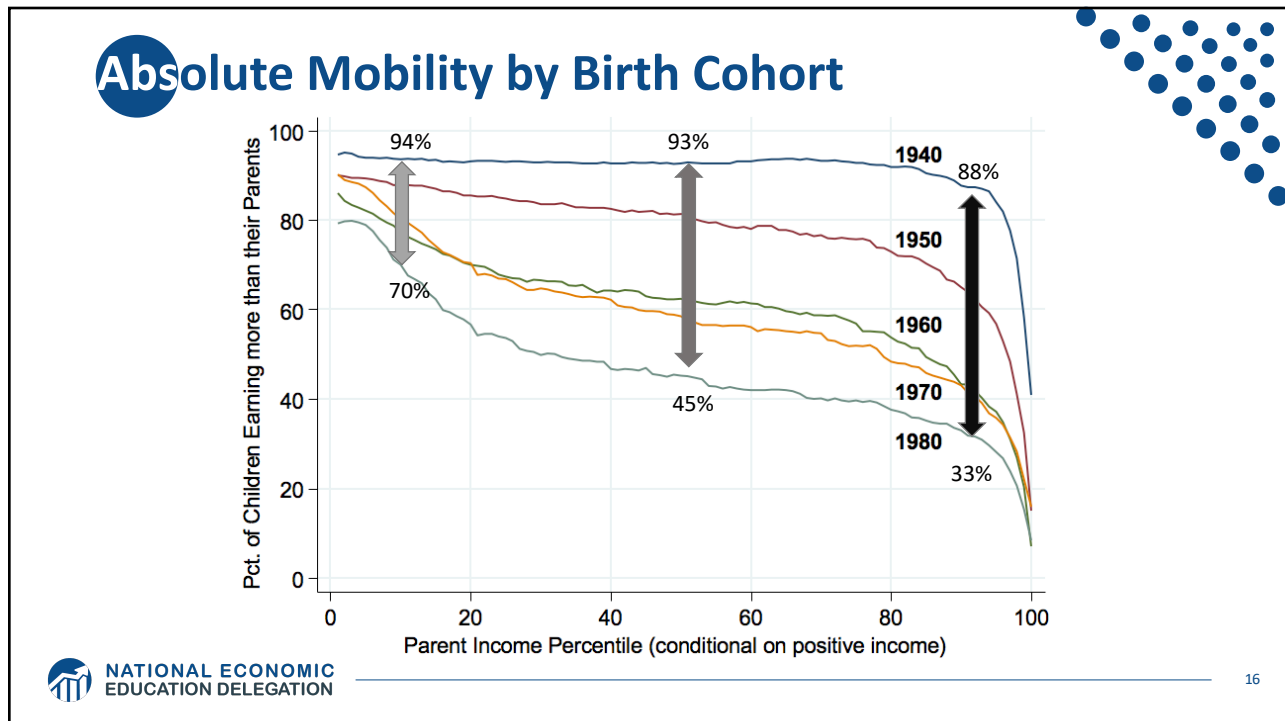
Decline in *absolute* mobility in the United States:

- 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.

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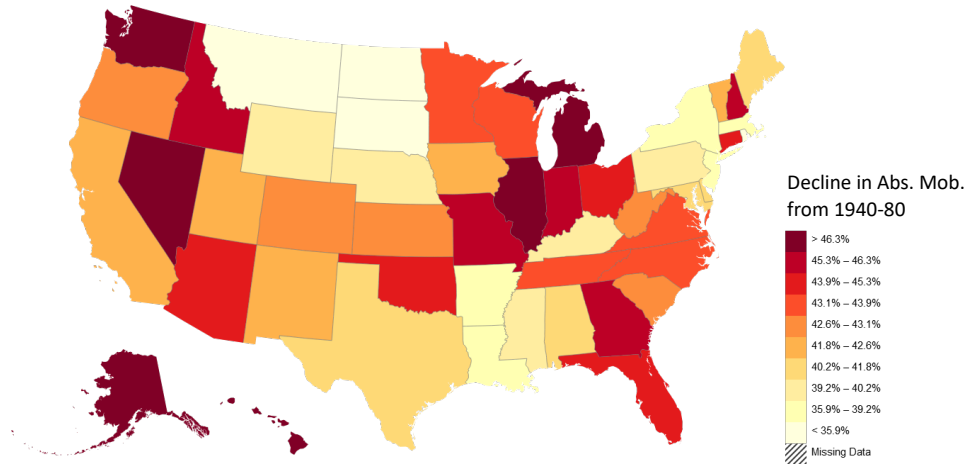


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## American Dream: Geography Matters

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



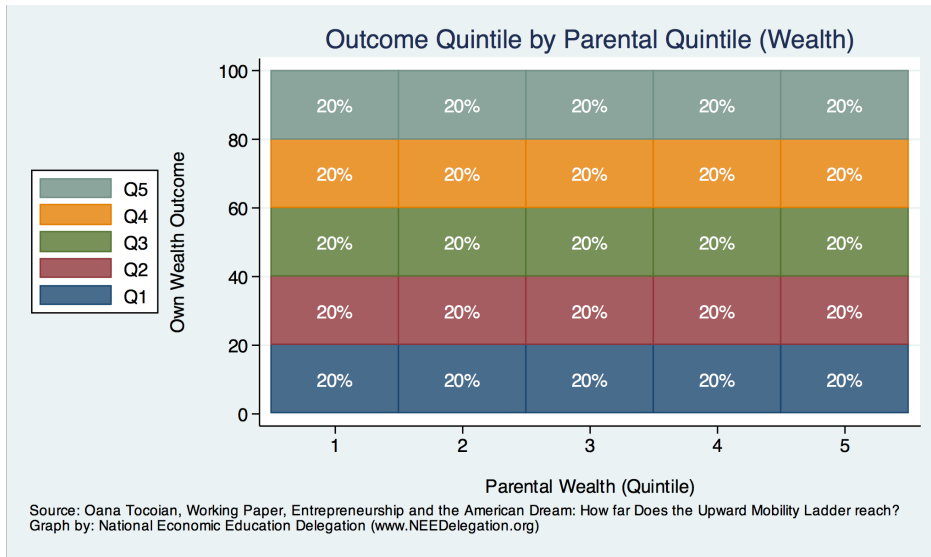
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## Measuring Relative Mobility

- **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 Mobility:** For each of the parental income quintiles, 20% of their offspring end up in each income quintile as adults.

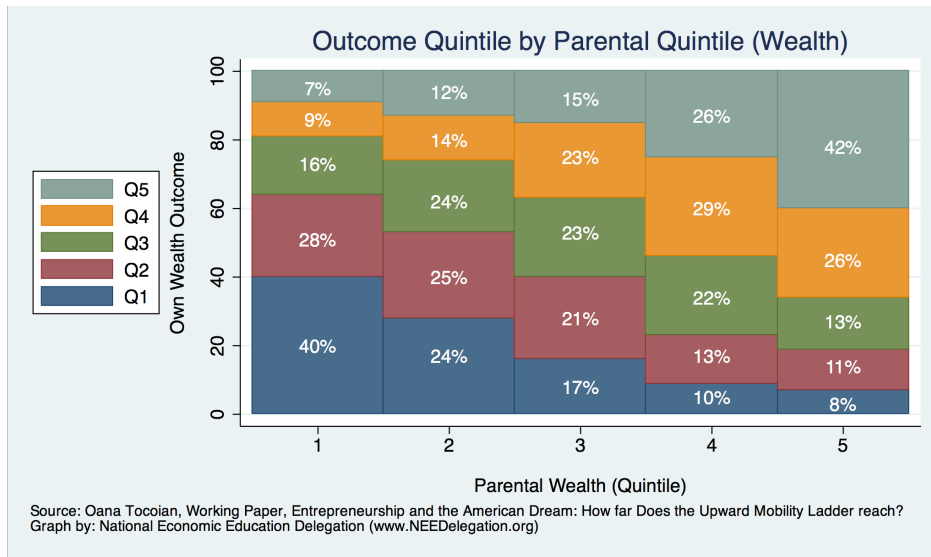
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# Wealth Mobility – Perfect Mobility



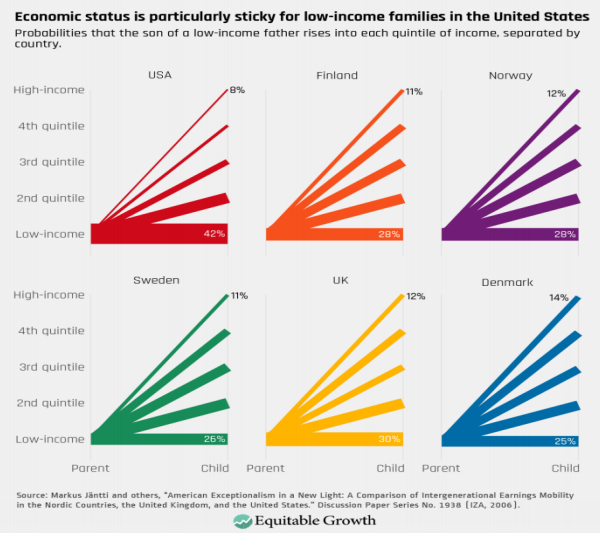
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# Wealth Mobility - Actual



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# Transitions: International Comparisons

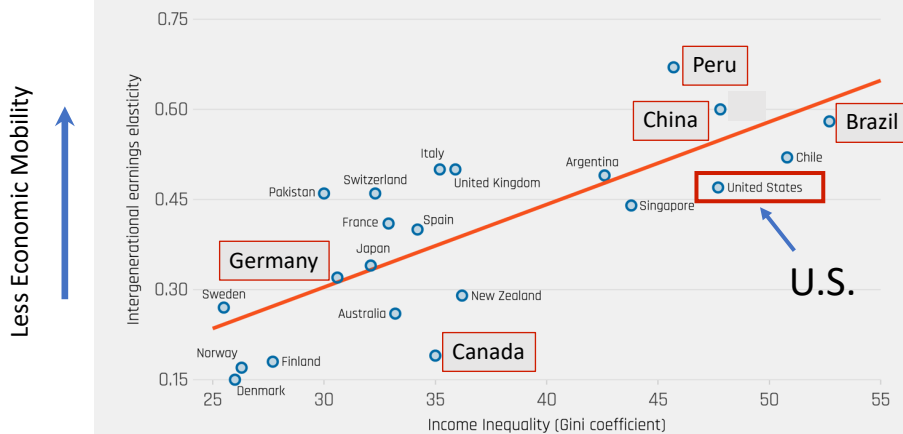


Source: <https://equitablegrowth.org/research-paper/are-todays-inequalities-limiting-tomorrows-opportunities>

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## The Great Gatsby Curve: high inequality tends to mean low mobility

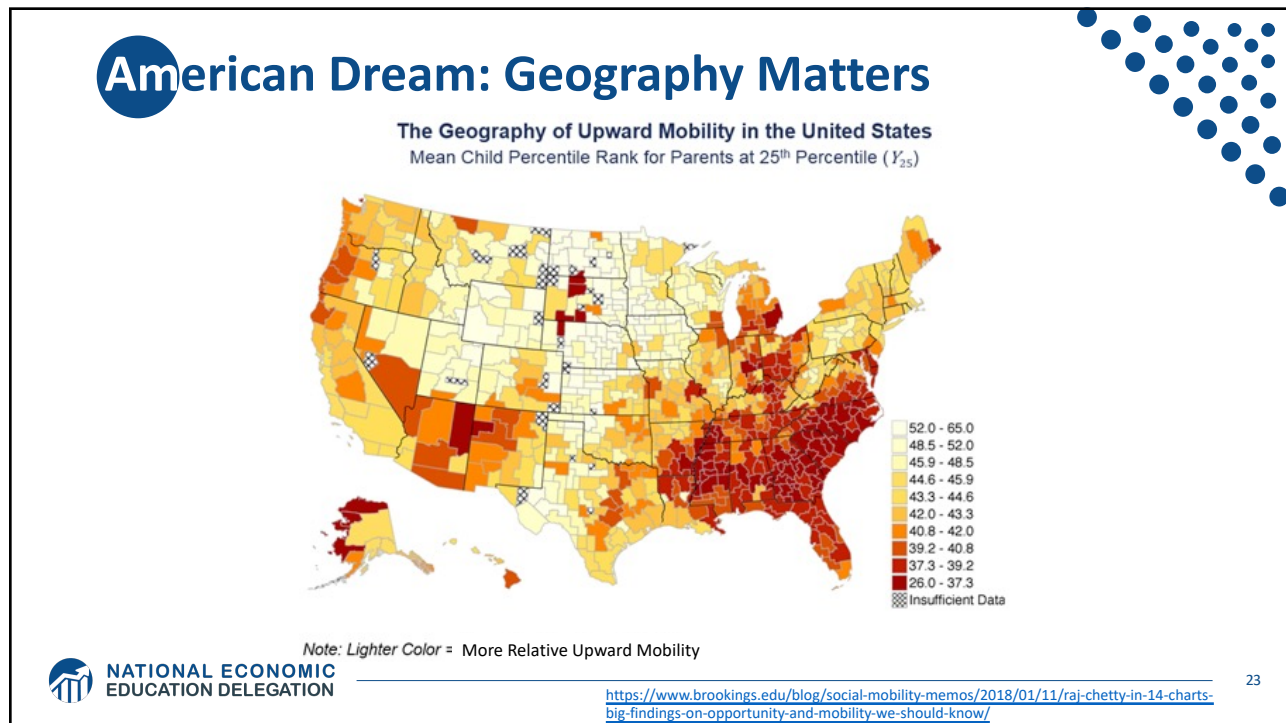
More inequality is associated with less mobility across generations



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]

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

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## Summary of Empirical Patterns

- Absolute economic mobility in the United States has been in decline since the 1940s
  - Half of people born in the mid-1980s have not outperformed their parents in terms of income
- Relative mobility is lower in the United States than many developed countries
  - Income is especially “sticky” at the bottom and the top of the income distribution
- Geography matters – there is tremendous variation in mobility within the United States

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## III. What is the desired level of economic mobility?

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



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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 trading 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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## 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?

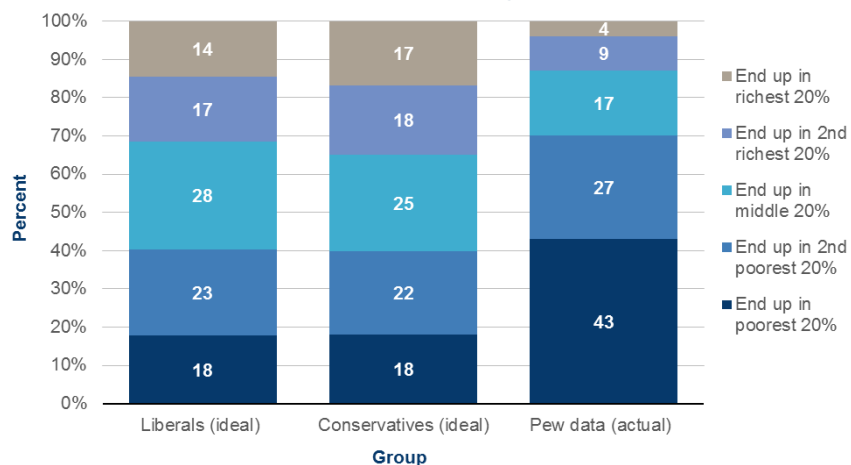
This is a hard question, one which we may not be able to answer or agree on.

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

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

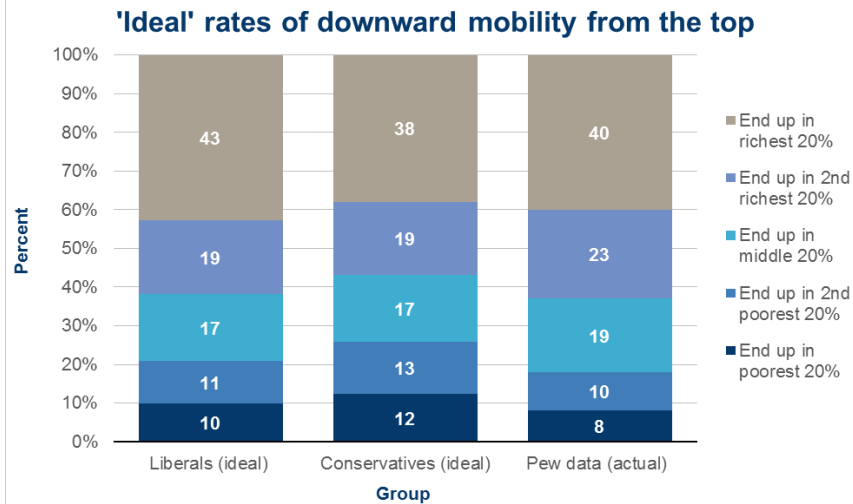
## Survey Says on Upward Mobility from the BOTTOM

'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 (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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## 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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## 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.

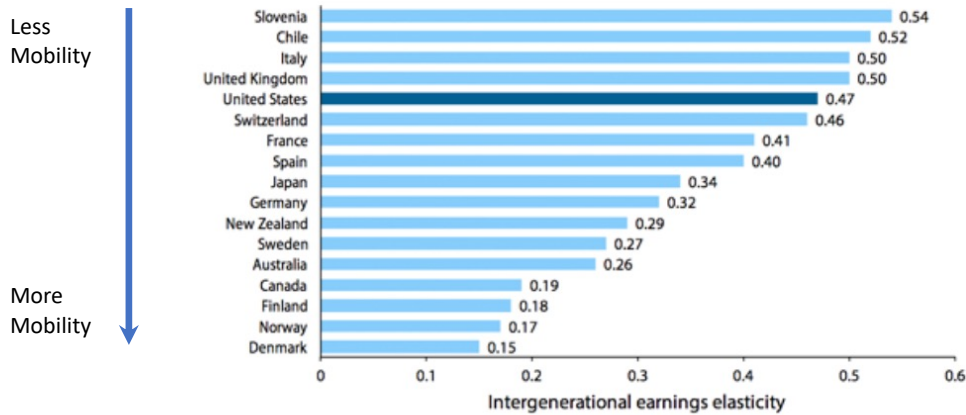


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# IGE: U.S. in International Comparison

**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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# The “American Dream” Shapes Perceptions



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

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

Focus on Education and Career Opportunities



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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**

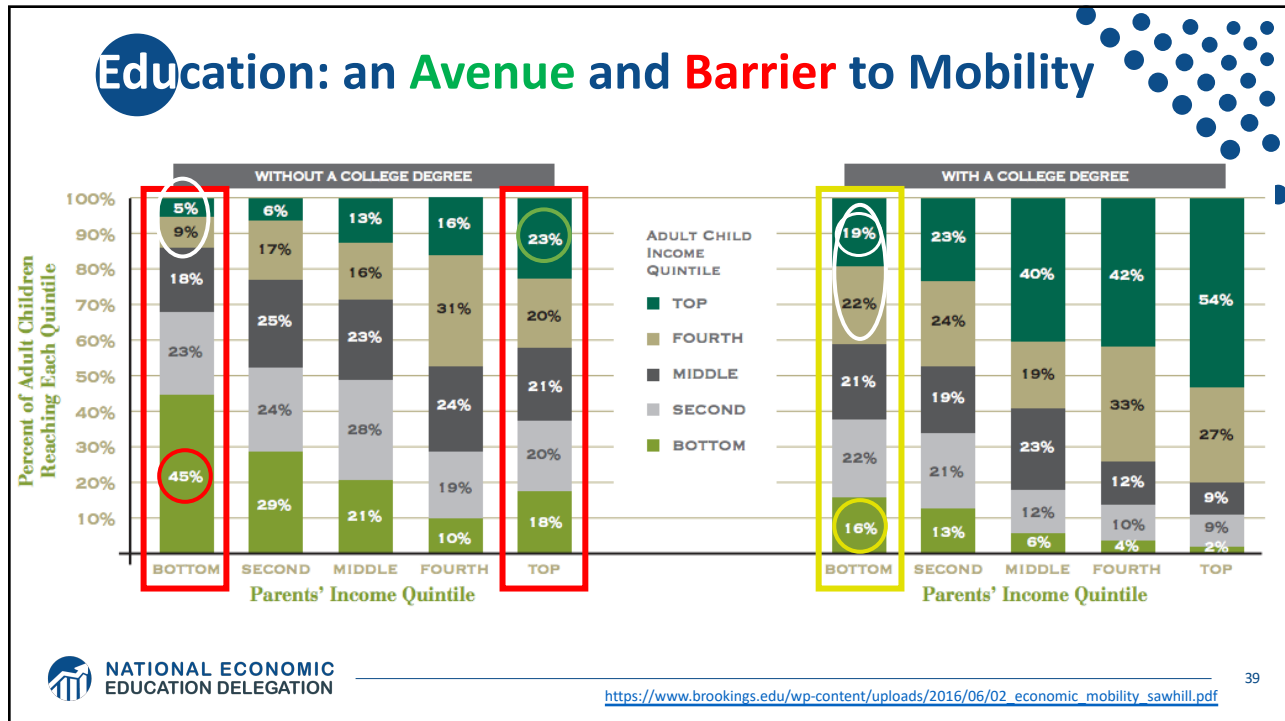
- *Innate (genetic) advantages:*
  - Inherited ability, medical conditions, psychological traits
- *Environmental factors:*
  - **In utero:** pre-natal care, mother's nutrition, exposure to abuse or stress.
  - **Home environment** which promotes healthy development, transmission of family values
  -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



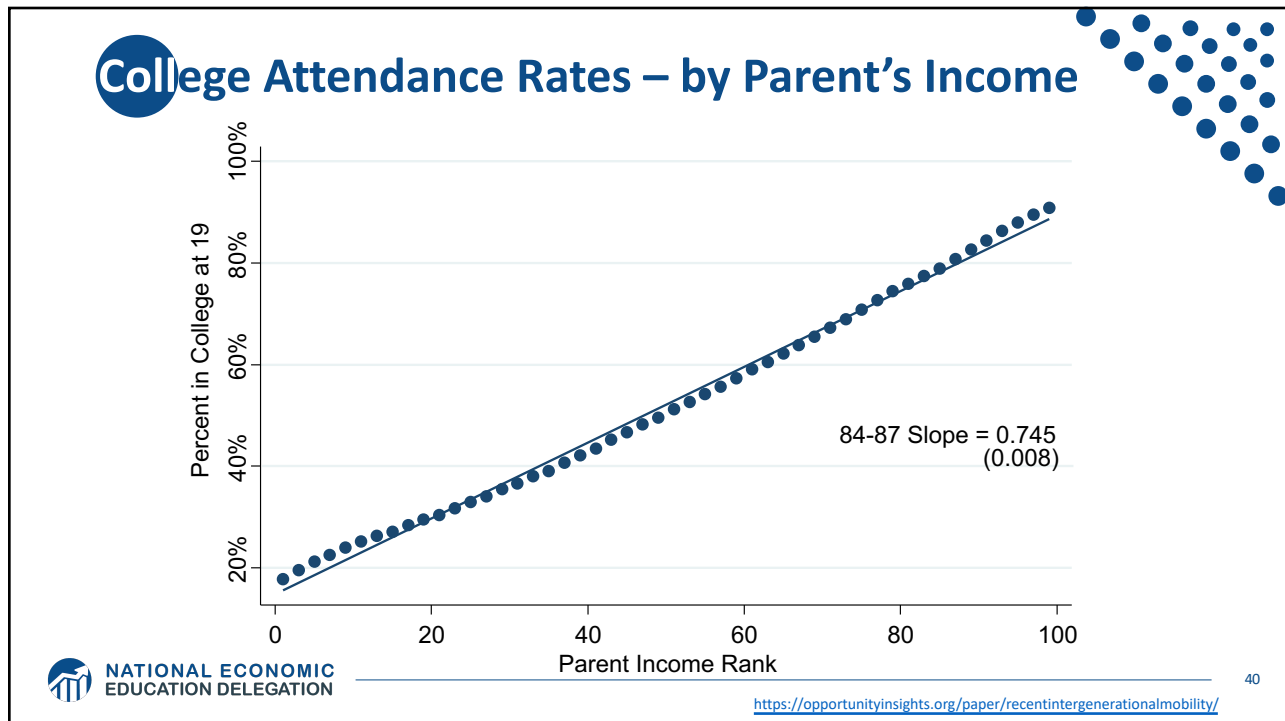
## Barriers to Upward Mobility – Structural

- **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.**

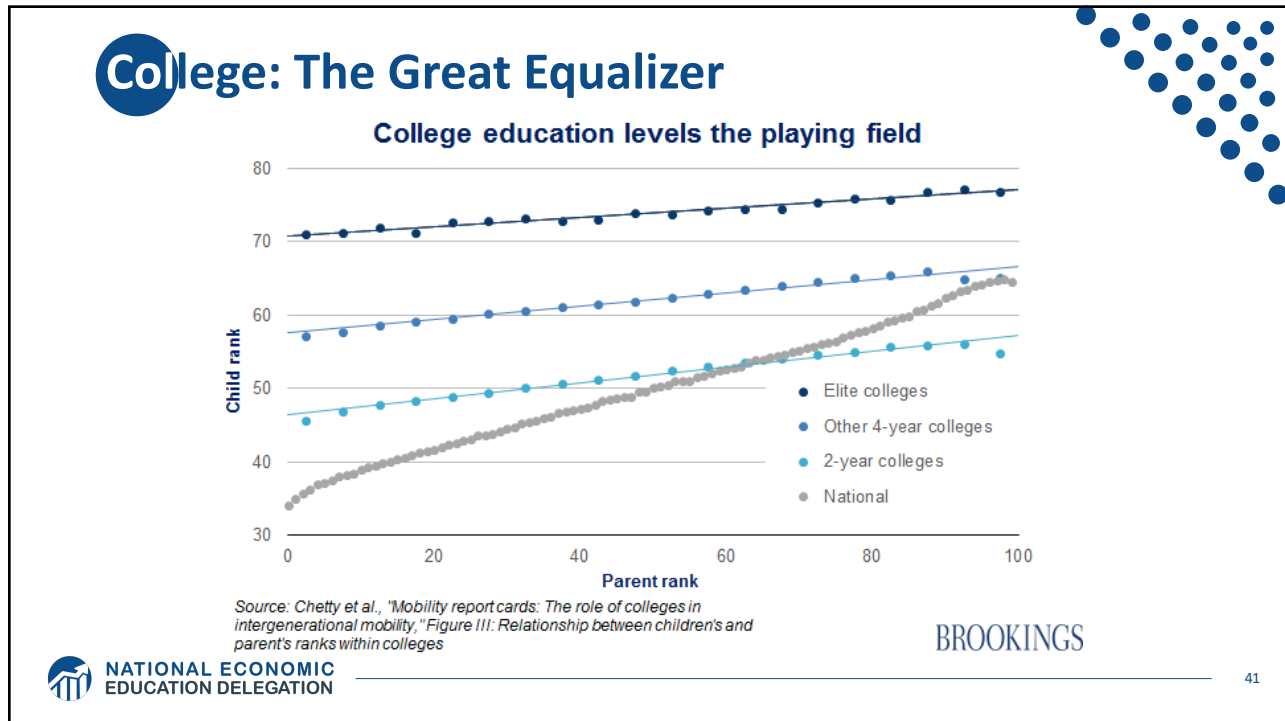




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## Career Opportunities: an Avenue and Barrier to Mobility

- Business Ownership
- Inventions
- Job Networks

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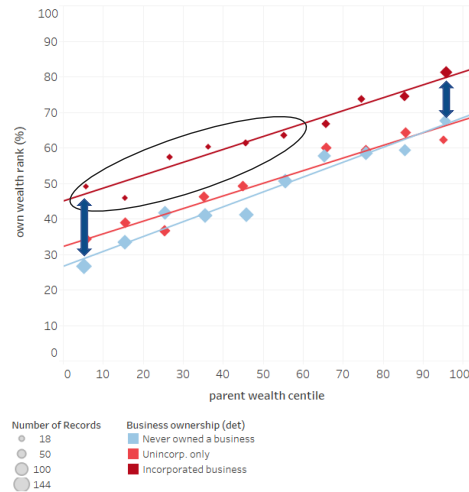
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## Career Opportunities – Business Incorporation

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

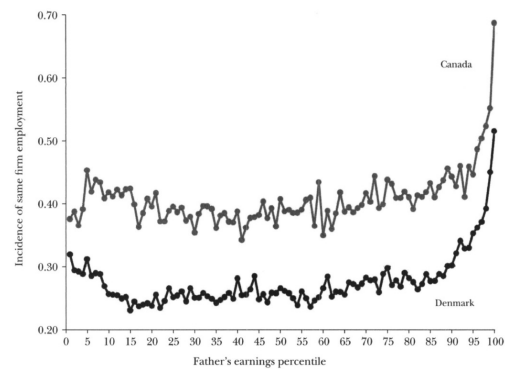
Average outcome rank by parent wealth decile - by business ownership



## 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.

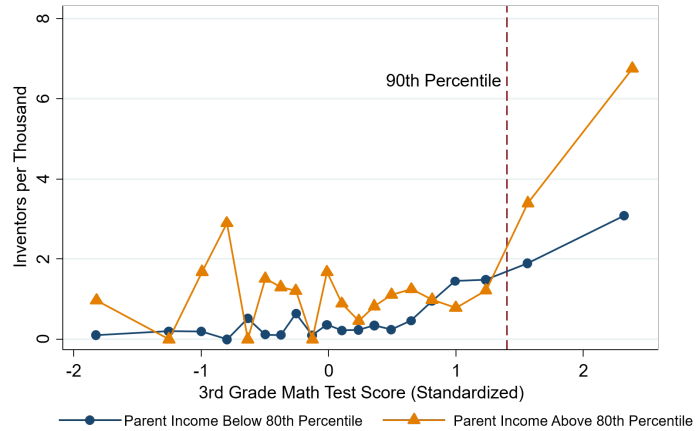
Proportion of Sons Currently Employed or Employed at Some Point with an Employer their Father had Worked for in the Past: Canada and Denmark (by father's earnings percentile)



## Career Opportunities – Inventions

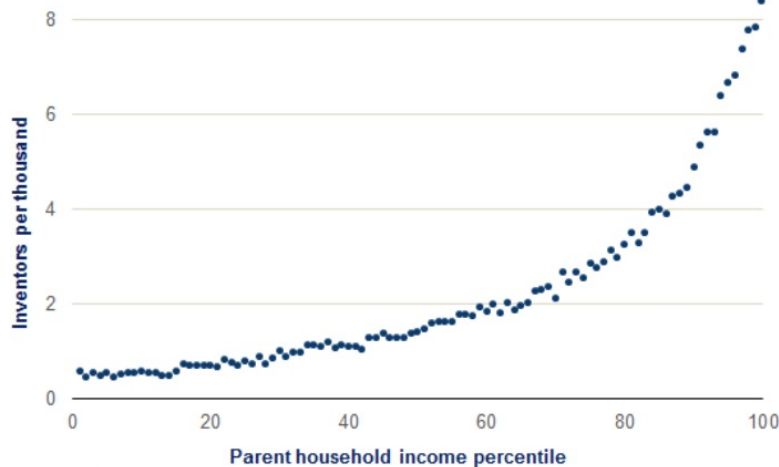
High math-ability 3<sup>rd</sup> graders go on to become inventors *if* their family is well-off.

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



Graph from Bell et al (2018)

## Inventors Are From Rich Families



Source: Bell et al., "Who becomes an inventor in America? The importance of exposure to innovation," Figure 1: Patent rates vs. parent income



## 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.

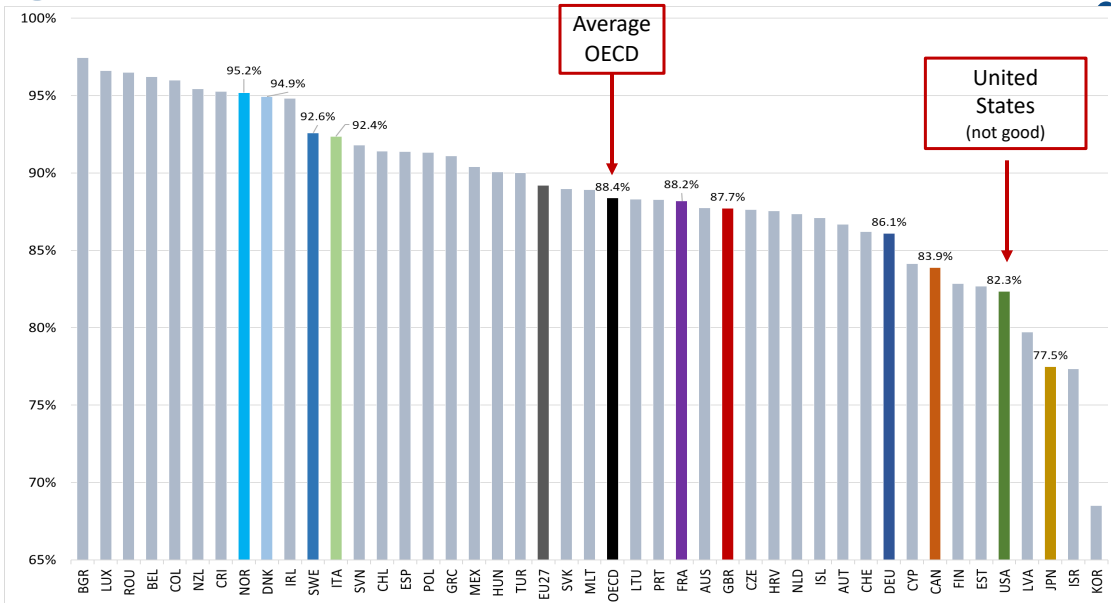
### IV. Exploring channels/barriers to upward mobility and policy options

- 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.





# Gender Wage Gap: See You Next Week!



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Thank you!

## Any Questions?

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