

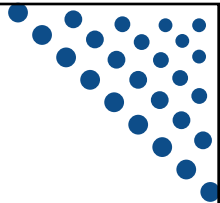
# ***Osher Lifelong Learning Institute, Summer 2022*** **Contemporary Economic Policy**

Rochester Institute of Technology  
July-Aug, 2022

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



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## **Available NEED Topics Include:**

- Healthcare 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
- Healthcare Economics



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## Course Outline

- **Contemporary Economic Policy**

- Week 1 (7/11): Economic Update (Jon Haveman, NEED)
- Week 2 (7/18): Economic Inequality (Christopher Herrington VCU)
- Week 3 (7/25): Trade and Globalization (Alan Deardorff, University of Michigan)
- Week 4 (8/1): *The Black-White Wealth Gap* (Mike Shor, UConn)
- **Week 5 (8/8): Economic Mobility (Jon Haveman, NEED)**
- Week 6 (8/15): Climate Change Economics (Jon Haveman, NEED)
- Week 7 (8/22): Autonomous Vehicles (Jon Haveman, NEED)



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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 on Need website( [www.NEEDelegation.org](http://www.NEEDelegation.org))**



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# Economic Mobility

Jon Haveman, Ph.D.

NEED

Aug 8, 2022



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- Jon Haveman, NEED

- **Disclaimer**

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- 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 parent.

- 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:

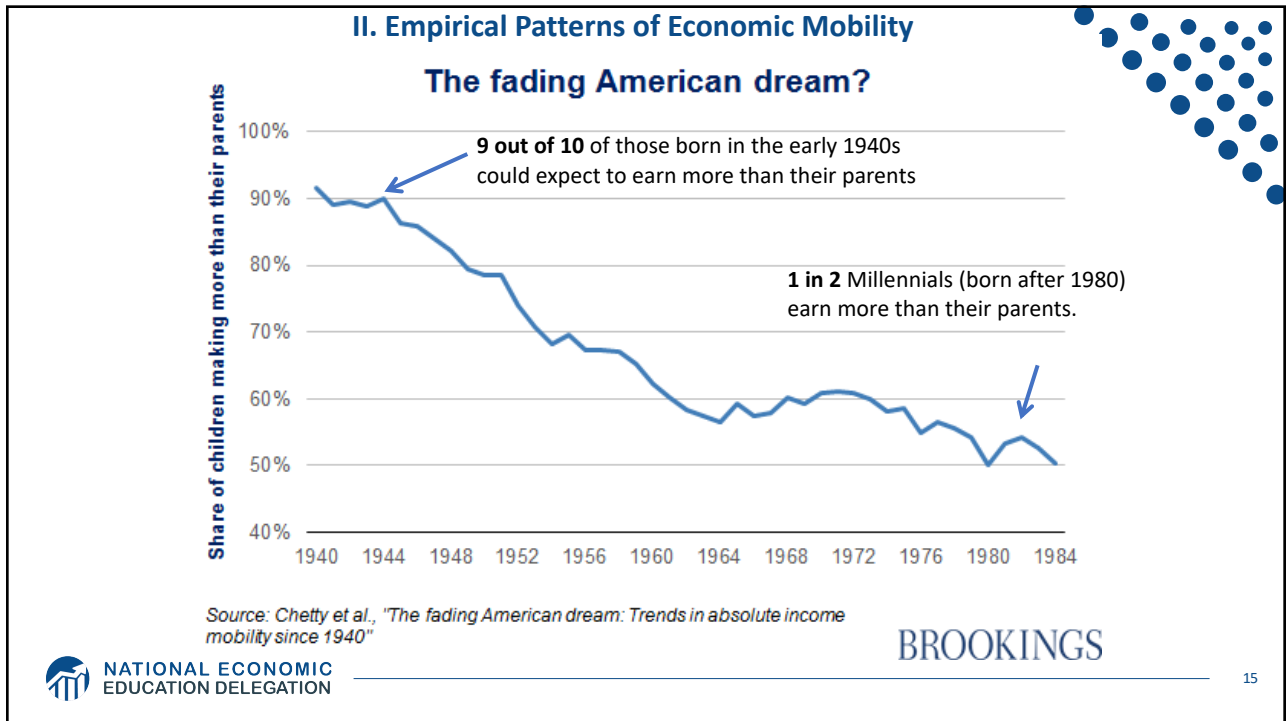
- 90% of those born in the early 1940s could expect to earn more than their parents in real terms. For millennials, the fraction is closer to 50%.
- Below-median earnings have not increased in real terms since the 1970s.



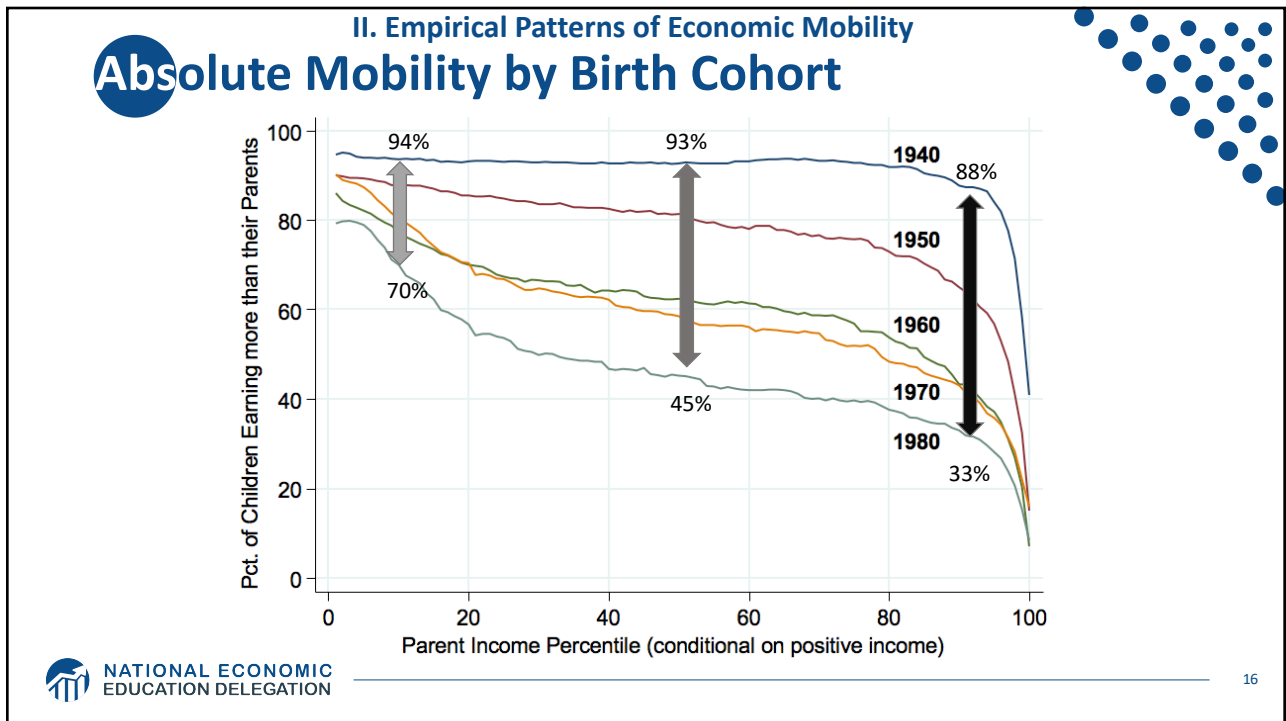
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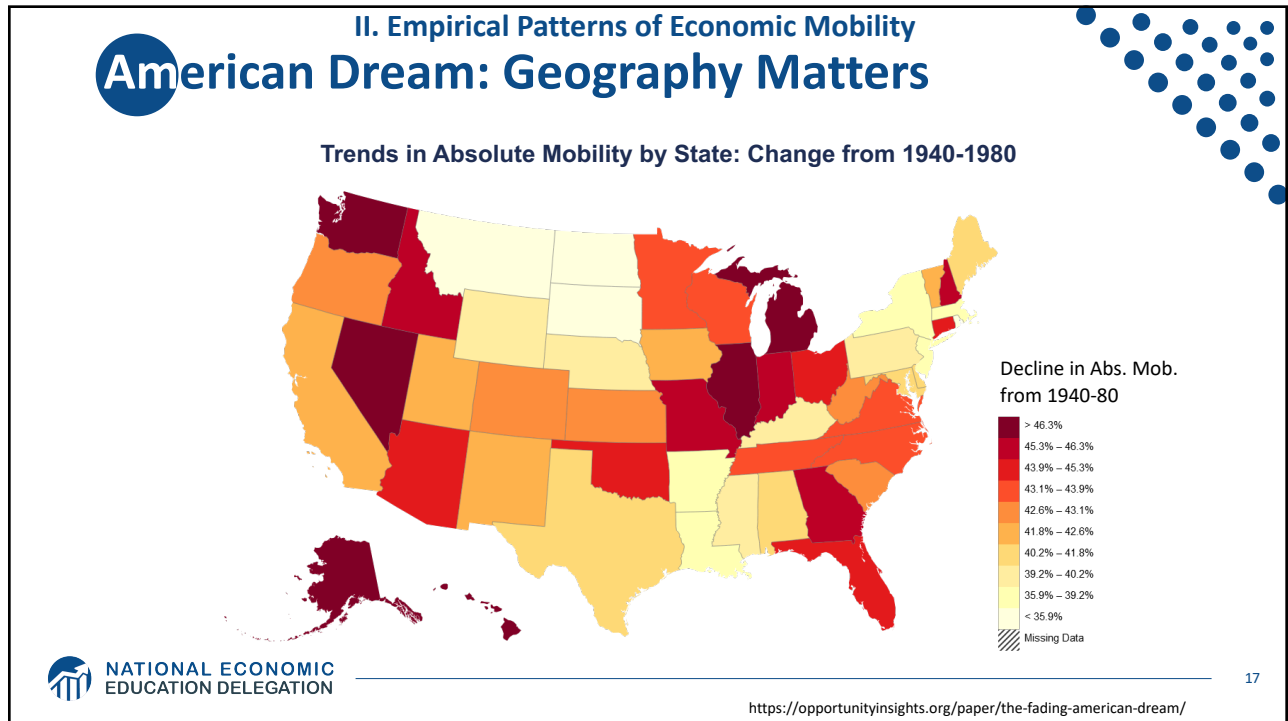


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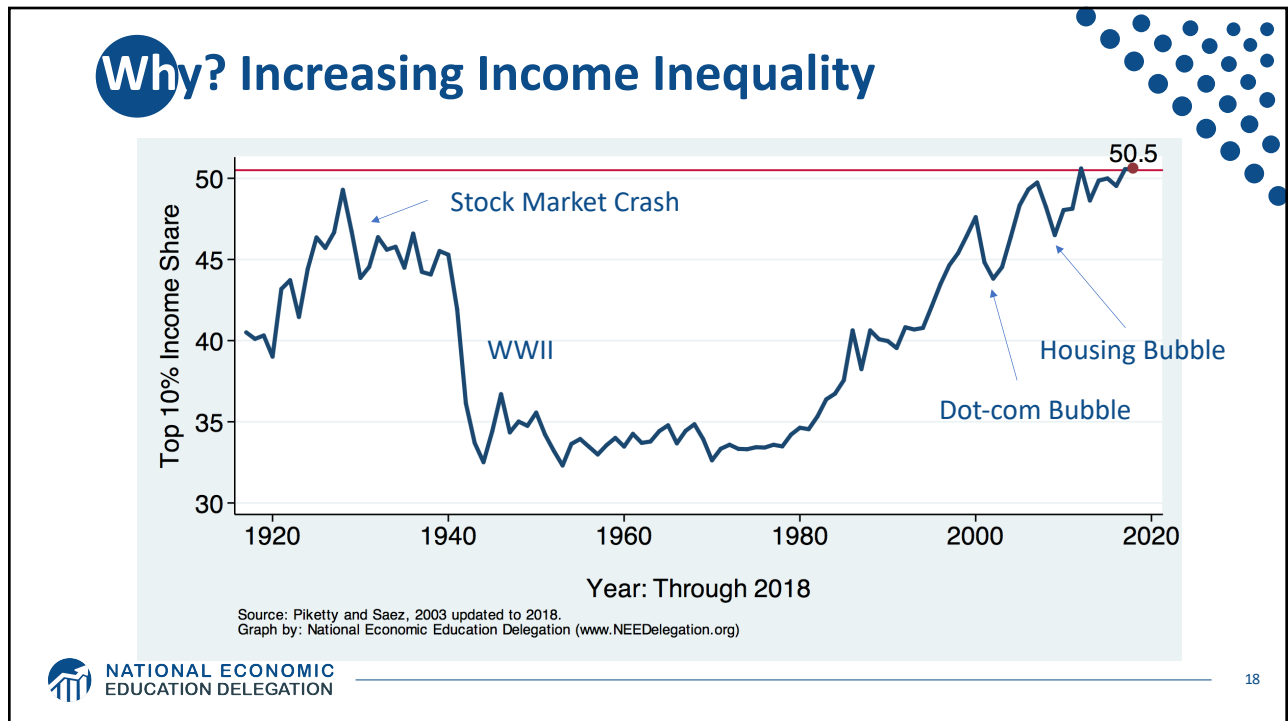


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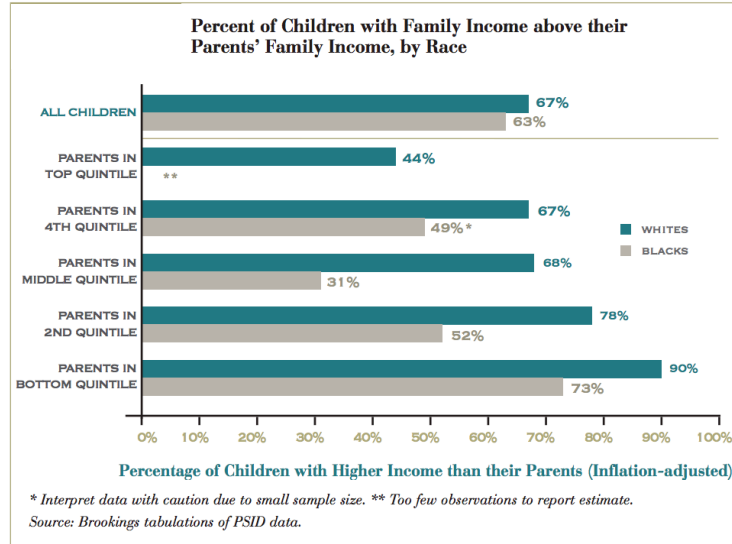
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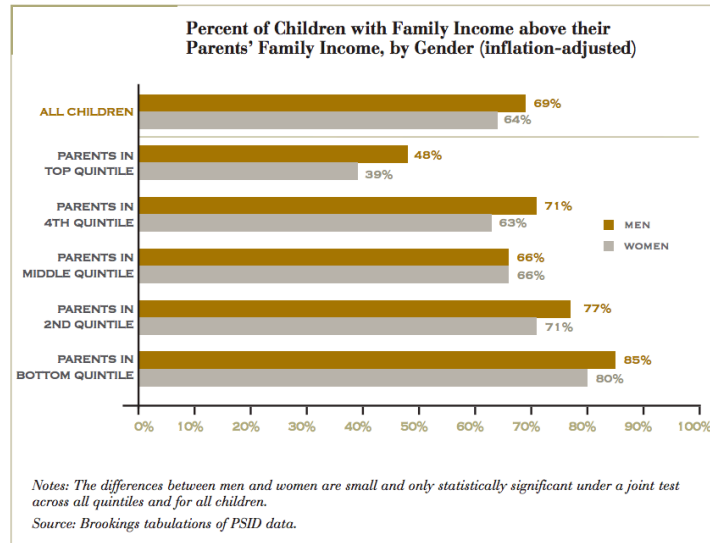
## II. Empirical Patterns of Economic Mobility

### 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.



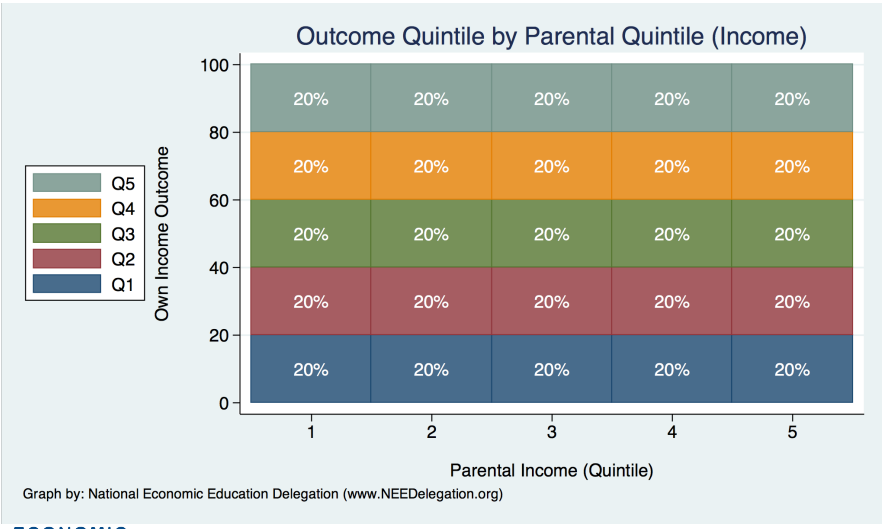
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# Perfect Mobility/Equality

### Outcome Quintile by Parental Quintile (Income)



Parental Income (Quintile)	Q5	Q4	Q3	Q2	Q1
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%

Graph by: National Economic Education Delegation ([www.NEEDelegation.org](http://www.NEEDelegation.org))

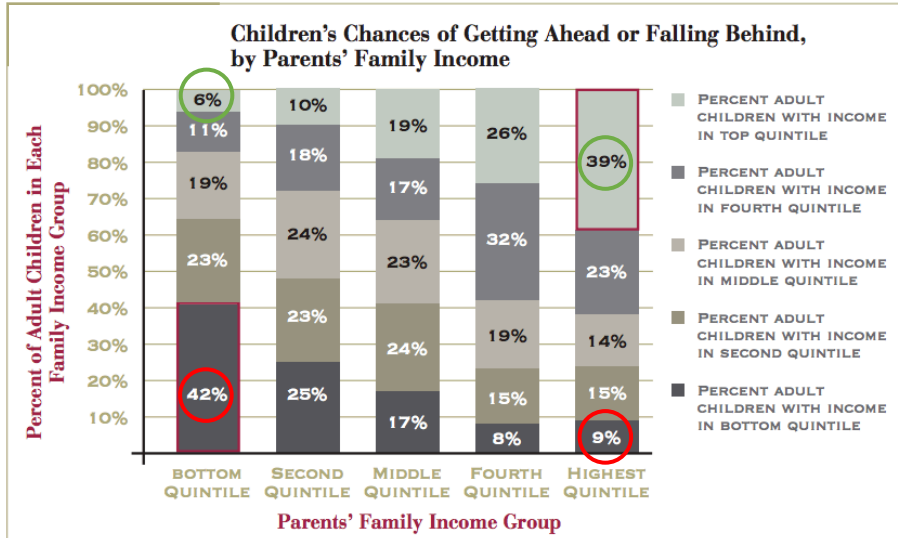


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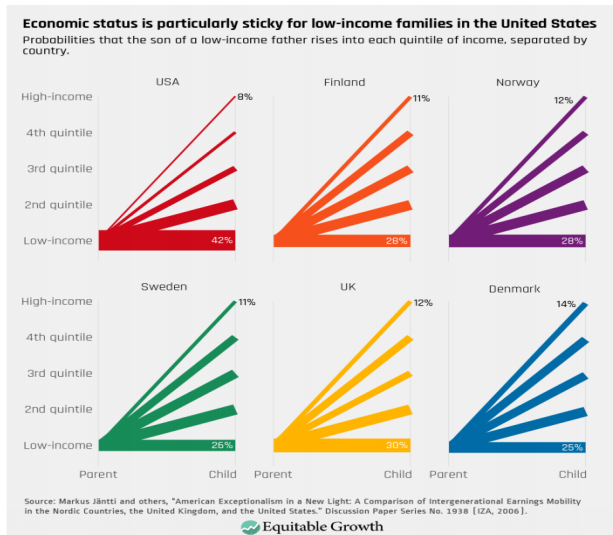
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## II. Empirical Patterns of Economic Mobility Transition Probabilities in the United States

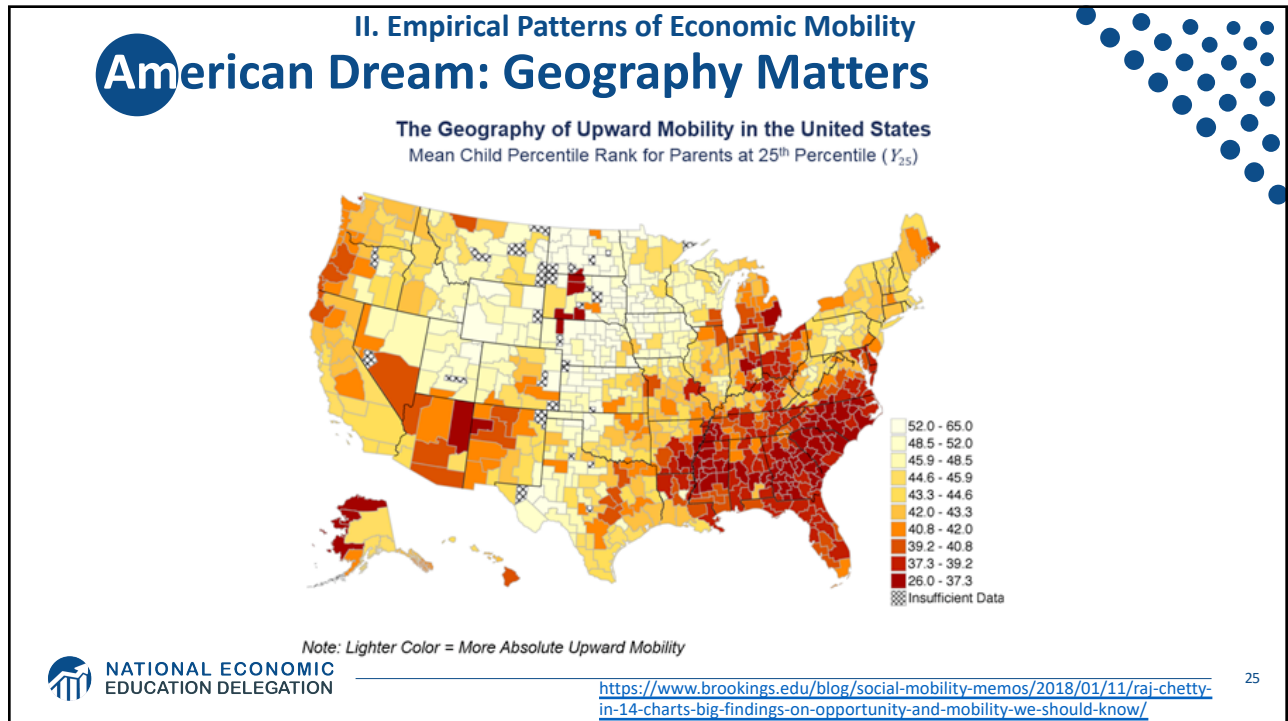


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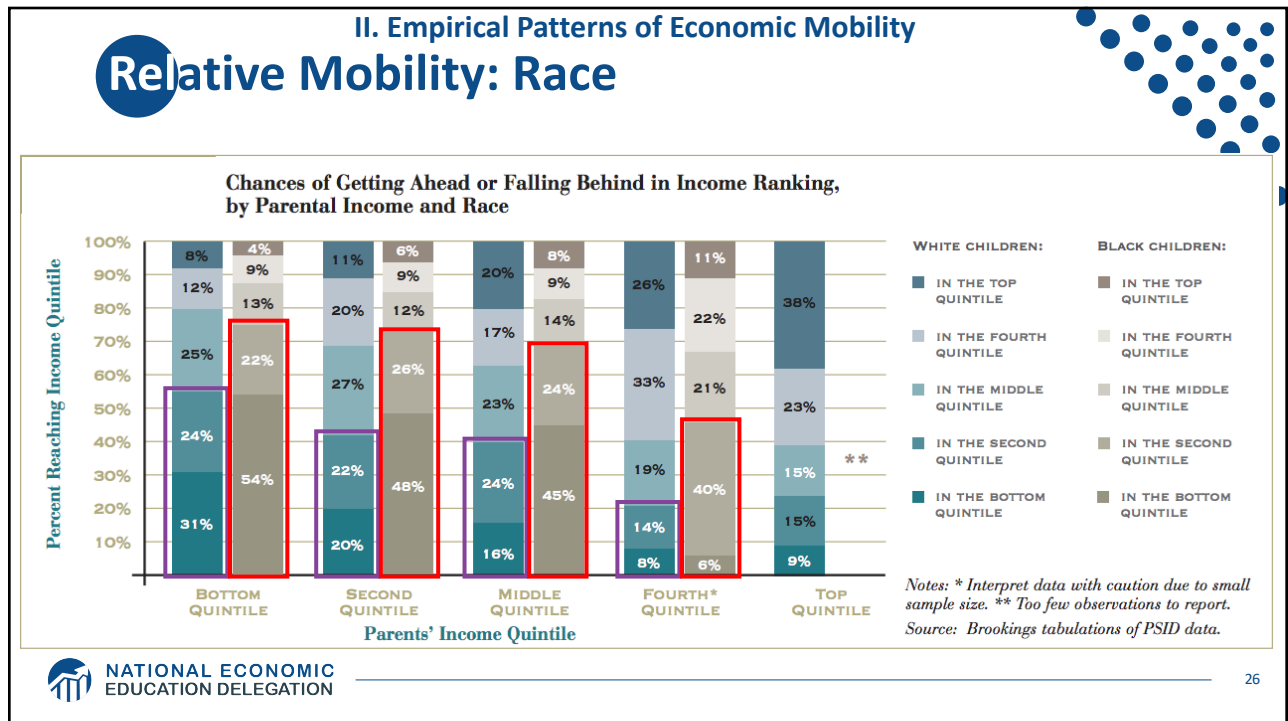
## II. Empirical Patterns of Economic Mobility Transitions: International Comparisons



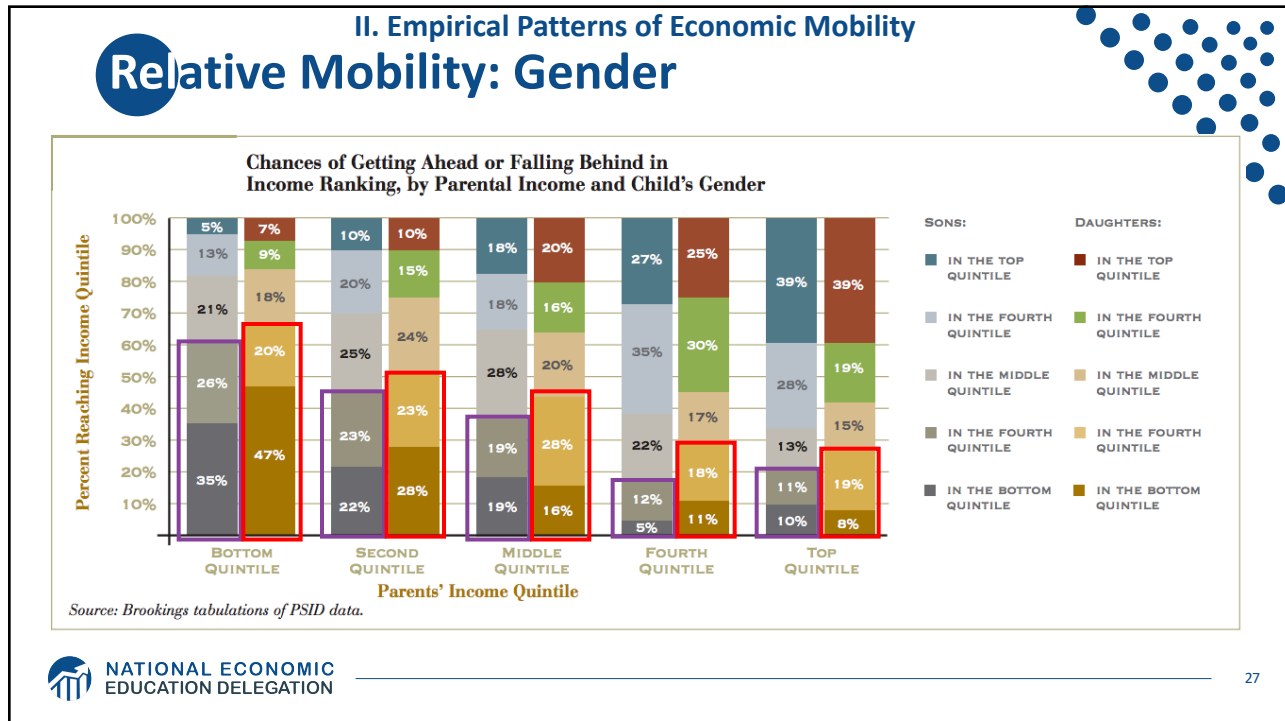
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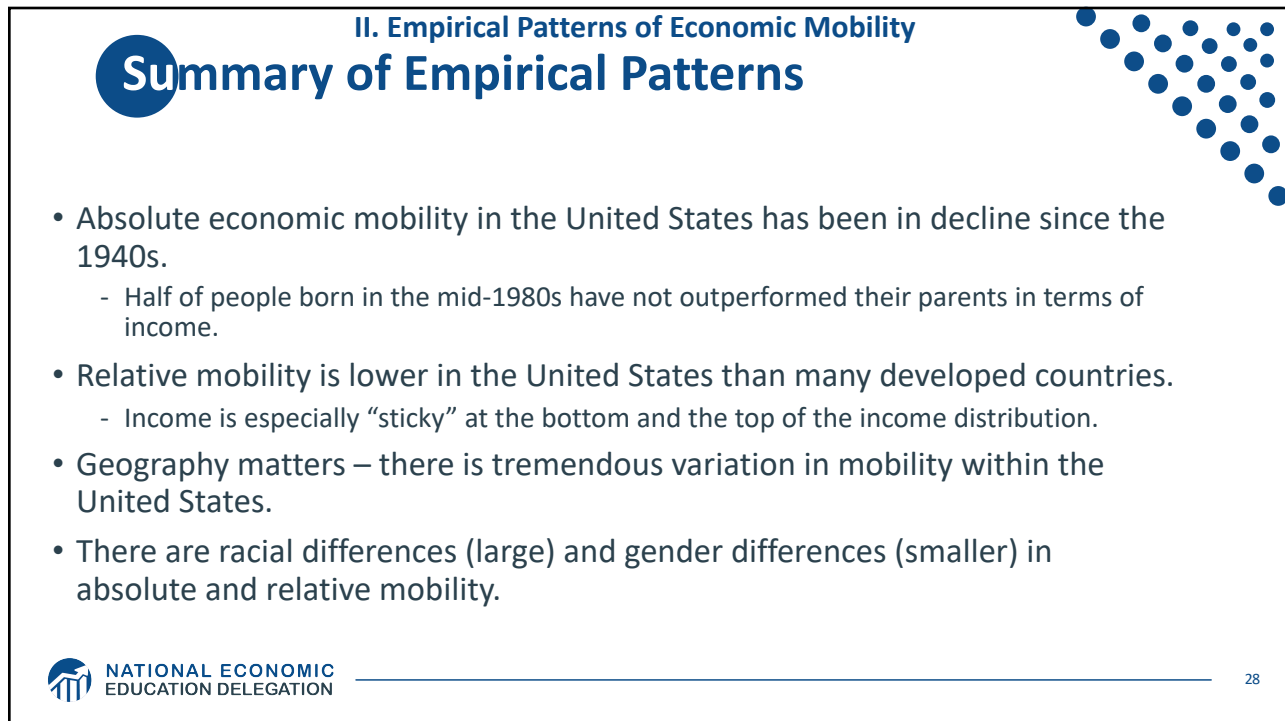
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## III. What is the desirable level of economic mobility?

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.


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III. What is the Desirable Level of Economic Mobility

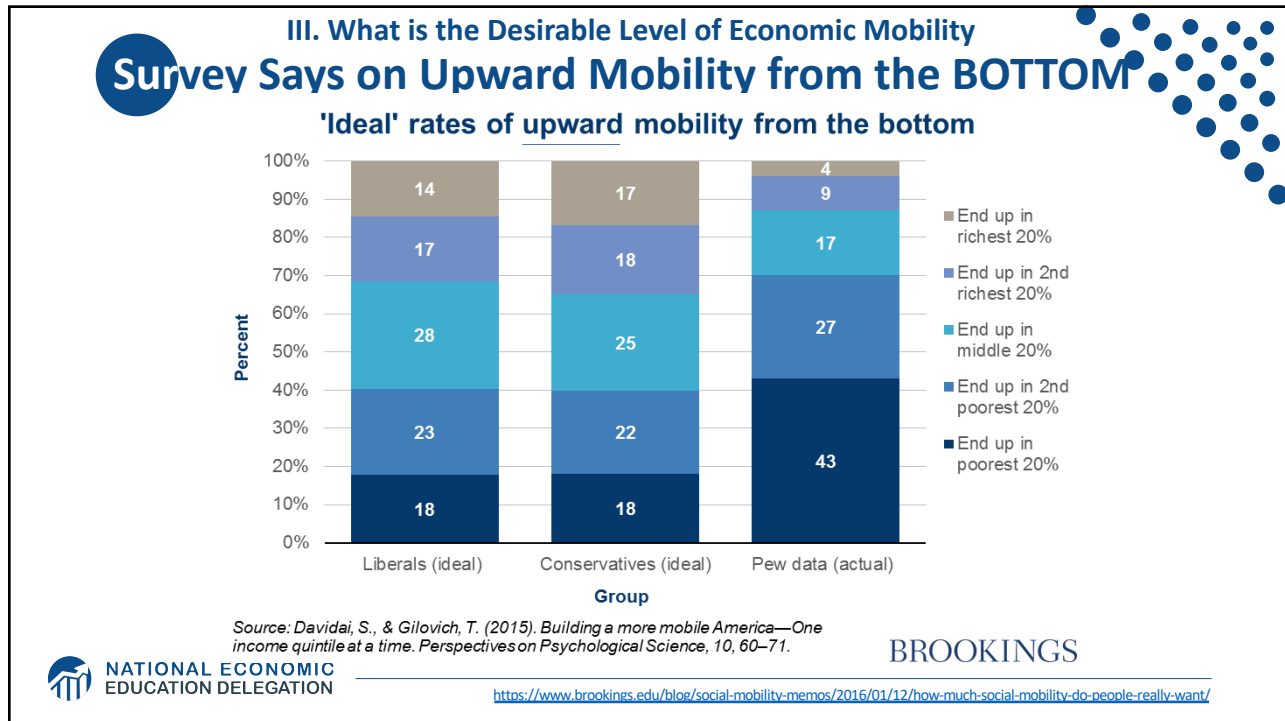
## How is the Mobility Porridge?

- **How might we answer the second question: Is mobility too low or too high?**
  - Common sense judgement.
    - 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).

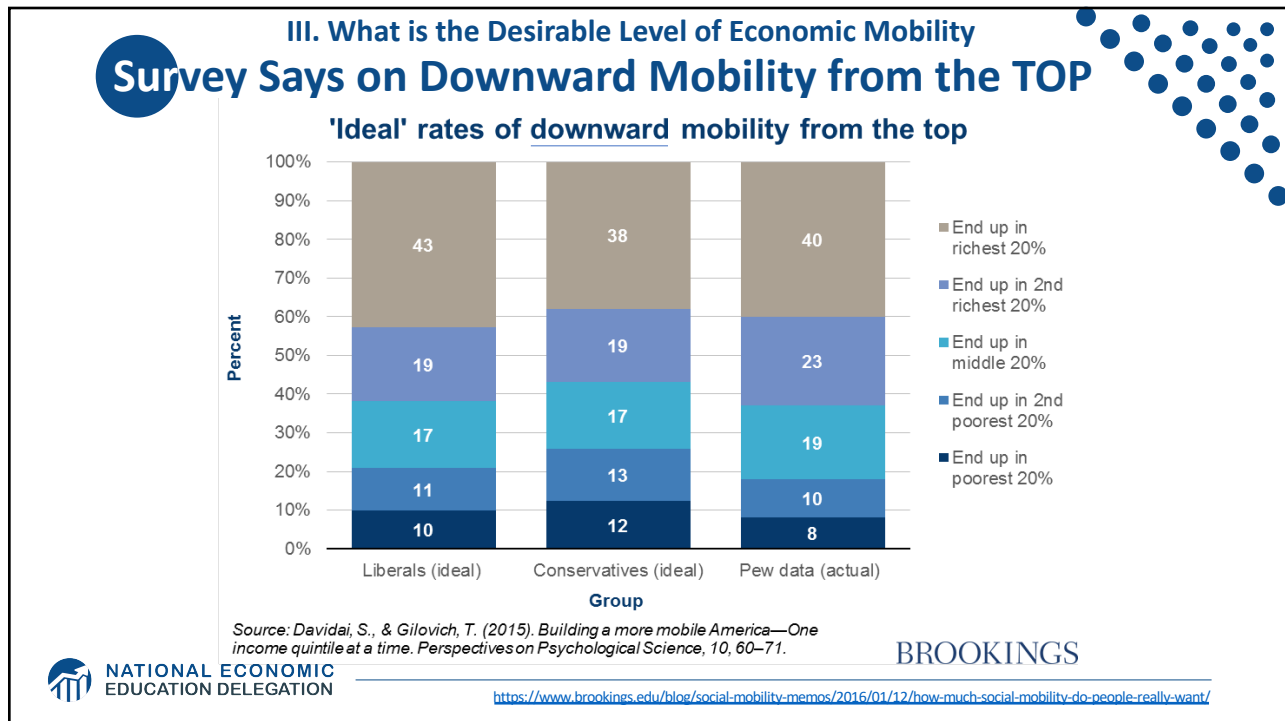
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III. What is the Desirable Level of Economic Mobility

## 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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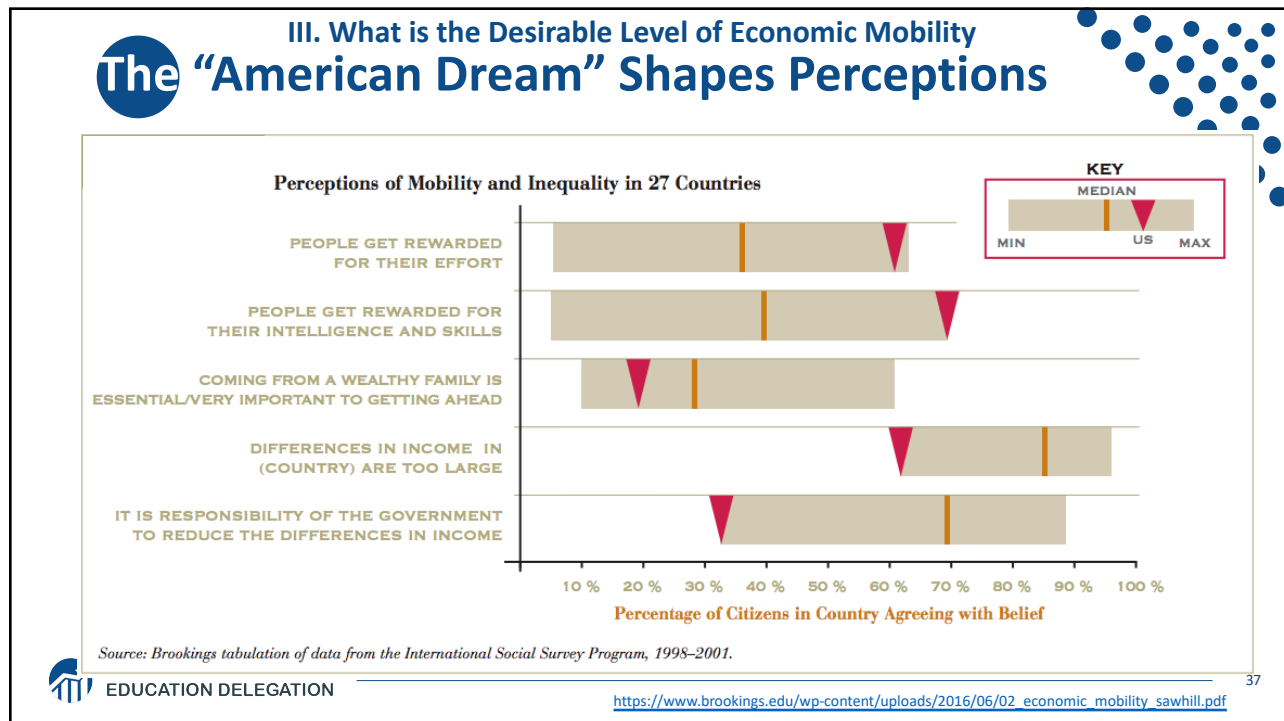
III. What is the Desirable Level of Economic Mobility

## 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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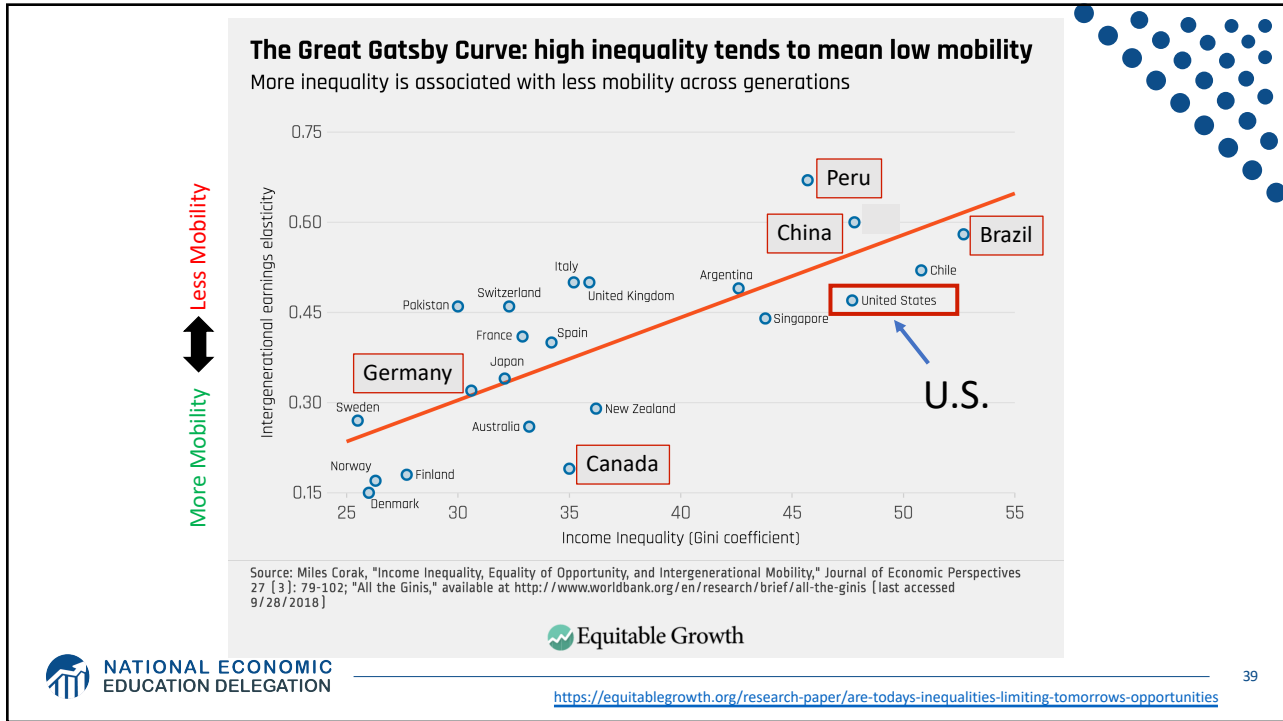
### III. What is the Desirable Level of Economic Mobility

## 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



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

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

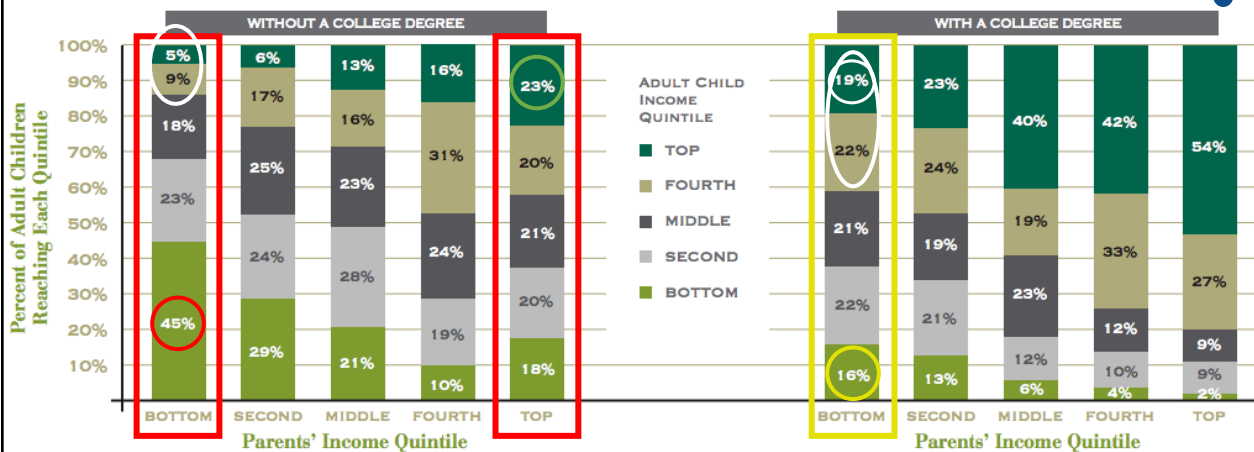
### Barriers to Upward Mobility – Structural

- **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**

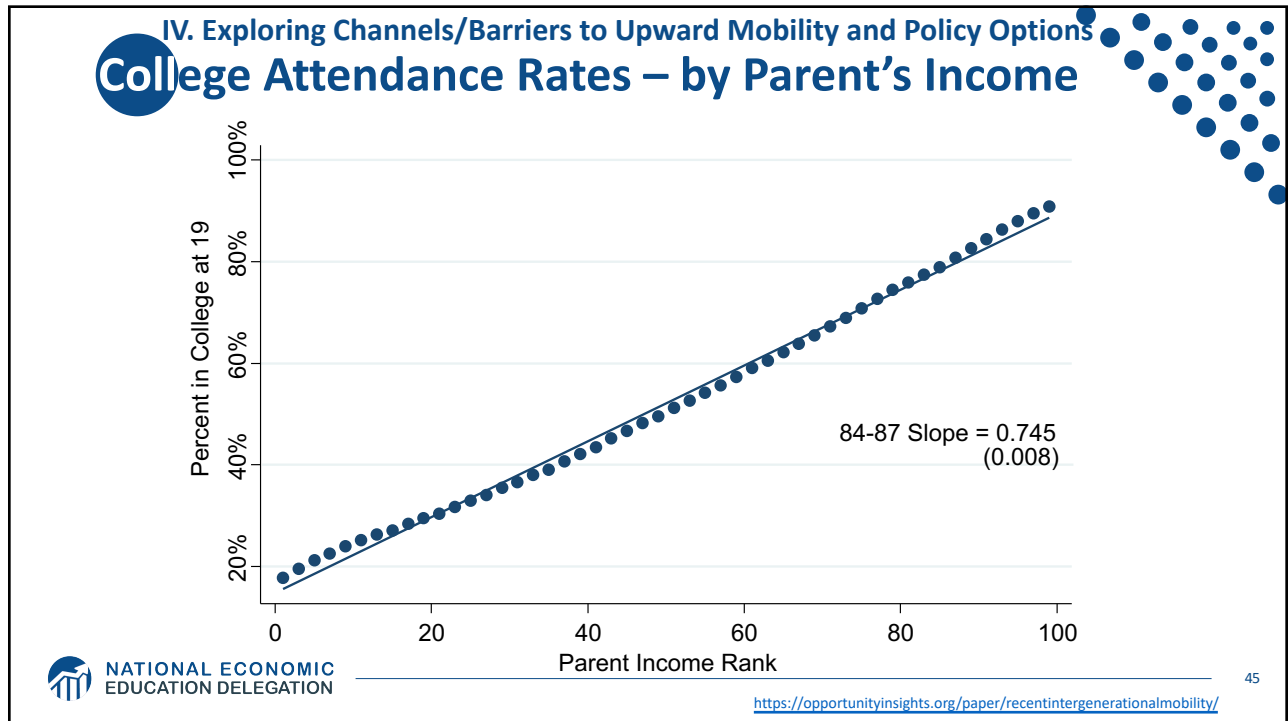
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## IV. Exploring Channels/Barriers to Upward Mobility and Policy Options

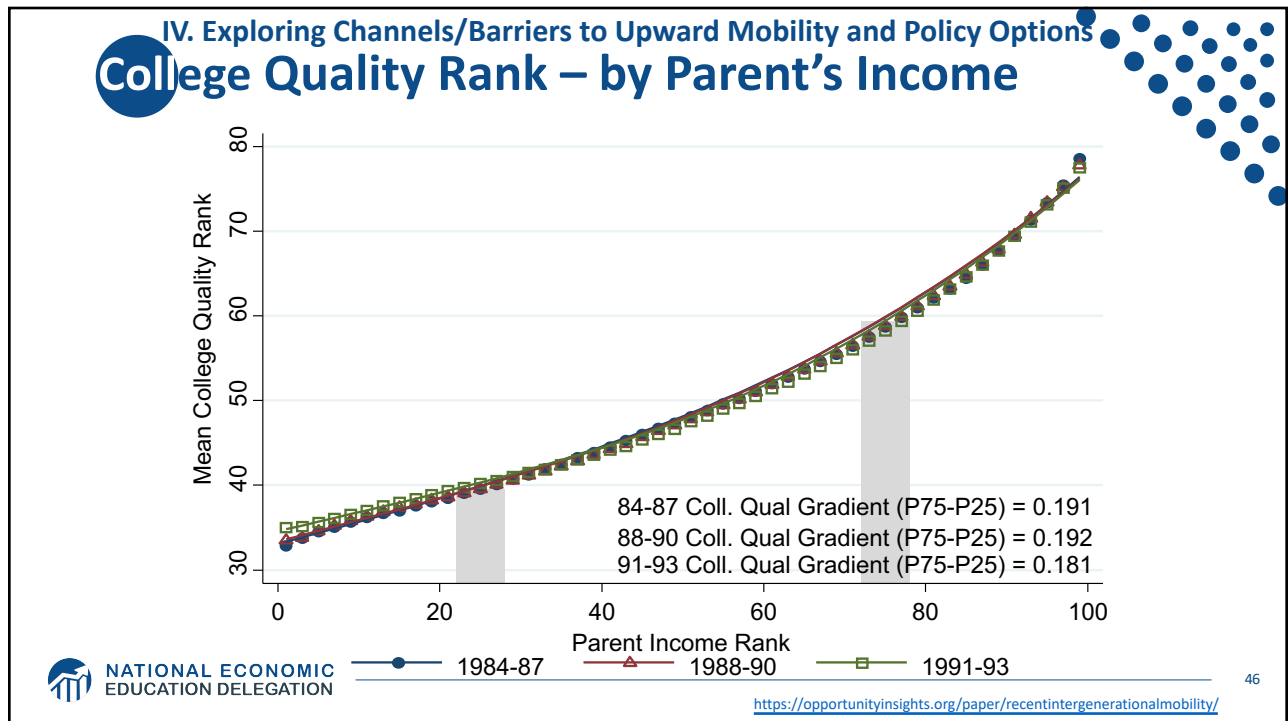
### Education: an Avenue and Barrier to Mobility



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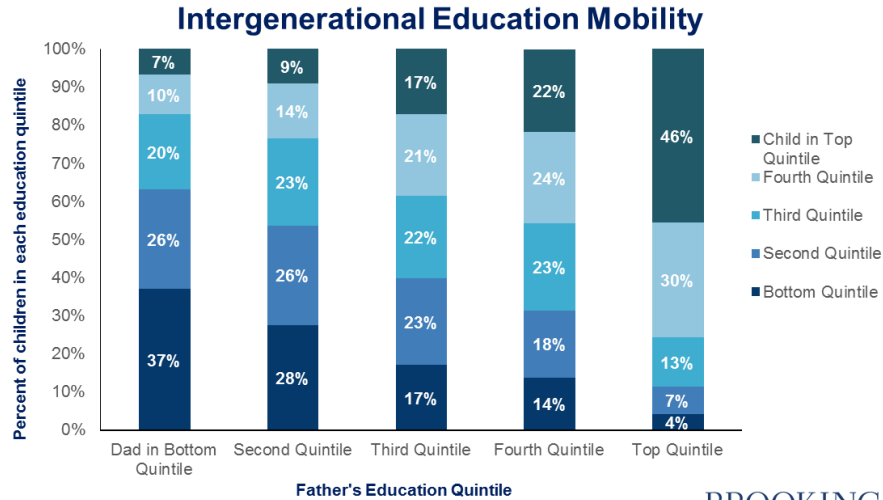


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# IV. Exploring Channels/Barriers to Upward Mobility and Policy Options Educational Mobility



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

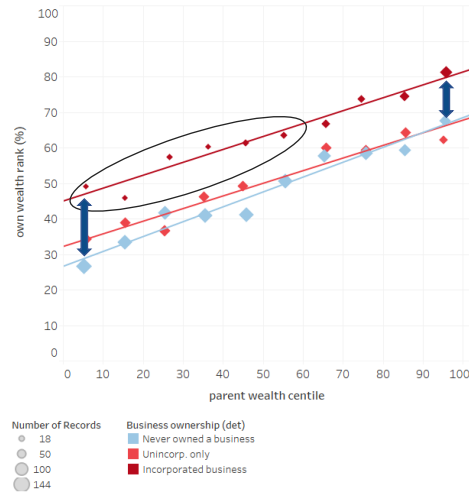




## IV. Exploring Channels/Barriers to Upward Mobility and Policy Options Career Opportunities – Business Incorporation

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

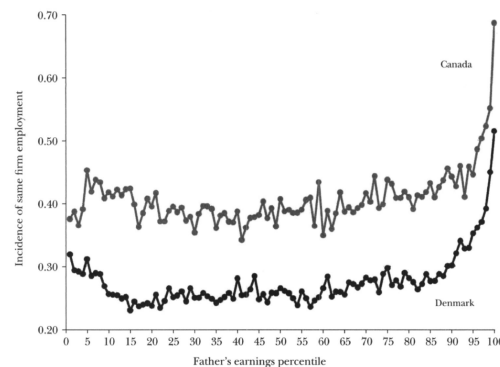
Average outcome rank by parent wealth decile - by business ownership



## 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 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.)

3rd Grade Math Test Score (Standardized)	Inventors per Thousand (Parent Income Below 80th Percentile)	Inventors per Thousand (Parent Income Above 80th Percentile)
-1.5	0.1	1.0
-1.0	0.2	2.8
-0.5	0.3	1.5
0.0	0.4	1.8
0.5	0.5	1.2
1.0	0.8	1.0
1.5	1.5	3.5
2.0	2.5	6.8

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Graph from Bell et al (2018)

## 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.**

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## 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.



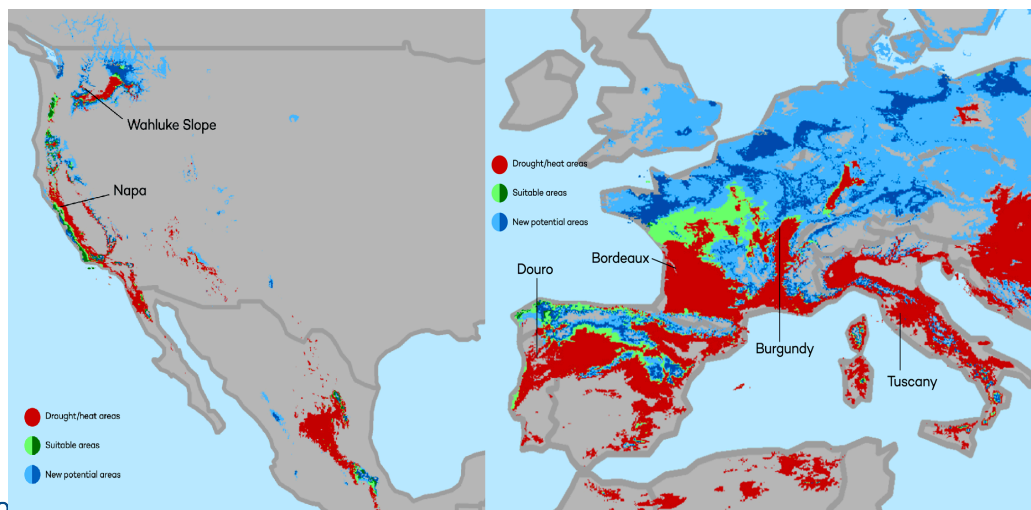
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## Climate Change Economics

The changing map of the world's wine-growing regions.



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**Thank you!**

# Any Questions?

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