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

**Sonoma State University**
**February-March, 2023**

**Host: Jon Haveman, Ph.D.**
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 (2/1):    Trade and Globalization (Alan Deardorff, Univ. of Michigan)
  - Week 2 (2/8):    US Economic Update (Jon Haveman, NEED)
  - Week 3 (2/15):   Trade Deficits and Exchange Rates (Alan Deardorff)
  - **Week 4 (2/22):  Economic Mobility (Joseph Carolan, Oakland University)**
  - Week 4 (3/1):    Cryptocurrencies (Jon Haveman)
  - Week 6 (3/8):    Autonomous Vehicles (Jon Haveman)

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## Submitting Questions

- **Please submit ONLY questions of clarification in the chat.**
  - I will try to handle them as they come up to the best of my ability

- **Time permitting, we will do a verbal Q&A once the material has been presented.**

- **Slides will be available from the NEED website soon. (https://needelegation.org/delivered_presentations.php)**

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# NATIONAL ECONOMIC
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# Economic mobility

Joseph Carolan, Ph.D.
Oakland University

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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?

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.

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# Absolute and Relative Mobility

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.
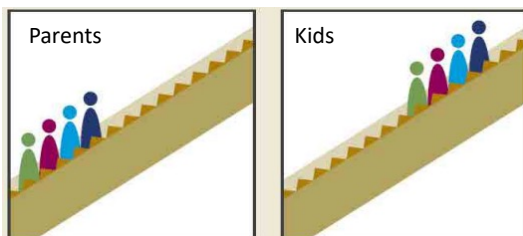


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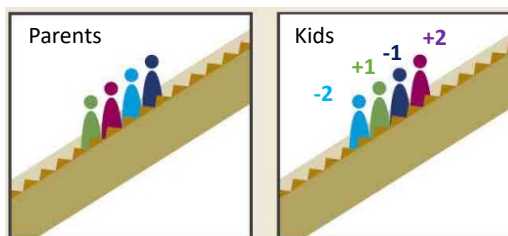## More on Absolute vs Relative Mobility

- **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 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 of Economic Mobility

What are the facts?

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## II. Empirical Patterns of Economic Mobility
# **M**obility – Big Picture for Absolute Mobility

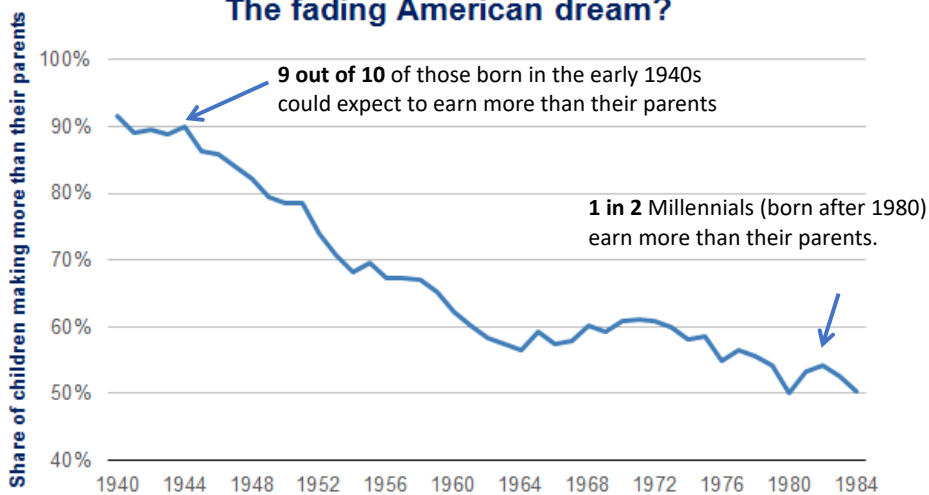### Decline in *absolute* mobility in the United States:

- 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.
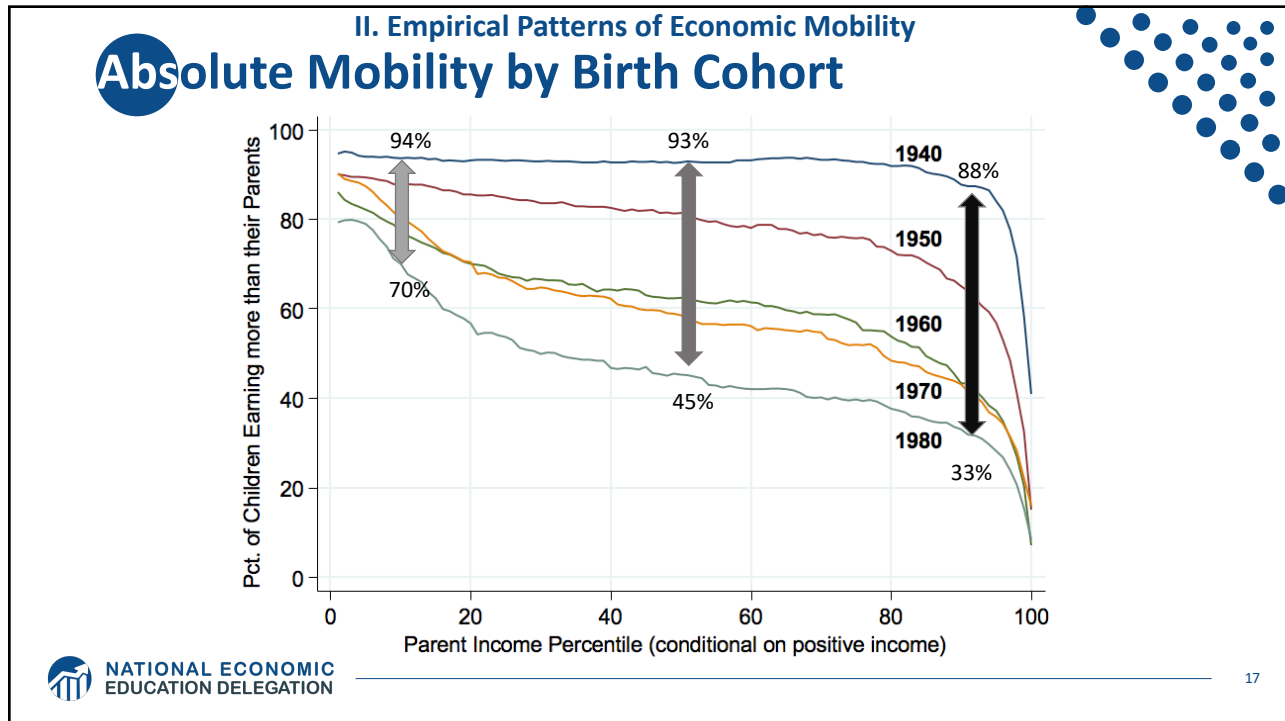
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## II. Empirical Patterns of Economic Mobility
### The fading American dream?

**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.

Share of children making more than their parents — 100%, 90%, 80%, 70%, 60%, 50%, 40% — 1940, 1944, 1948, 1952, 1956, 1960, 1964, 1968, 1972, 1976, 1980, 1984

Source: Chetty et al., "The fading American dream: Trends in absolute income mobility since 1940"

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## II. Empirical Patterns of Economic Mobility
# Absolute Mobility by Birth Cohort



94%

93%

**1940**

88%

70%

**1950**

45%

**1960**

**1970**

**1980**

33%

Pct. of Children Earning more than their Parents

Parent Income Percentile (conditional on positive income)

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# Absolute Mobility Matters: Life Expectancy



**Poor men die a decade earlier**

Life expectancy at age 40

• Women

• Men

Household income percentile

Source: Chetty et al., "The Association between Income and Life Expectancy in the United States, 2001 - 2014," Online data table 1

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# Educational Mobility is Also in Decline

Absolute Upward Mobility in the U.S.
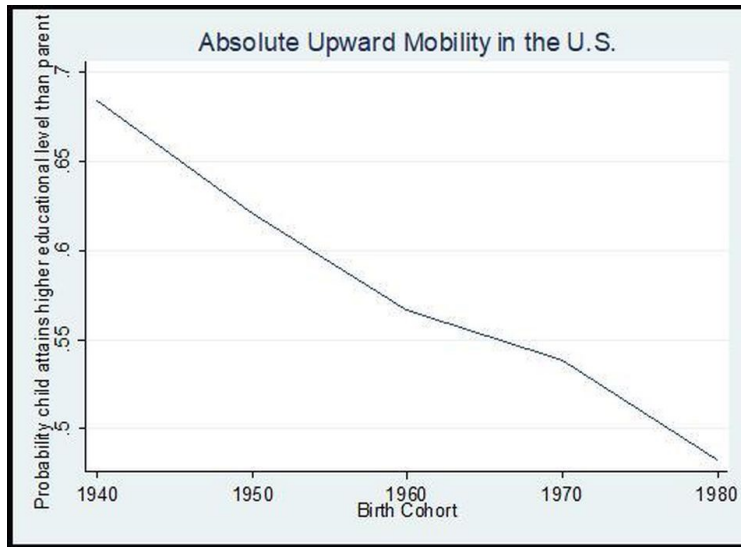


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# American Dream: Geography Matters

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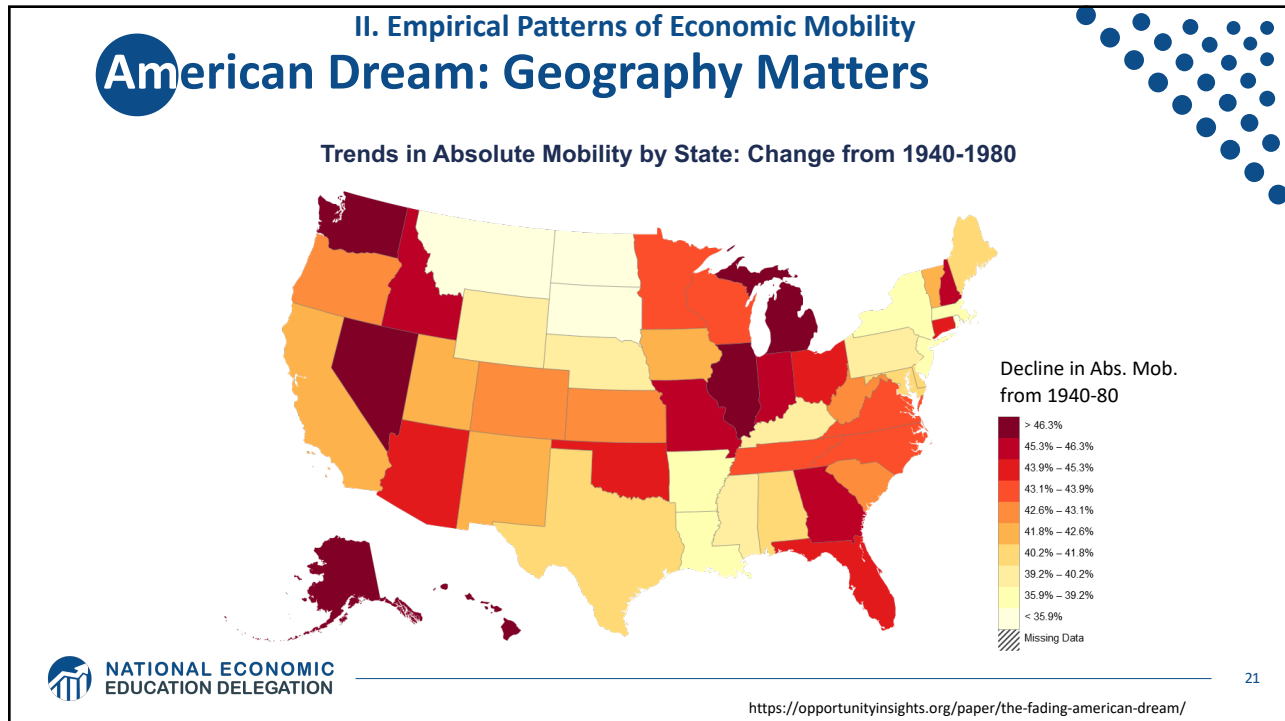Mean Child Percentile Rank for Parents at 25th Percentile ($Y_{25}$)



| | |
|---|---|
| | 52.0 - 65.0 |
| | 48.5 - 52.0 |
| | 45.9 - 48.5 |
| | 44.6 - 45.9 |
| | 43.3 - 44.6 |
| | 42.0 - 43.3 |
| | 40.8 - 42.0 |
| | 39.2 - 40.8 |
| | 37.3 - 39.2 |
| | 26.0 - 37.3 |
| | Insufficient Data |
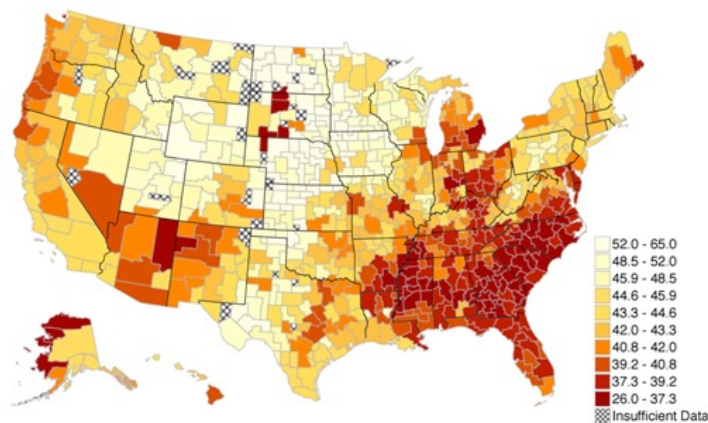
Note: Lighter Color = More Absolute Upward Mobility

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Slide 21: II. Empirical Patterns of Economic Mobility — American Dream: Geography Matters. Trends in Absolute Mobility by State: Change from 1940-1980. Legend: Decline in Abs. Mob. from 1940-80. https://opportunityinsights.org/paper/the-fading-american-dream/

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Slide 22: II. Empirical Patterns of Economic Mobility — Absolute Mobility: Race. Percent of Children with Family Income above their Parents' Family Income, by Race.

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## II. Empirical Patterns of Economic Mobility
# Absolute Mobility: Gender

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

| | MEN | WOMEN |
|---|---|---|
| ALL CHILDREN | 69% | 64% |
| PARENTS IN TOP QUINTILE | 48% | 39% |
| PARENTS IN 4TH QUINTILE | 71% | 63% |
| PARENTS IN MIDDLE QUINTILE | 66% | 66% |
| PARENTS IN 2ND QUINTILE | 77% | 71% |
| PARENTS IN BOTTOM QUINTILE | 85% | 80% |

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

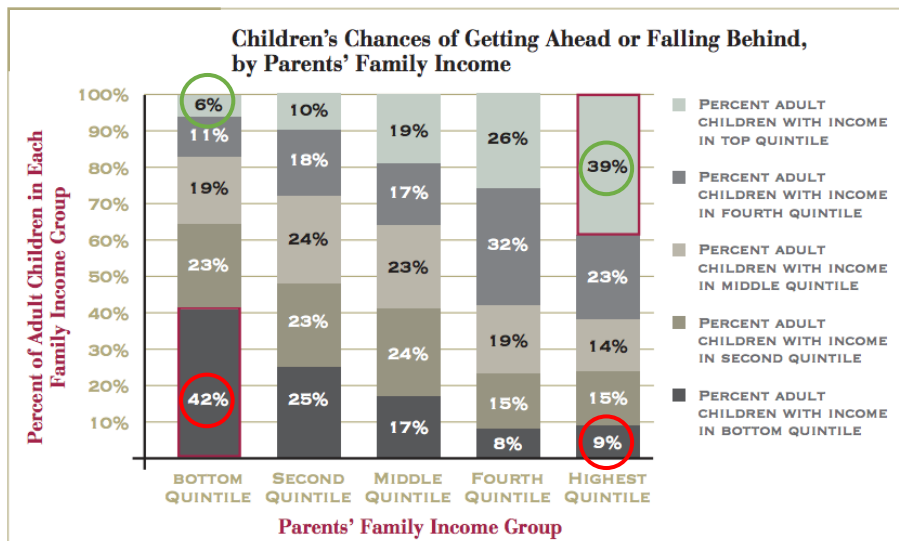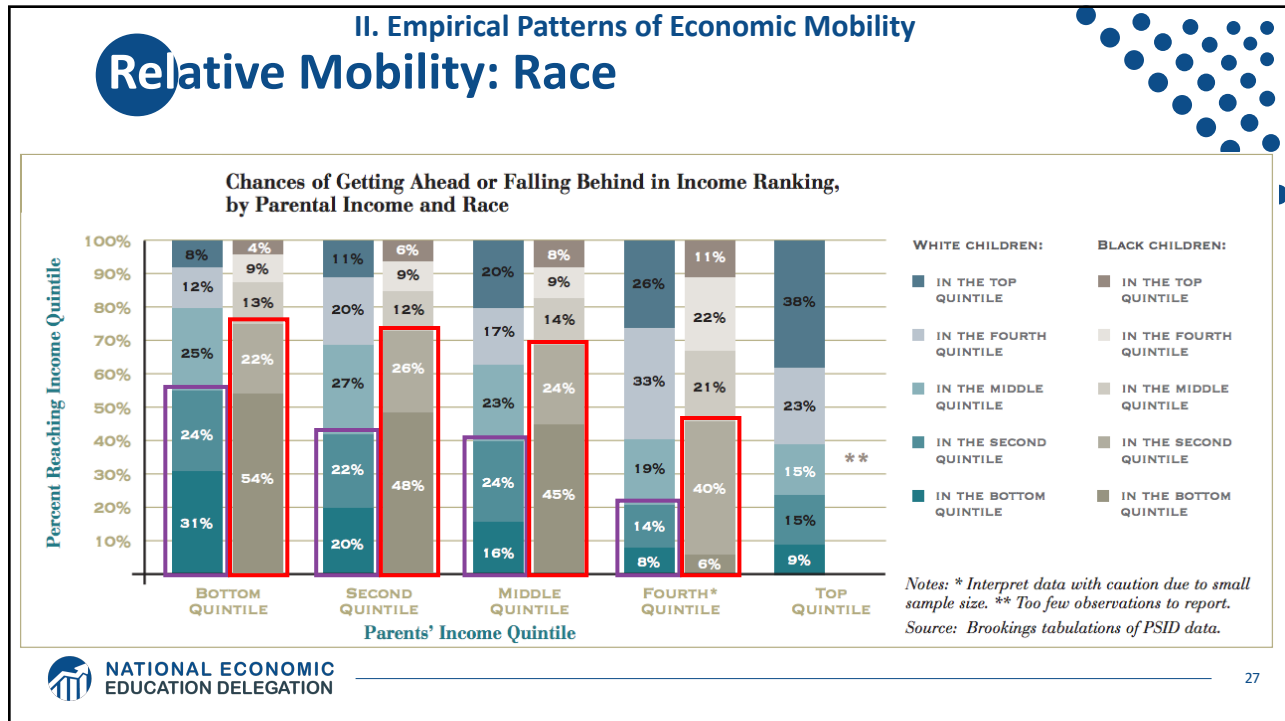**NATIONAL ECONOMIC EDUCATION DELEGATION**

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# Mobility Example: Perfect Relative Mobility

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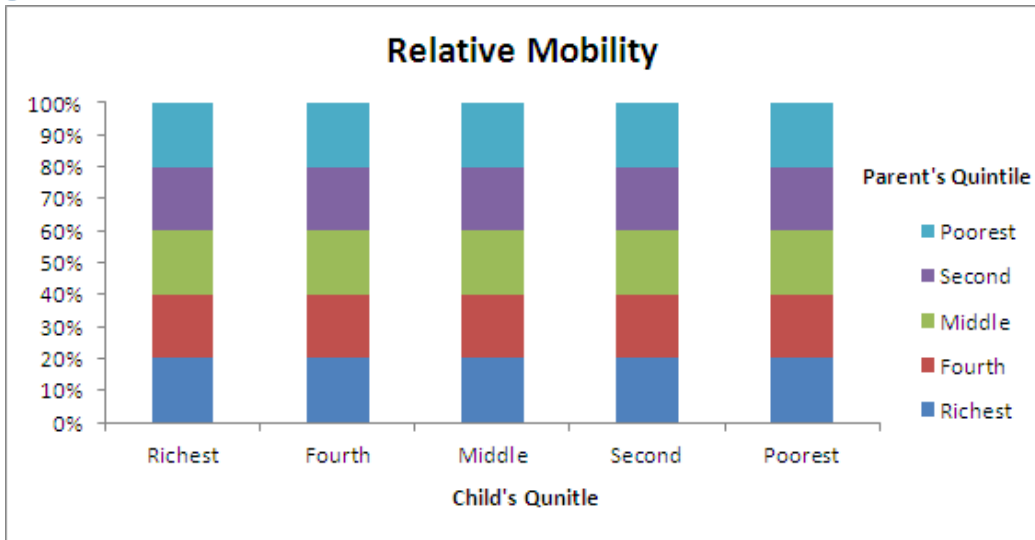
## II. Empirical Patterns of Economic Mobility
# Transition Probabilities in the United States
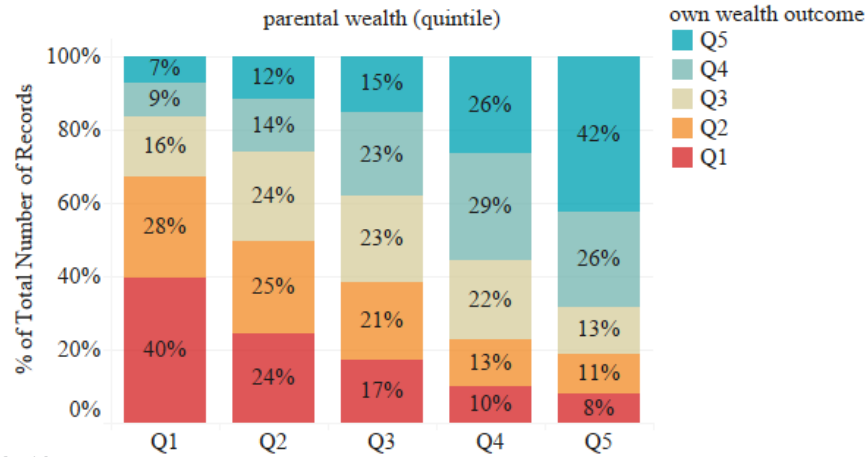
II. Empirical Patterns of Economic Mobility

Relative Mobility: Race

Chances of Getting Ahead or Falling Behind in Income Ranking, by Parental Income and Race



II. Empirical Patterns of Economic Mobility

Relative Mobility: Gender

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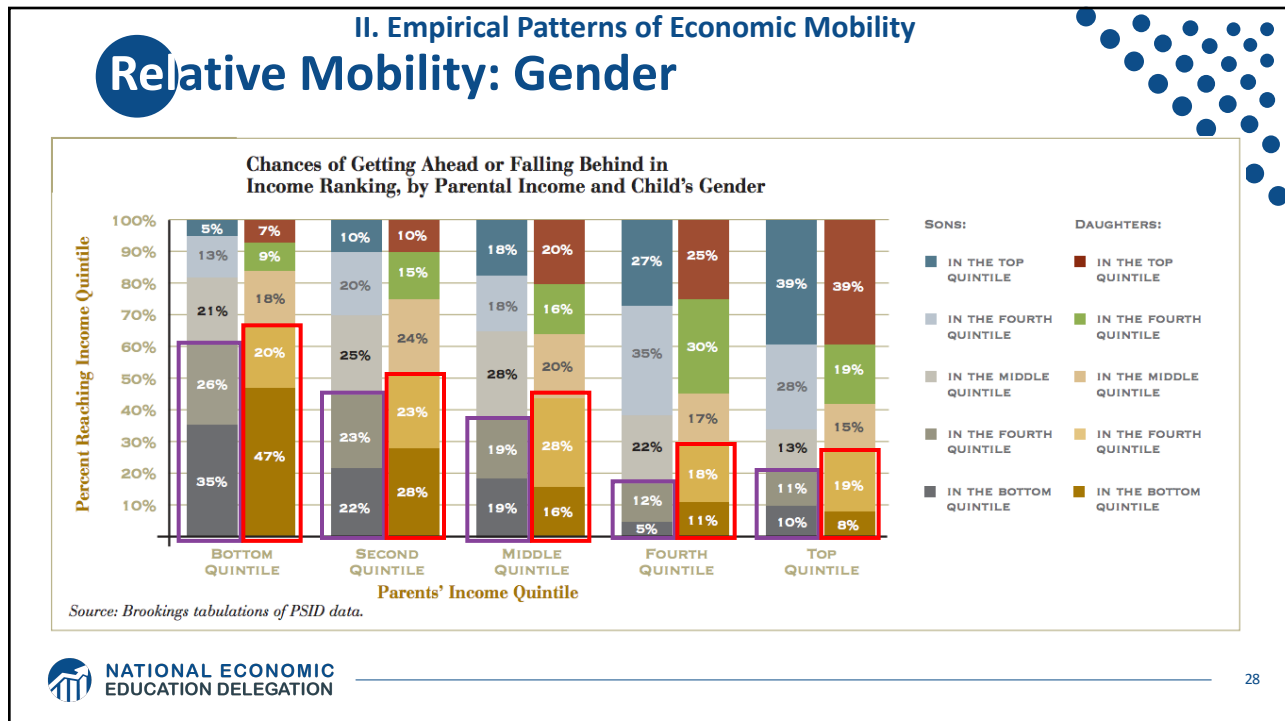
Wealth Mobility

Outcome quintile by parental quintile (wealth)

Oana Tocoian, Working Paper, "Entrepreneurship and the American Dream: How far Does the Upward Mobility Ladder reach?"

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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/
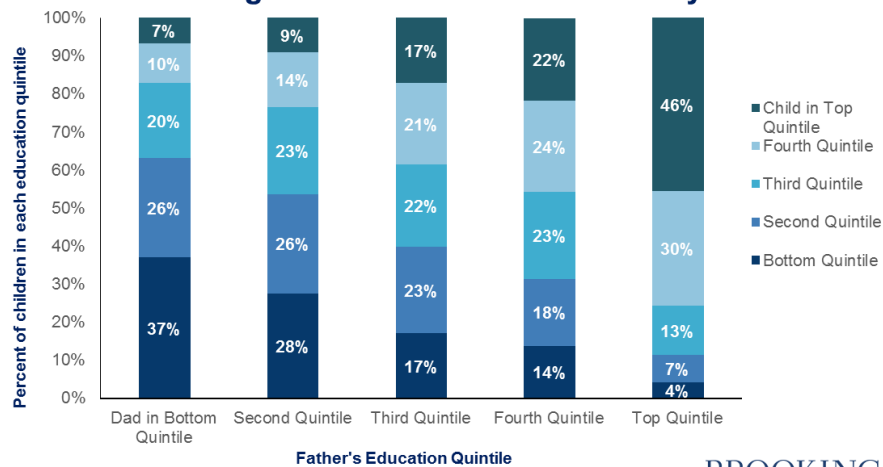
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## Education Does Matter – at All Income Levels

**WITHOUT A COLLEGE DEGREE**

**WITH A COLLEGE DEGREE**

Percent of Adult Children Reaching Each Quintile

**ADULT CHILD INCOME QUINTILE**
- TOP
- FOURTH
- MIDDLE
- SECOND
- BOTTOM

Without a college degree (Parents' Income Quintile):

| | BOTTOM | SECOND | MIDDLE | FOURTH | TOP |
|---|---|---|---|---|---|
| TOP | 5% | 6% | 13% | 16% | 23% |
| FOURTH | 9% | 17% | 16% | 31% | 20% |
| MIDDLE | 18% | 25% | 23% | 24% | 21% |
| SECOND | 23% | 24% | 28% | 19% | 20% |
| BOTTOM | 45% | 29% | 21% | 10% | 18% |

With a college degree (Parents' Income Quintile):

| | BOTTOM | SECOND | MIDDLE | FOURTH | TOP |
|---|---|---|---|---|---|
| TOP | 19% | 23% | 40% | 42% | 54% |
| FOURTH | 22% | 24% | 19% | 33% | 27% |
| MIDDLE | 21% | 19% | 23% | 12% | 9% |
| SECOND | 22% | 21% | 12% | 10% | 9% |
| BOTTOM | 16% | 13% | 6% | 4% | 2% |

**Parents' Income Quintile**

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

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## II. Empirical Patterns of Economic Mobility
## 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.

USA — High-income 8%, Low-income 42%
Finland — High-income 11%, Low-income 28%
Norway — High-income 12%, Low-income 28%
Sweden — High-income 11%, Low-income 25%
UK — High-income 12%, Low-income 30%
Denmark — High-income 14%, Low-income 25%

(Quintiles: High-income, 4th quintile, 3rd quintile, 2nd quintile, Low-income)

Parent — Child
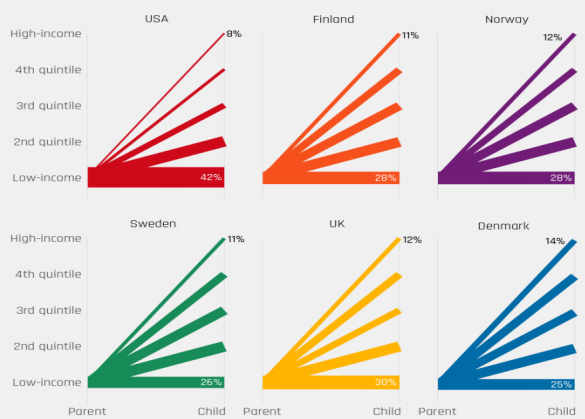
Source: Markus Jäntti and others, "American Exceptionalism in a New Light: A Comparison of Intergenerational Earnings Mobility in the Nordic Countries, the United Kingdom, and the United States." Discussion Paper Series No. 1938 [IZA, 2006].

Equitable Growth

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

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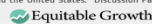
## Summary of Empirical Patterns

- 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
- There are racial differences (large) and gender differences (smaller) in absolute and relative mobility.

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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 might 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 steps to take towards a better outcome, and policy changes are best done in incremental steps in any case.

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

# Level of Mobility?

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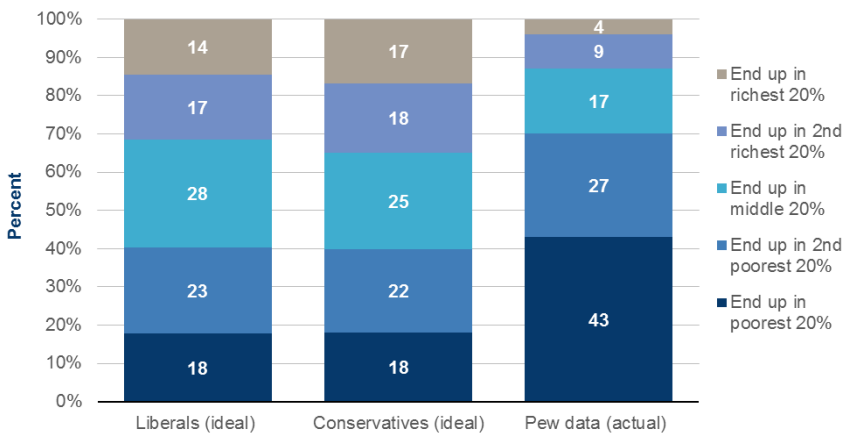
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## III. What is the Desirable Level of Economic Mobility

# Survey Says on Upward Mobility from the BOTTOM

**'Ideal' rates of upward mobility from the bottom**



| | Liberals (ideal) | Conservatives (ideal) | Pew data (actual) |
|---|---|---|---|
| End up in richest 20% | 14 | 17 | 4 |
| End up in 2nd richest 20% | 17 | 18 | 9 |
| End up in middle 20% | 28 | 25 | 17 |
| End up in 2nd poorest 20% | 23 | 22 | 27 |
| End up in poorest 20% | 18 | 18 | 43 |

**Group**

*Source: Davidai, S., & Gilovich, T. (2015). Building a more mobile America—One income quintile at a time. Perspectives on Psychological Science, 10, 60–71.*
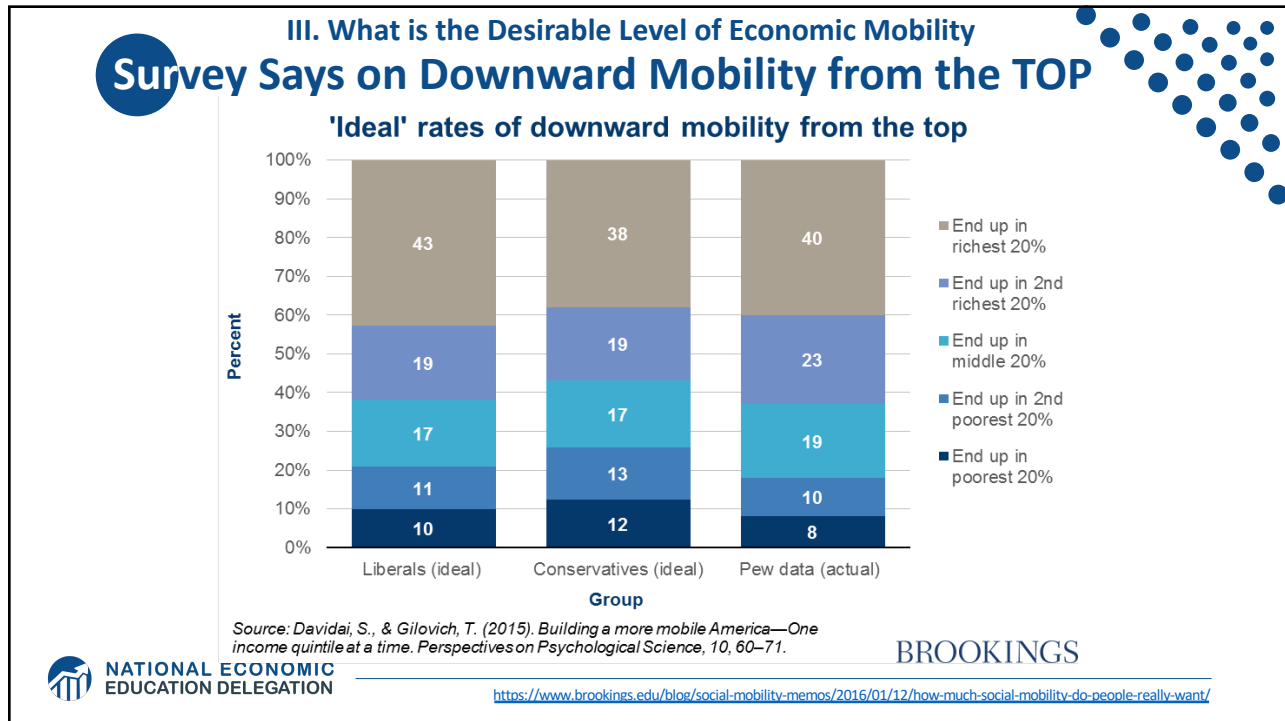
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https://www.brookings.edu/blog/social-mobility-memos/2016/01/12/how-much-social-mobility-do-people-really-want/

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## III. What is the Desirable Level of Economic Mobility
# Survey Says on Downward Mobility from the TOP

**'Ideal' rates of 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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https://www.brookings.edu/blog/social-mobility-memos/2016/01/12/how-much-social-mobility-do-people-really-want/

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

- Less mobility may have normative implications about the desired level of inequality

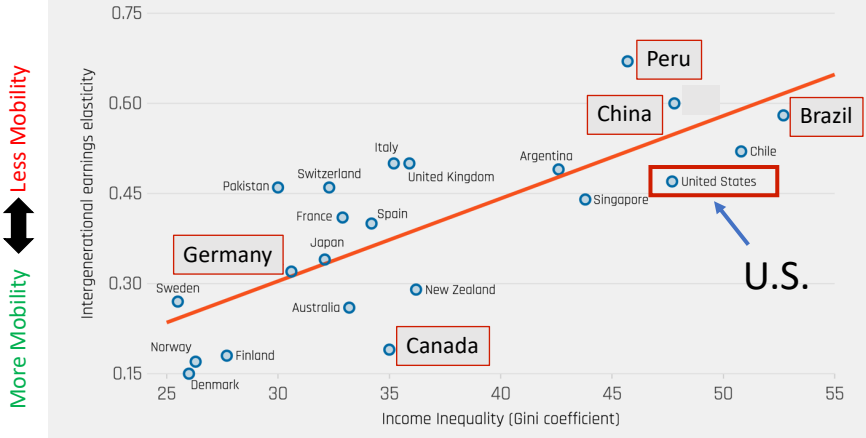- More inequality makes both absolute and relative mobility more difficult

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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

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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:*
    - ○ 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.
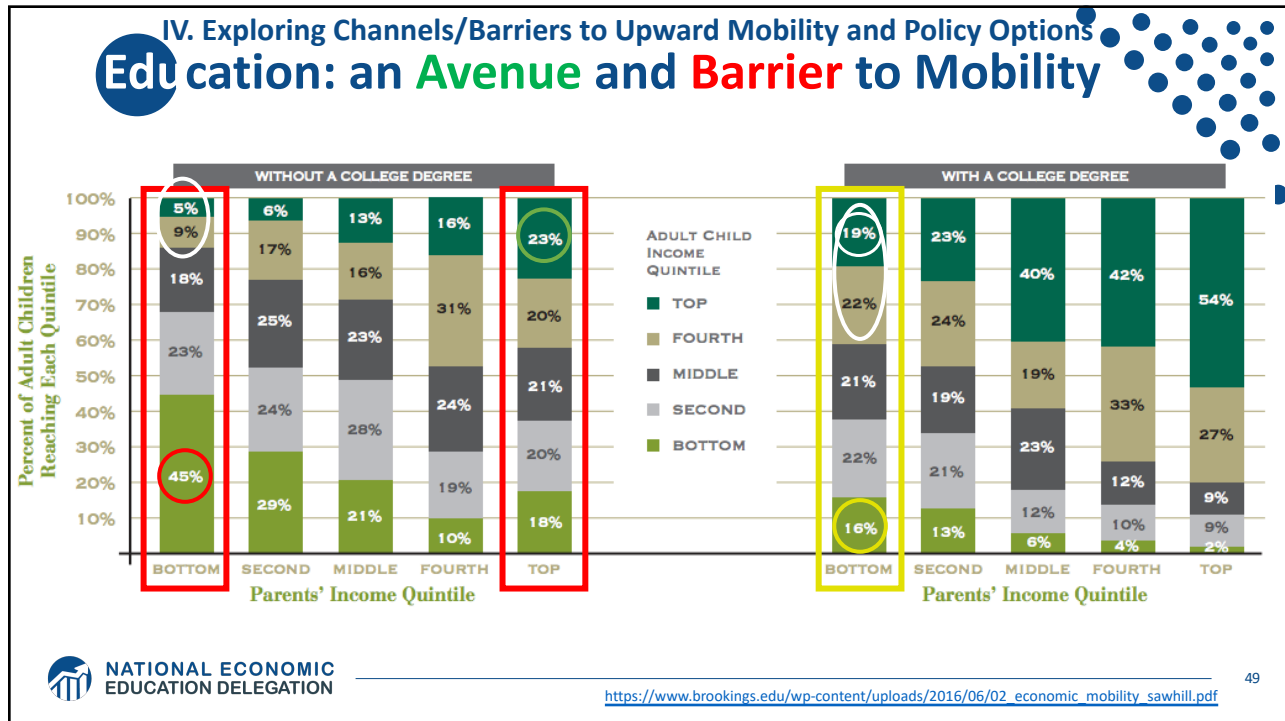    - ○ Availability of **good educators**, facilities, peers

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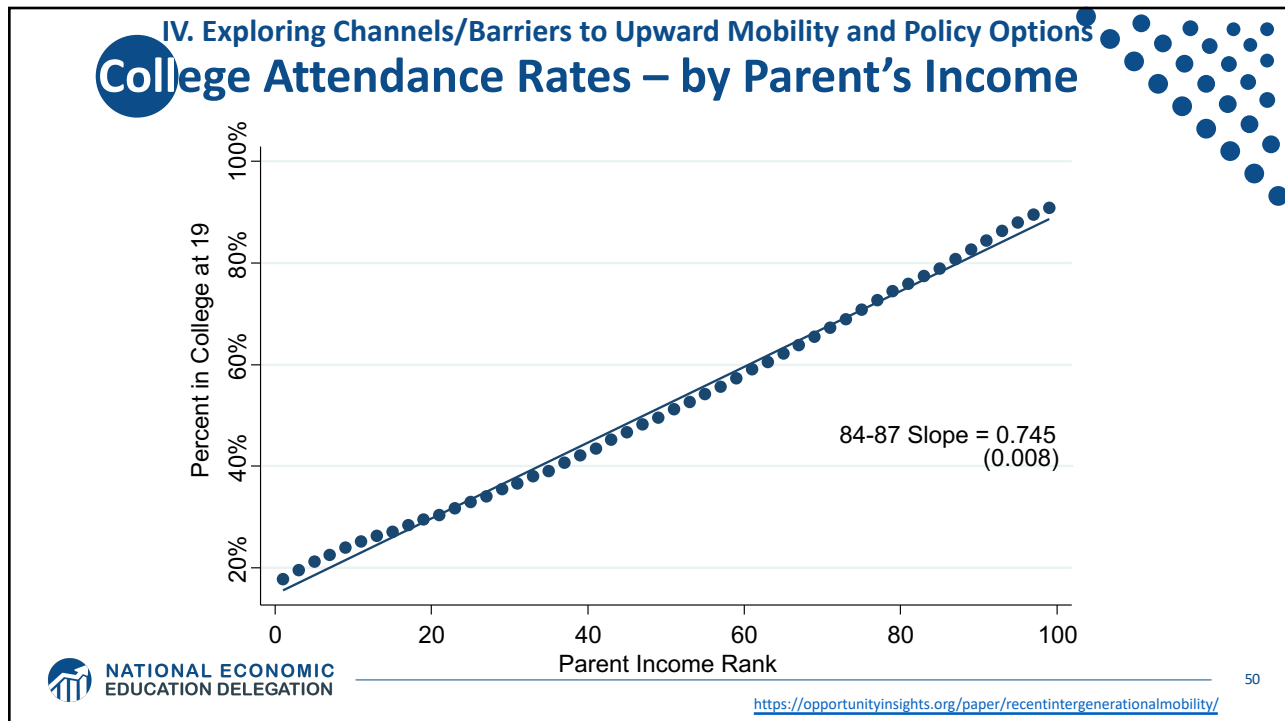**IV. Exploring Channels/Barriers to Upward Mobility and Policy Options**

# 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.
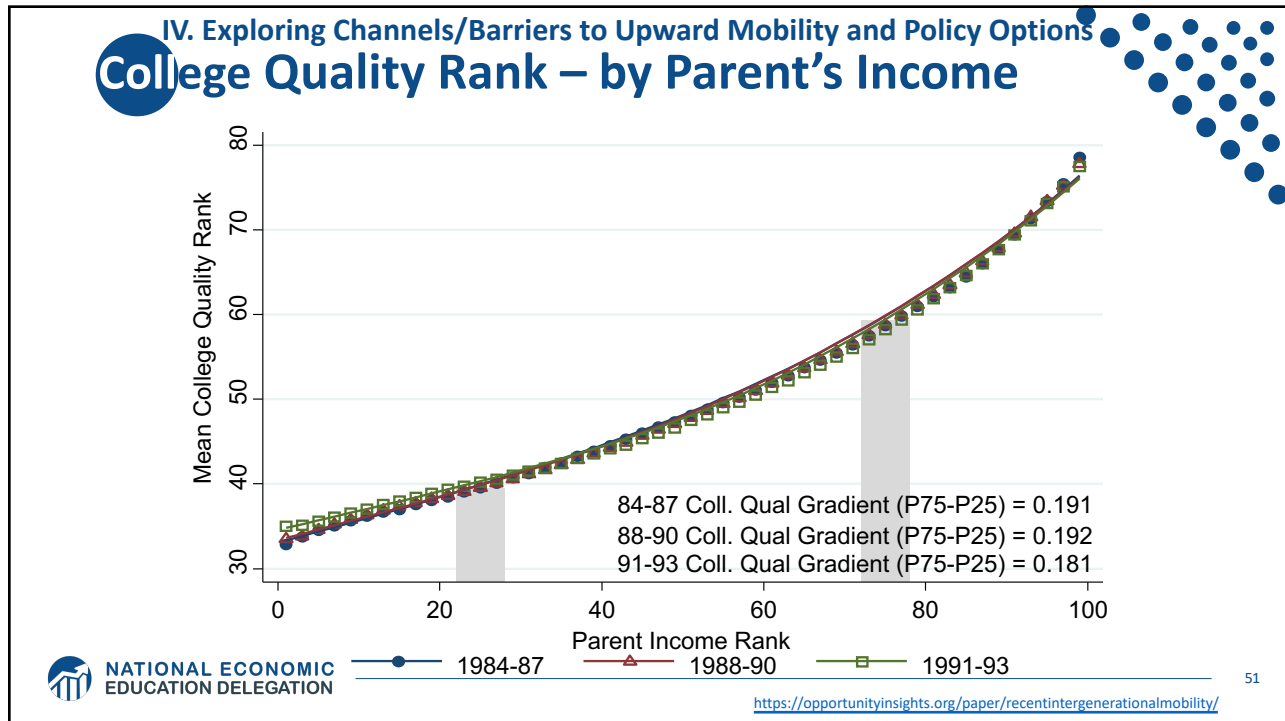- **Direct transmission of income-earning assets**

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

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## IV. Exploring Channels/Barriers to Upward Mobility and Policy Options
# College Attendance Rates – by Parent's Income



84-87 Slope = 0.745
(0.008)

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

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## IV. Exploring Channels/Barriers to Upward Mobility and Policy Options
# College Quality Rank – by Parent's Income



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

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1984-87   1988-90   1991-93

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

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## IV. Exploring Channels/Barriers to Upward Mobility and Policy Options
# 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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## Slide 53

# Career Opportunities:
## an Avenue and Barrier to Mobility

- **Business Ownership**
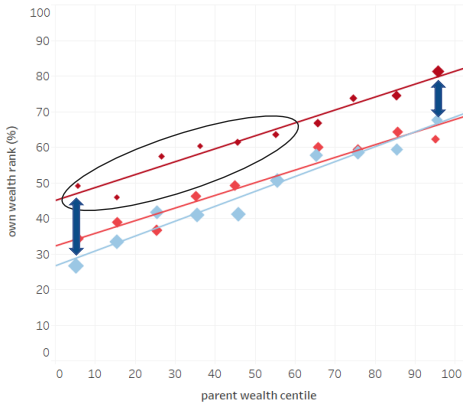- **Inventions**
- **Job Networks**

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## Slide 54

# 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

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Graph from Sarada and Tocoian (2018)

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

**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)*

- 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.



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## 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)



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Graph from Bell et al (2018)

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## 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.
  - 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)
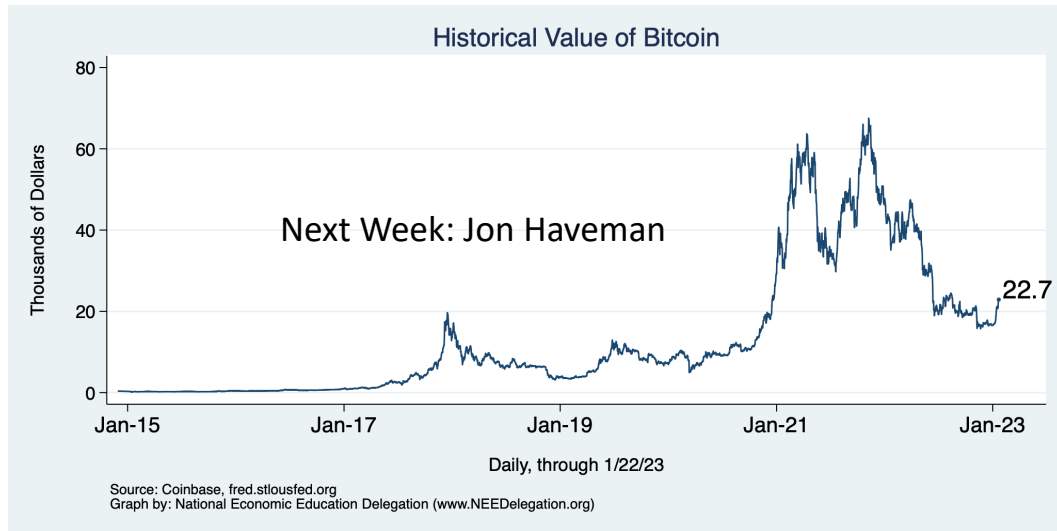- There are plenty of levers to pull to increase mobility.

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## Course Outline

- **Contemporary Economic Policy**
  - Week 1 (2/1): Trade and Globalization (Alan Deardorff, Univ. of Michigan)
  - Week 2 (2/8): US Economic Update (Jon Haveman, NEED)
  - Week 3 (2/15): Trade Deficits and Exchange Rates (Alan Deardorff)
  - Week 4 (2/22): Economic Mobility (Joseph Carolan, Oakland University)
  - **Week 4 (3/1): Cryptocurrencies (Jon Haveman)**
  - Week 6 (3/8): Autonomous Vehicles (Jon Haveman)

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## Bitcoins: What Was All the Excitement About?

**Historical Value of Bitcoin**

Next Week: Jon Haveman

22.7

Thousands of Dollars

Jan-15  Jan-17  Jan-19  Jan-21  Jan-23

Daily, through 1/22/23

Source: Coinbase, fred.stlousfed.org
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

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# Thank you!

# Any Questions?

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