



NATIONAL ECONOMIC
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Economic mobility



Oana Tocoian, Ph.D.

Webinar

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National Economic Education Delegation

• Vision

- One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.

• Mission

- NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.

• NEED Presentations

- Are **nonpartisan** and intended to reflect the consensus of the economics profession.



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Who Are We?

- **Honorary Board: 47 members**

- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 6 Chairs Council of Economic Advisers
 - o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
 - o Akerlof, Smith, Maskin

- **Delegates: 500+ members**

- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

- **Global Partners: 45 Ph.D. Economists**

- Aid in slide deck development

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Credits and Disclaimer

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

- Oana Tocoian, Univ. of California San Diego
- 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? Broad empirical patterns and cultural context
- III. Exploring barriers to upward mobility
- IV. Drilling down into the main dimensions of US disparities in mobility
- V. Summary and tentative conclusions

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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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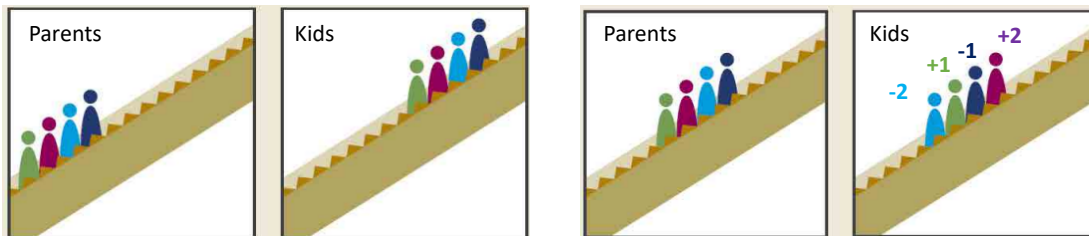
Absolute vs Relative: Escalator Analogy

- **Absolute Mobility**
 - You're moving up the escalator.
- **Relative Mobility**
 - You're moving up the escalator and passing other people.



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.



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 can coexist with zero relative mobility**
 - However, low mobility can lead to sluggish growth
- **High inequality leads to low relative mobility**



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II. What are the facts? Broad empirical patterns and cultural context

What are observed levels of mobility?



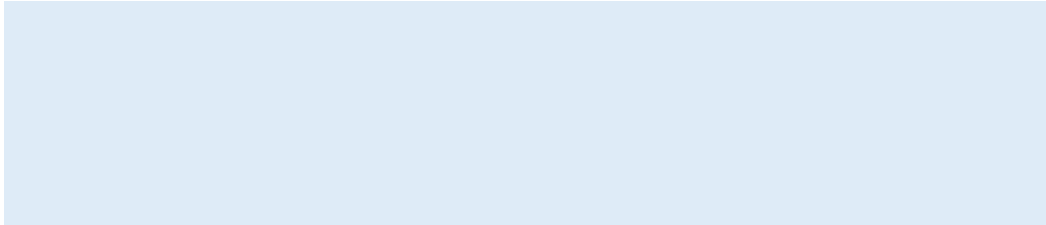
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Mobility – Beliefs, wishes, and reality

Modernity is marked by a widespread assumption that, over time, things tend to get better.

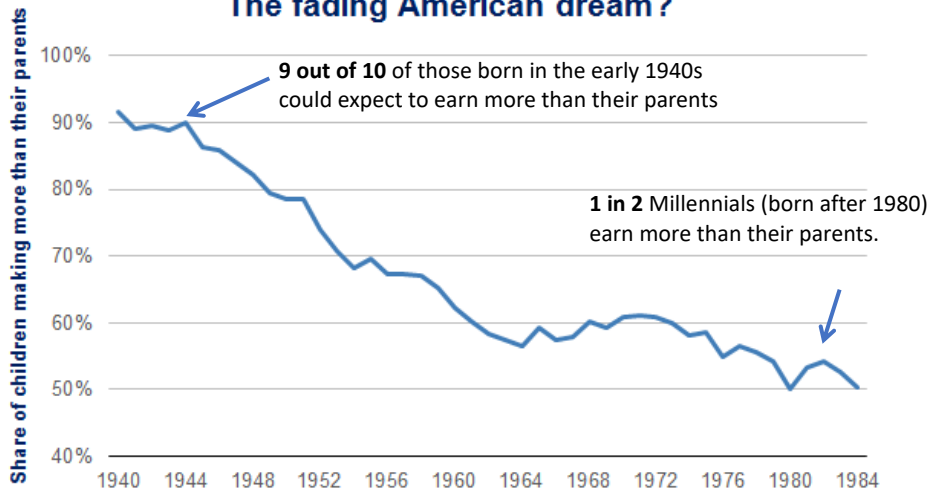
- Economic growth may slow, but everyone continues to be better off

Is this true?



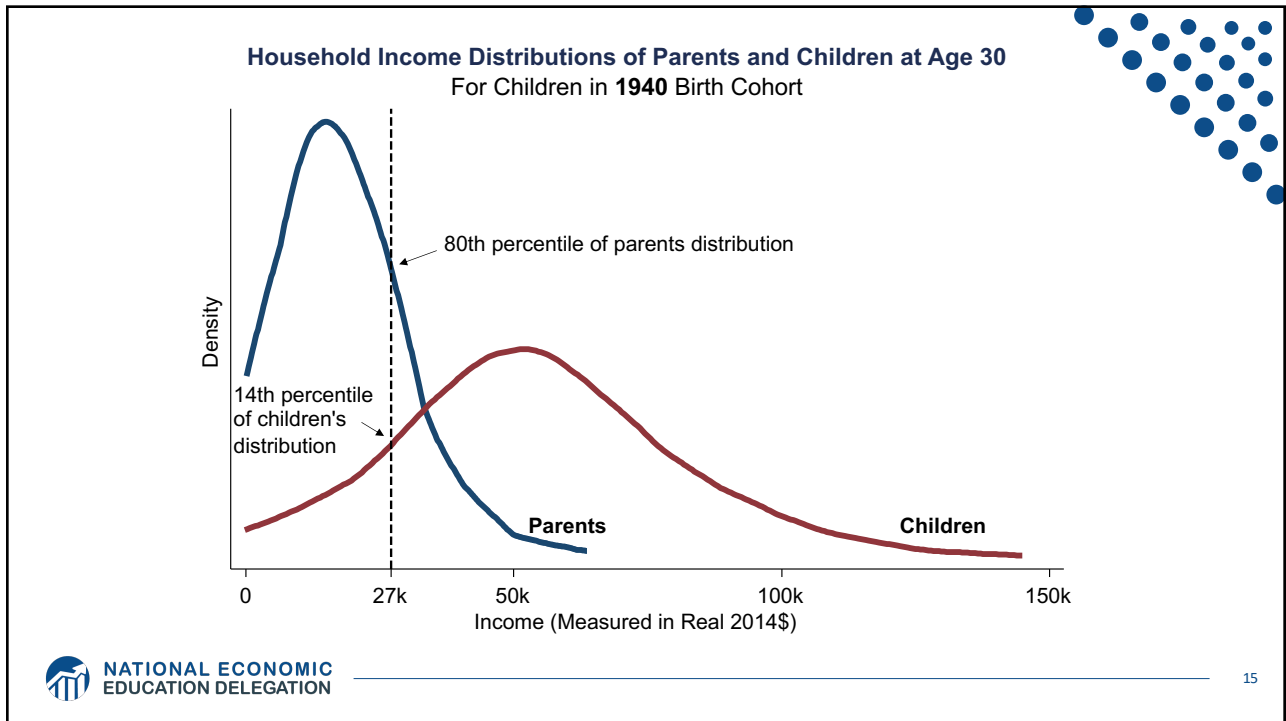
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The fading American dream?

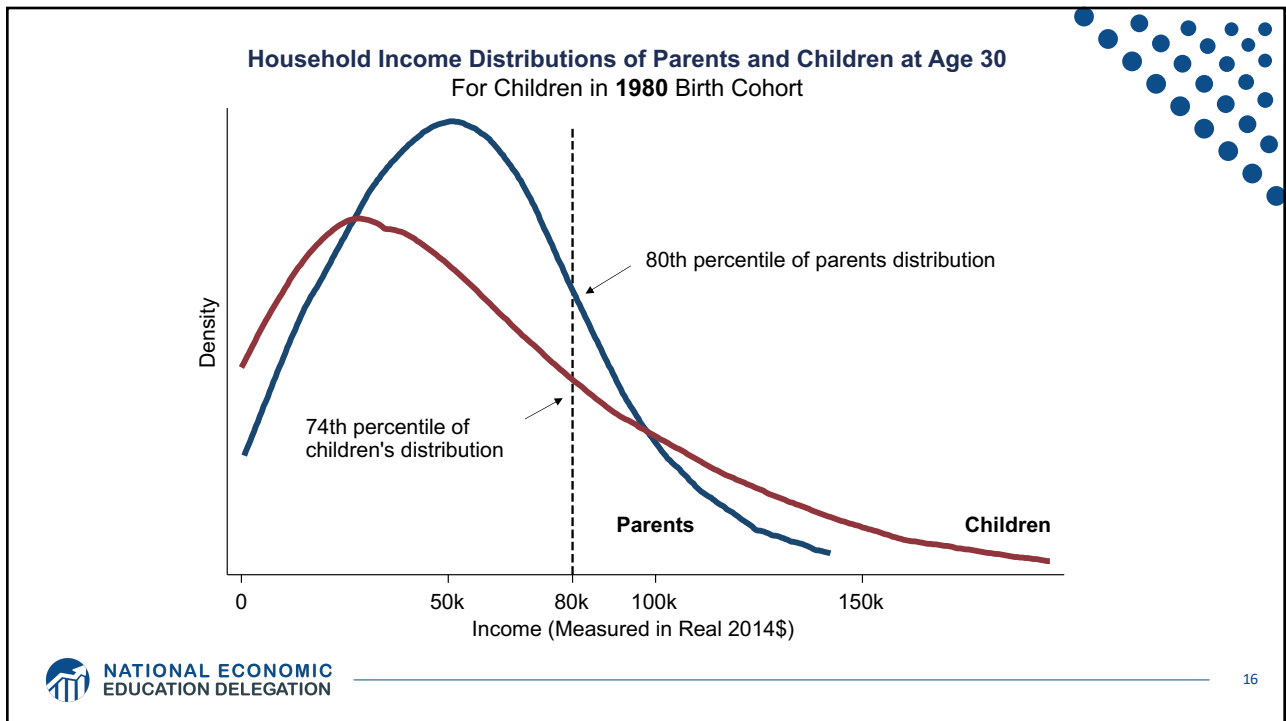


Source: Chetty et al., "The fading American dream: Trends in absolute income mobility since 1940"

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Mobility – Beliefs, wishes, and reality

Modernity is marked by a widespread assumption that, over time, things tend to get better.

- Economic growth may slow, but everyone continues to be better off

Is this true?

There has been a decline in *absolute* mobility in the United States:

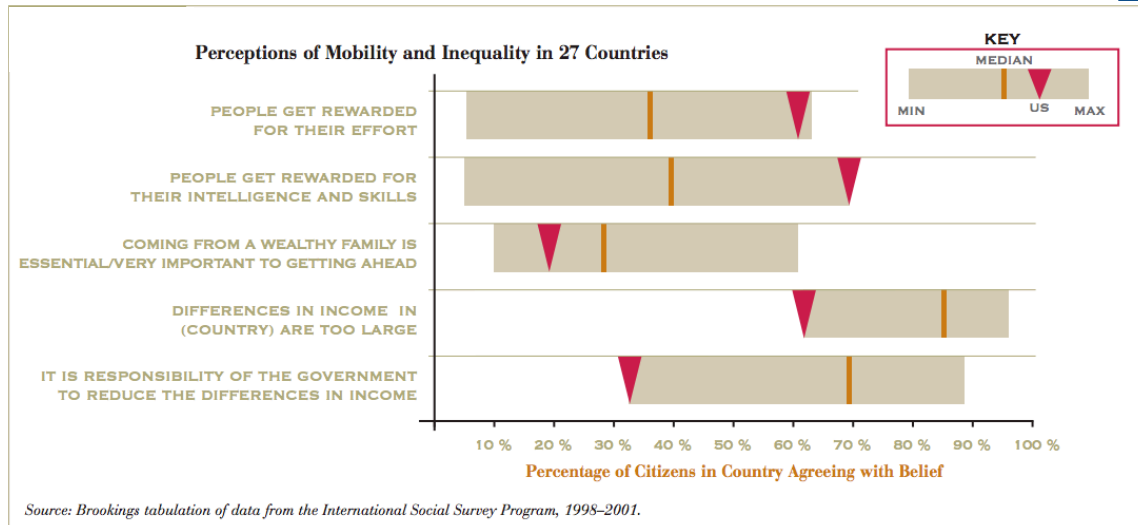
- Fewer and fewer people can expect to earn more than their parents
- More people in the very high AND very low income categories.

What about relative mobility?

Public Perception and Sentiment



Public Perception and Sentiment



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

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Public Perception and Sentiment

• “American Dream” vs “Old World”

- General belief is that the U.S. has **greater mobility**:
 - o Fewer explicit barriers – no nobility titles.
 - o More meritocratic – “rags to riches”, Heratio Alger

• Is this belief justified?

• Multiple ways to measure relative mobility:

- 1) Movement across quintiles in the income distribution.
 E.g., what share of children born in poor families (bottom 20%) become well-off (top 20%)?



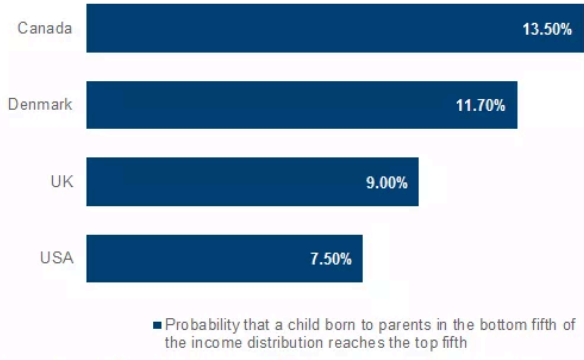
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The American Dream

... is in much better shape in Canada



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 Krainer, "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)

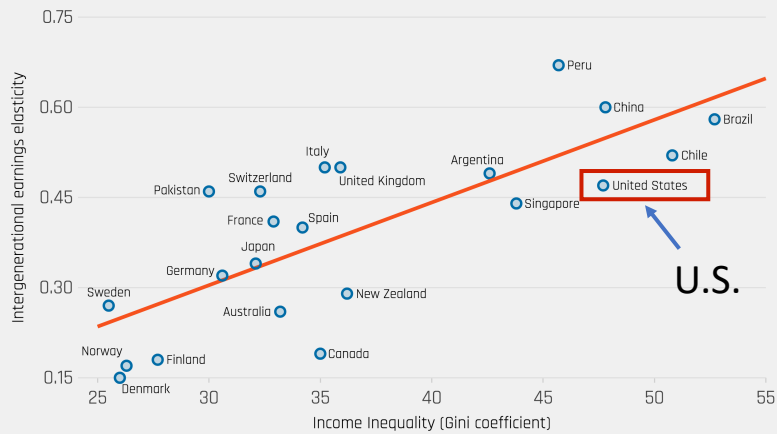
BROOKINGS



<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/>

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



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

Mobility – Beliefs vs. reality

Findings so far:

- U.S. has less income mobility than other Western countries
- Mobility is *believed* to be greater in the U.S.

Pop quiz:

Are Americans overly-optimistic, or are Europeans overly-pessimistic?
([Both!](#))

What might be driving this discrepancy in mobility?

- First: what factors limit (or promote) mobility?



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III. Exploring barriers to upward mobility

Theoretical considerations and empirical evidence



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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?

- **Two main types of barriers:**

- Birth lottery & early advantages: is one able to *develop* their human capital – i.e. to “capitalize” their potential?
- Structural barriers in the labor market and other economic interactions: is one able to *deploy* their human capital, once developed?

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Barriers to Upward Mobility: Human capital *development*

- **Birth lottery and early advantages**

- *Innate (genetic) advantages:*
 - Inherited ability, medical conditions, psychological traits
 - *Environmental factors:*
 - In utero: pre-natal care, mother’s nutrition, exposure to stress
 - Home environment which promotes healthy development
 - Availability of role models, mentors, neighborhood effects
 - Availability of good educators, facilities, peers
- growing up in a high-poverty neighborhood is a potential liability

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Barriers to Upward Mobility: Human capital *development* (2)

- **Selective access to quality higher education**
 - Preferential admission for legacy and donor families.
 - Expectation of extra-curricular activities, AP classes, etc.
 - Increasing cost, even at public universities
- **Selective access to internships and other formative experiences**
 - Reliance on personal connections, homophily, racism, sexism, etc.



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Barriers to Upward Mobility: Human capital *deployment*

- **Effective access to family planning**
- **Access to lucrative employment:**
- **Access to entrepreneurship:**
- **Exposure and access to avenues of wealth creation:**
- **Direct transmission of income-earning assets.**



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Barriers: Findings

- All these channels are found to matter in practice. Some are worth emphasizing:
- Place where one grew up matters
 - Regional and neighborhood differences
 - Disparate economic opportunities across regions
 - Socio-economic and racial *segregation* across neighborhoods.
 - Importance of early exposure to *role models*
 - Elementary and middle school teachers have idiosyncratic long-lasting impact
- Channels traditionally believed to be effective in promoting mobility are often too selective to lead to significant churning
 - E.g. entrepreneurship and innovation, higher education

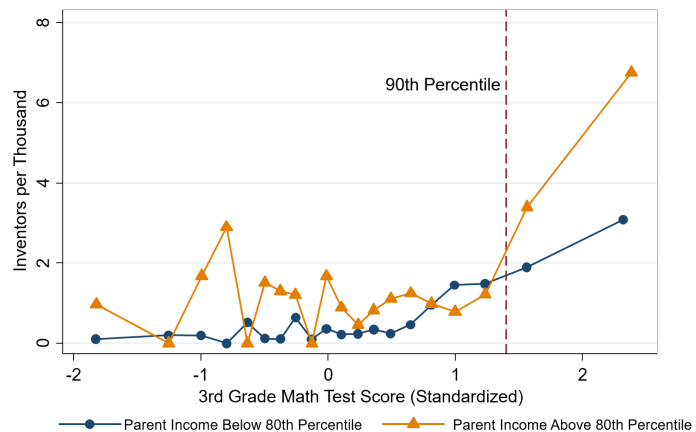
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Channels(?) of Upward Mobility – Entrepreneurship and Innovation

Finances matter:

High math-ability 3rd graders much more likely to become inventors if their family is well-off.

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



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Channels(?) of Upward Mobility

– Higher Education

- **Children who graduate from elite colleges do extremely well, regardless of parental background.**
 - But, low income students are dramatically under-represented at elite colleges
 - More students from the top 1% than the bottom 50% at Ivy League Plus
- **As a result, few top universities are engines for social mobility.**
 - Should we reconsider public subsidy of Ivy Leagues and divest more funds to mid-tier universities like the Cal-State and CUNY?



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Public policy interventions?

- **Many potential policy interventions present themselves**
- **One way to prioritize is to ask: which dimensions create the largest differences in mobility?**
 - Race/ethnicity and geography

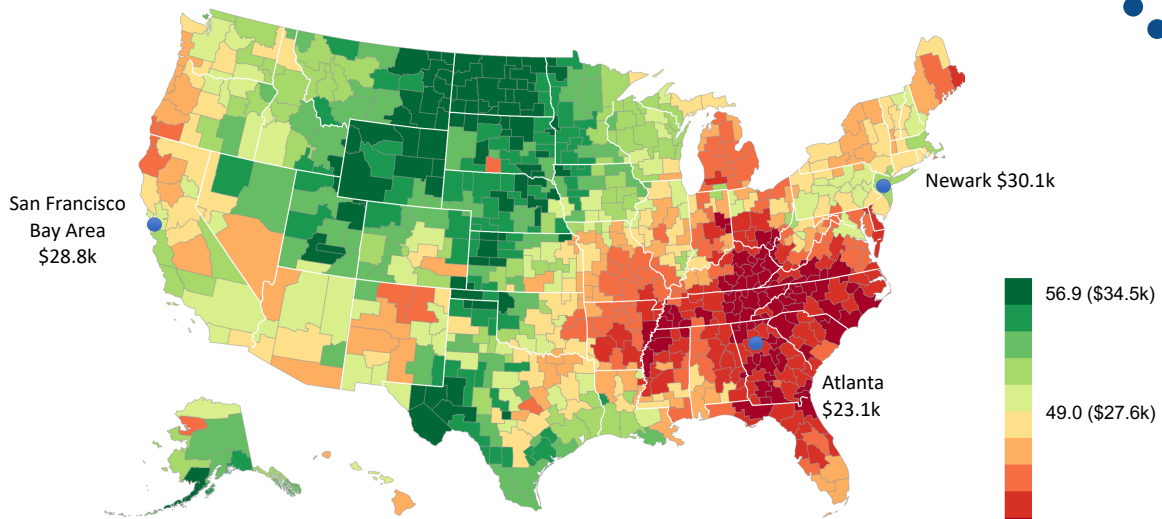


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IV. Drilling down into the main dimensions of US disparities in mobility

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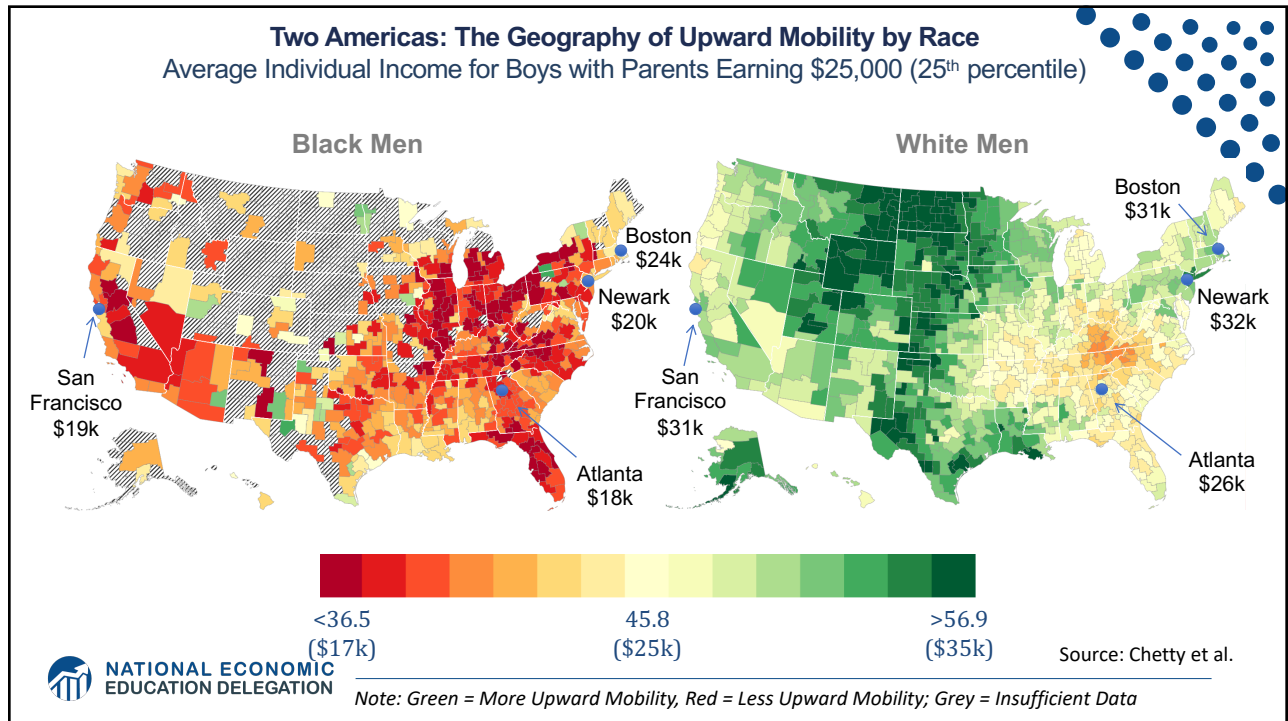
The Geography of Upward Mobility in the United States
Average Individual Income for Males with Parents Earning \$25,000 (25th percentile)



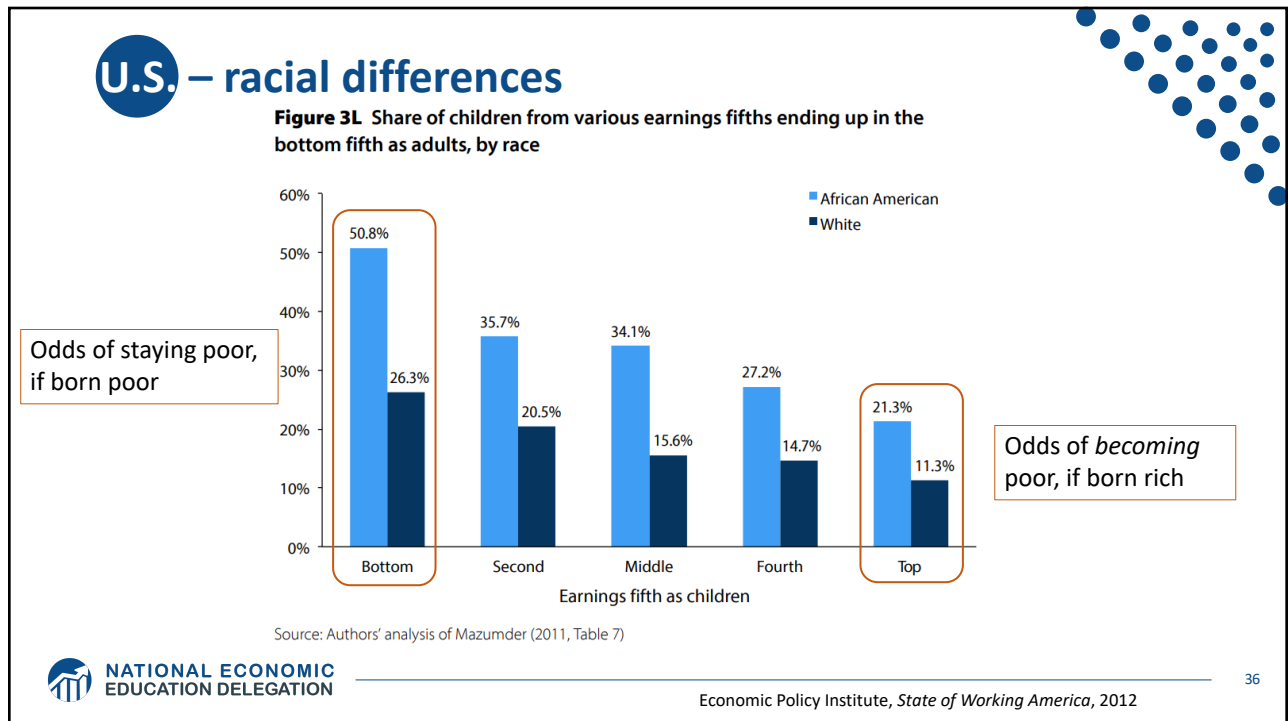
Source: Chetty et al.

Note: Green = More Upward Mobility, Red = Less Upward Mobility

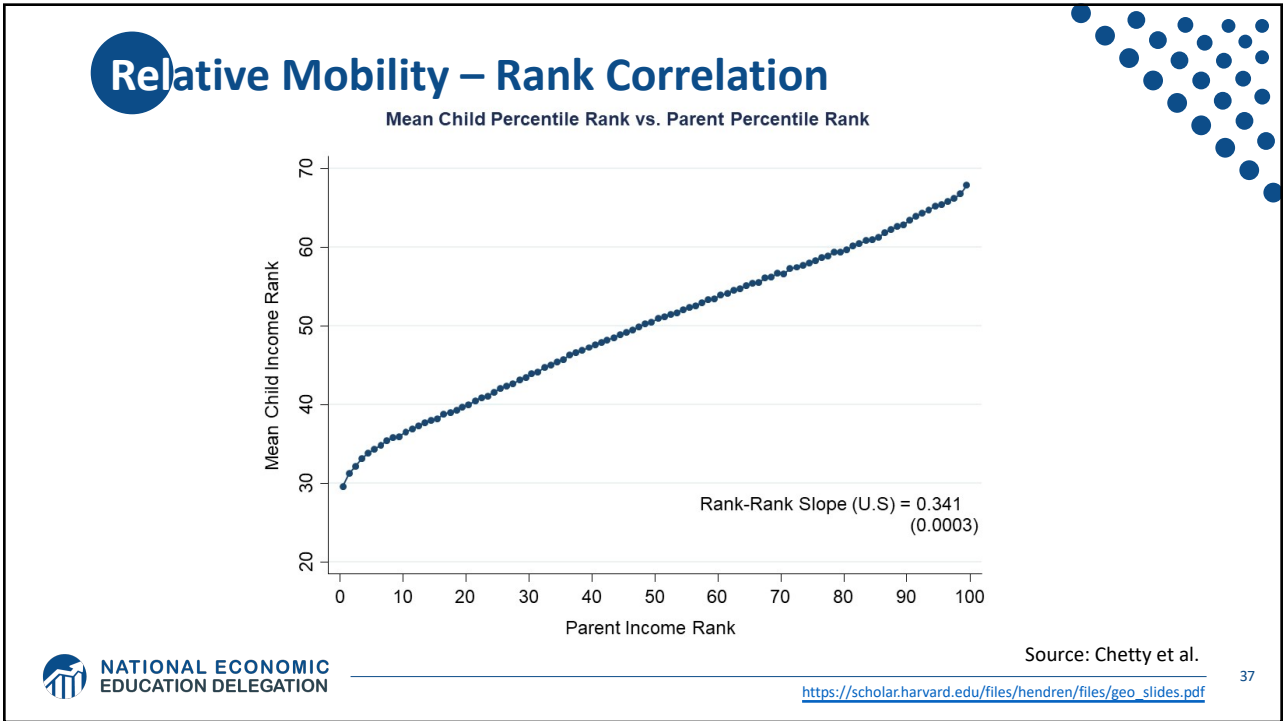
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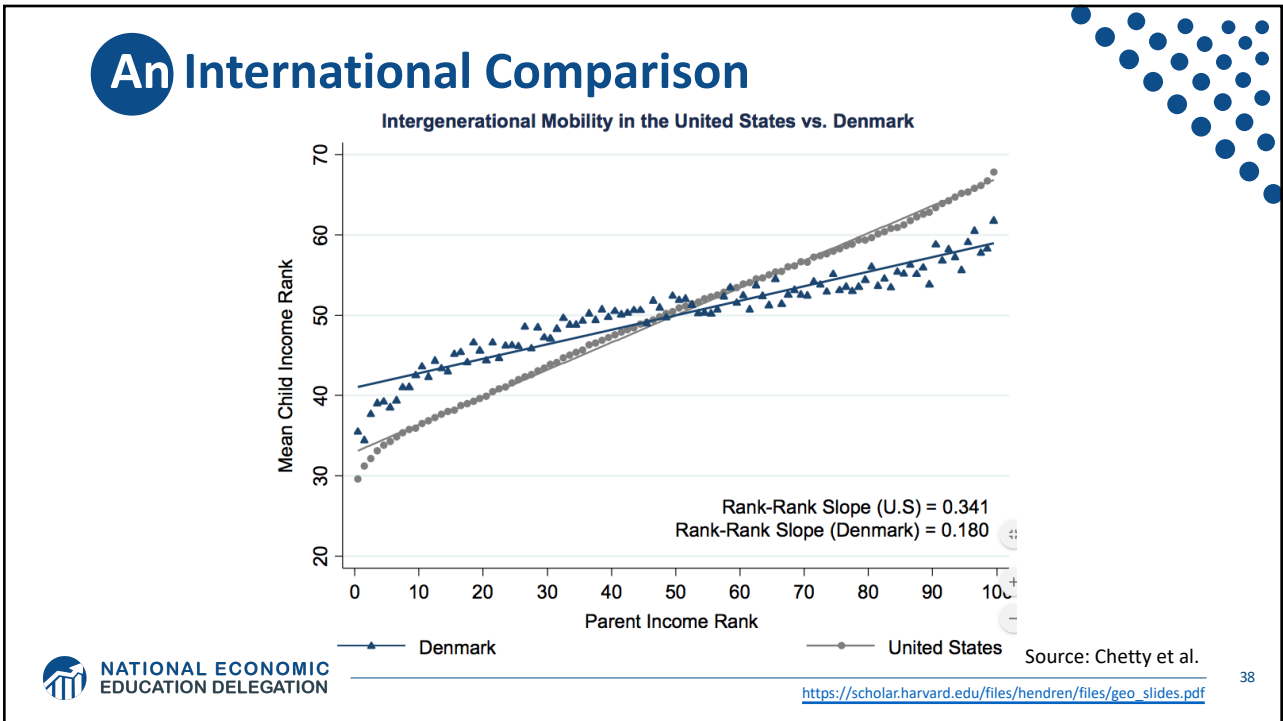
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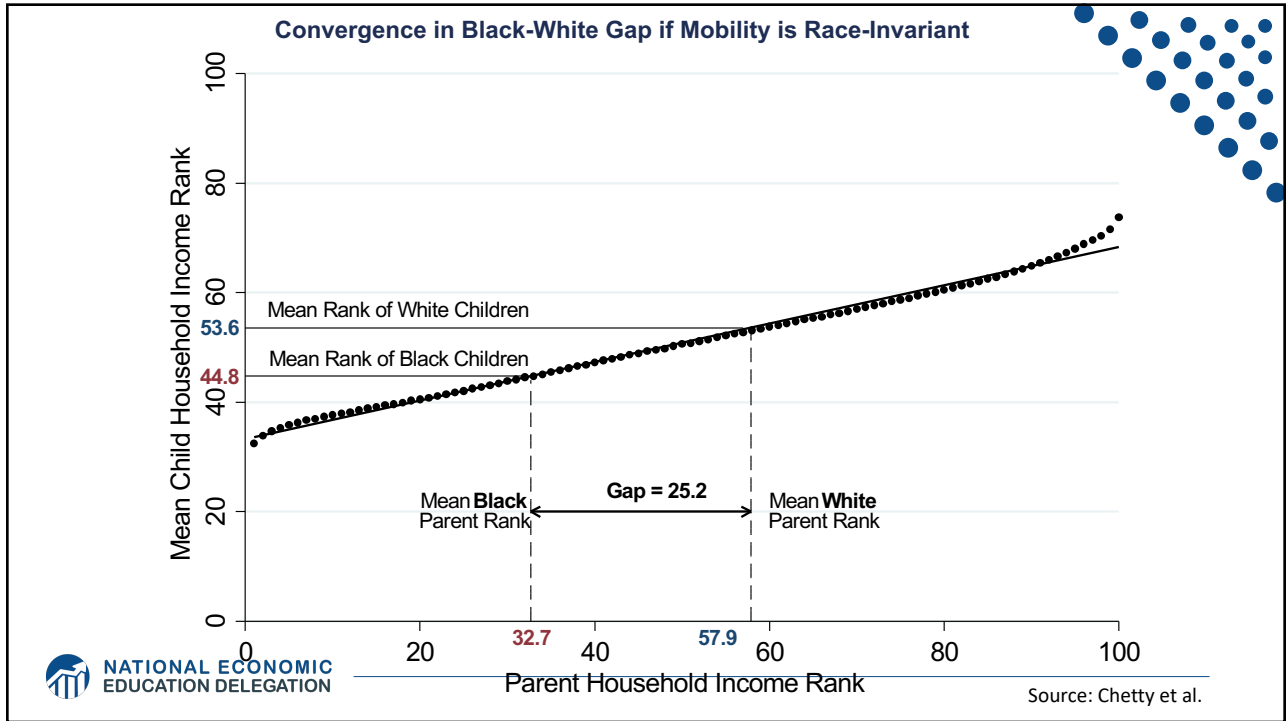
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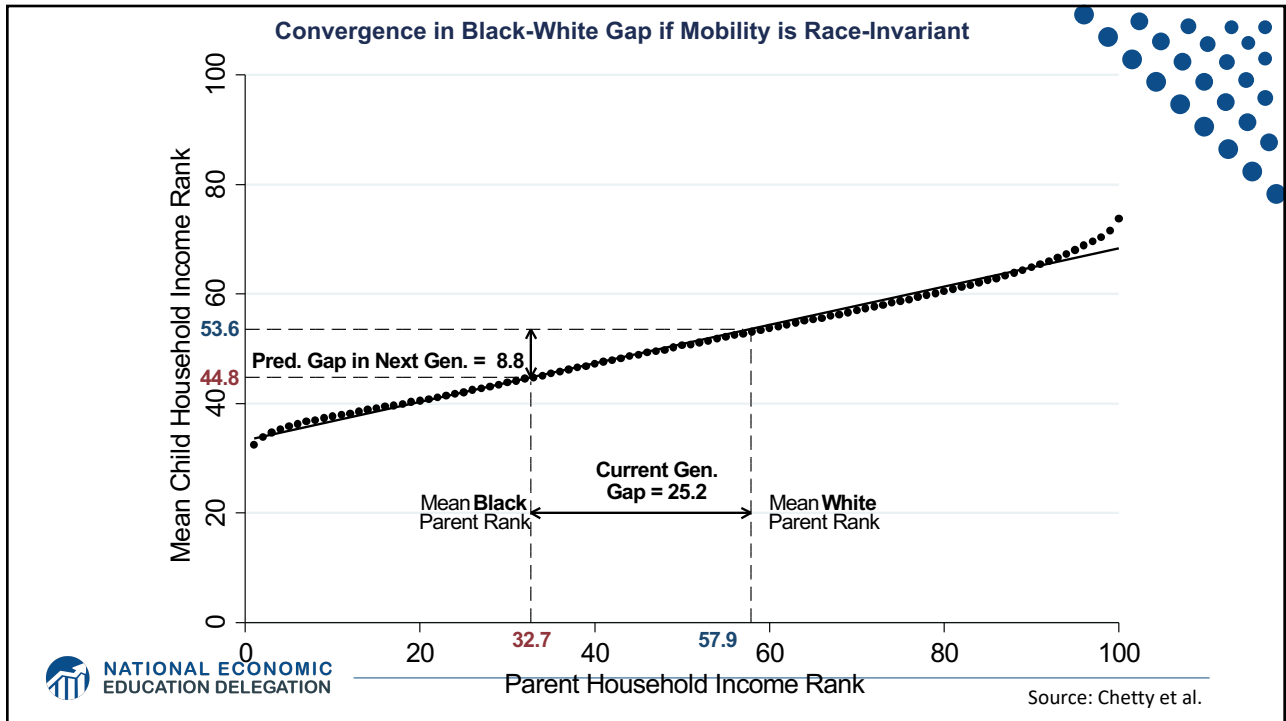
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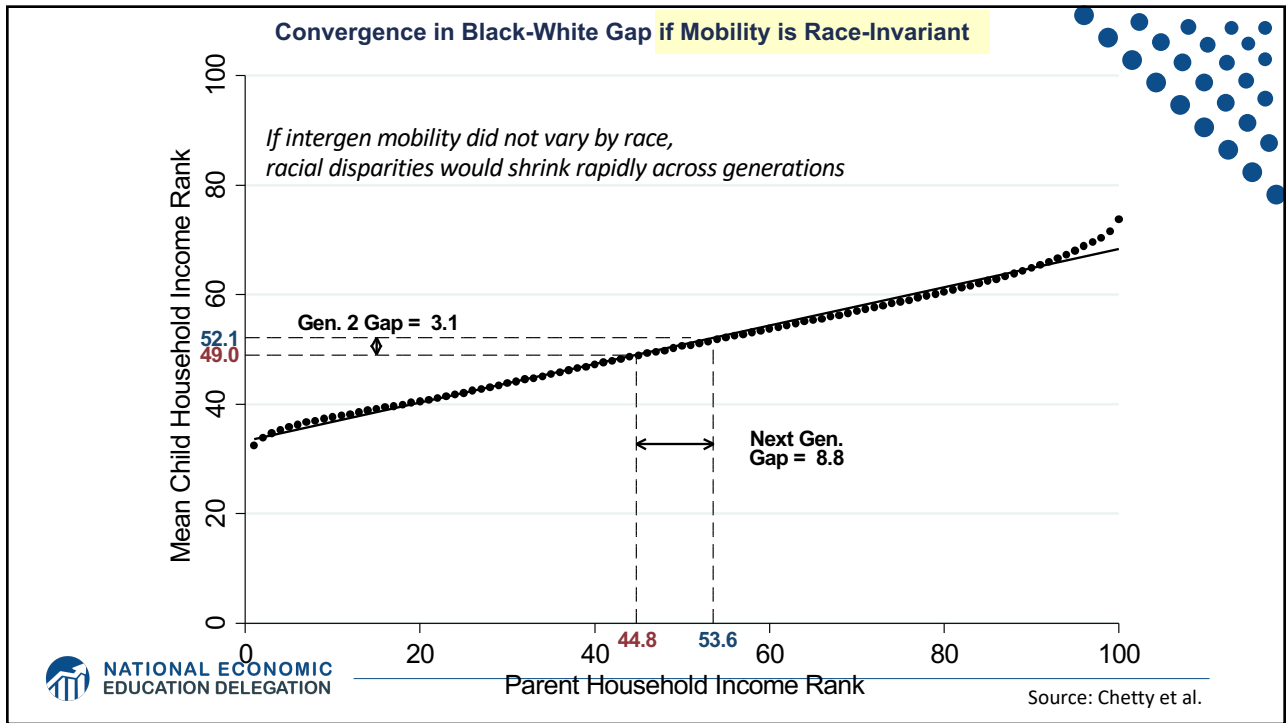
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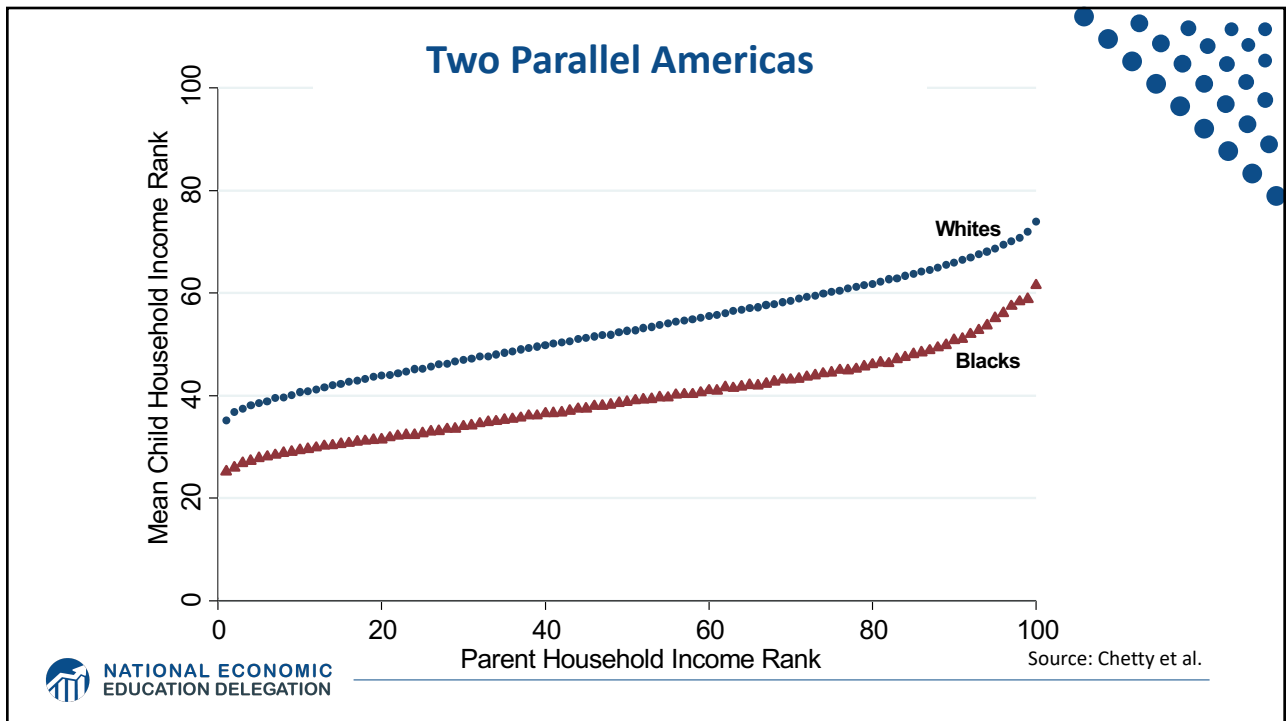
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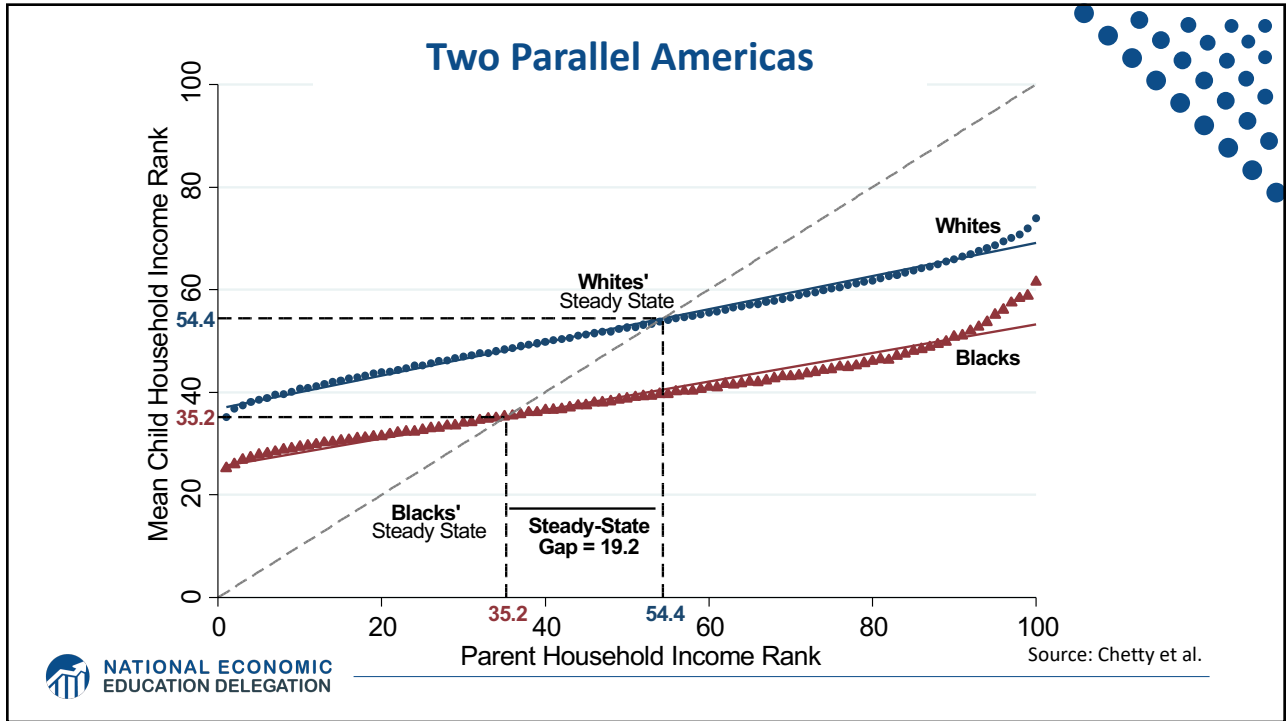
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Black families are not catching up

- **Given current patterns, we will not obtain convergence.**
 - We are headed for a steady state in which black households are, on average, 19 percentiles below white households, indefinitely

Why?

- **Mechanical Effect of Household Size?**
 - Disparity present at the individual level, too

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Why are black families not catching up?

- **Differences in human capital *development***

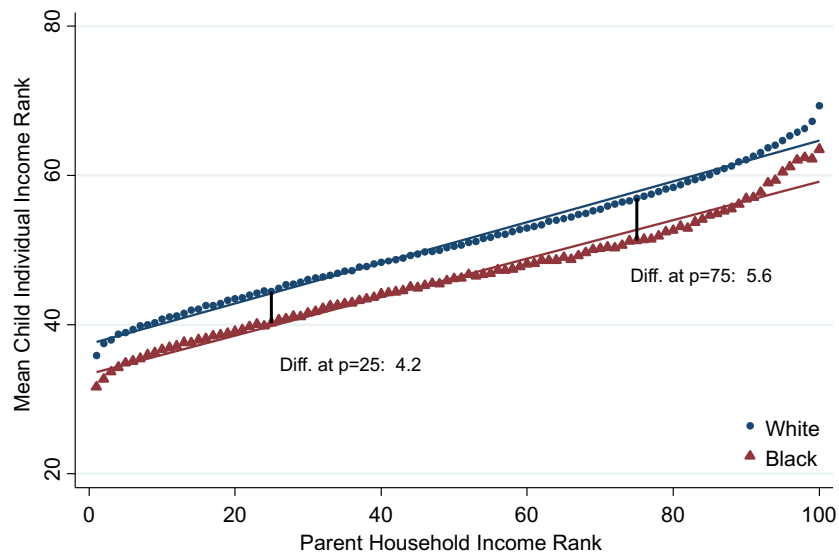
- Ability?
- Access to good education?
- Childhood neighborhood effects?
- Parental presence?

- **Differences in human capital *deployment***

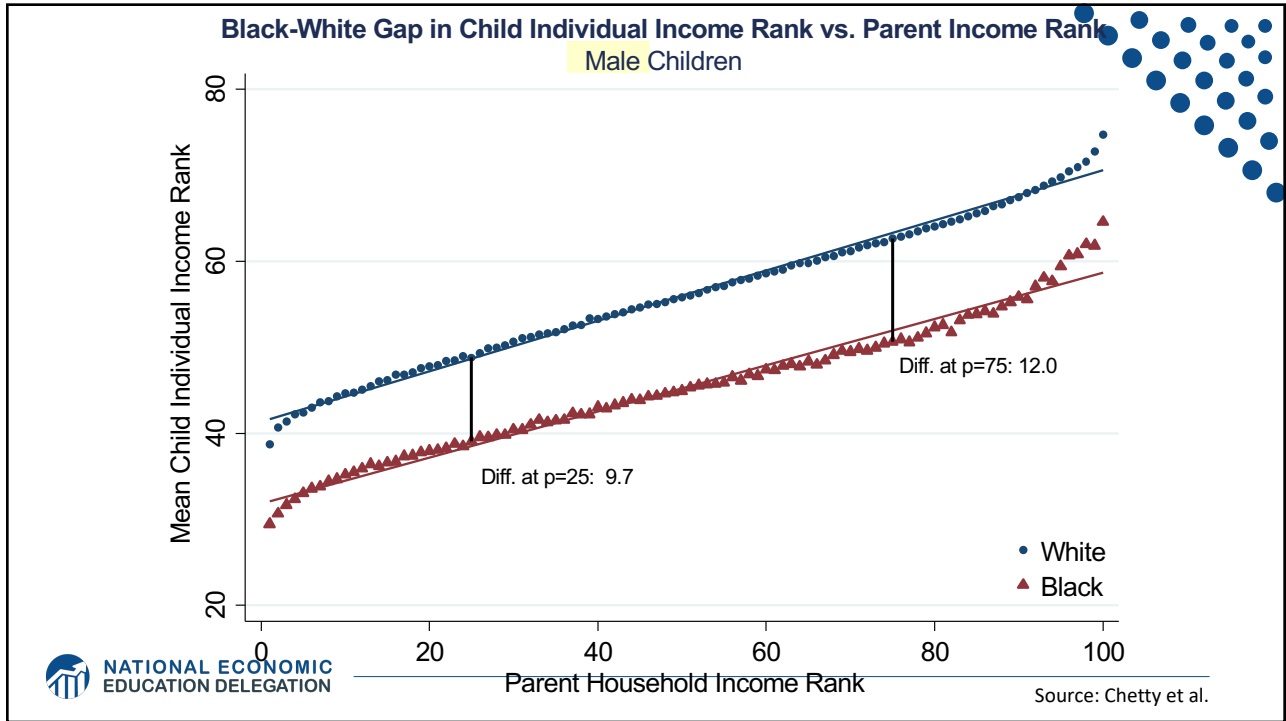
- Disproportionate incarceration?
- Implicit bias (unconscious negative associations)?
- Explicit racial animus?



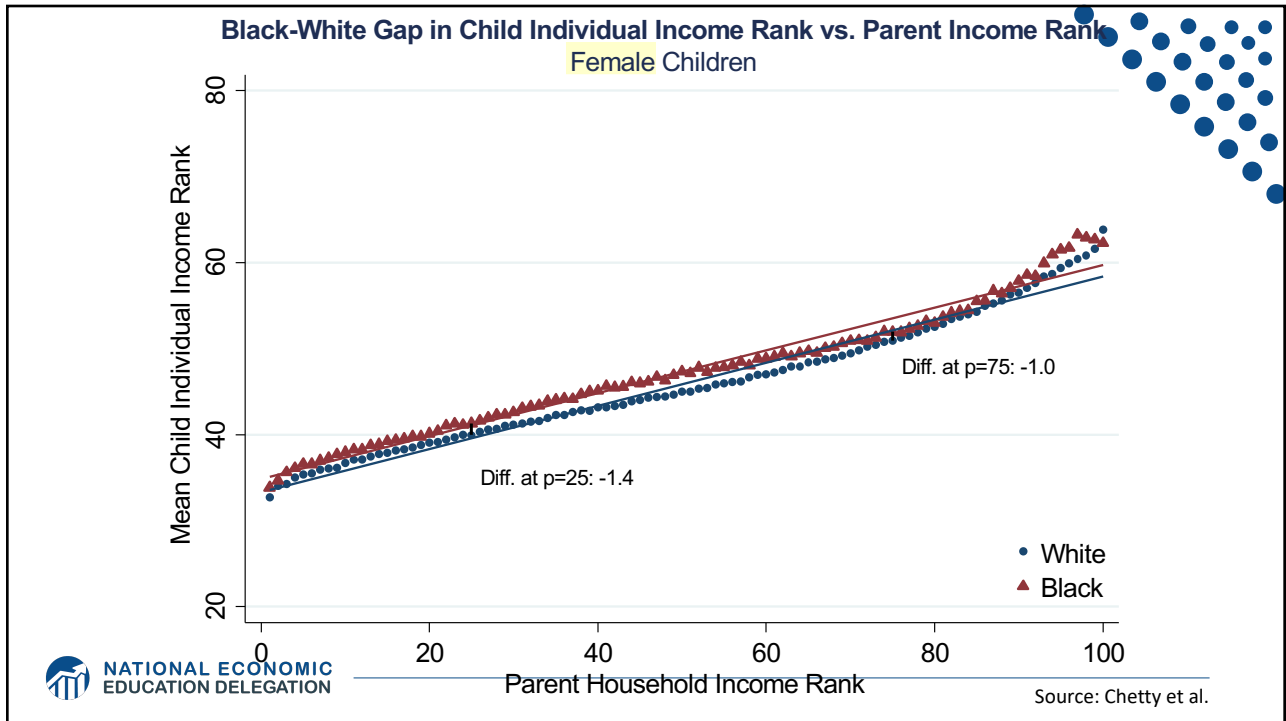
Black-White Gap in Child Individual Income Rank vs. Parent Income Rank



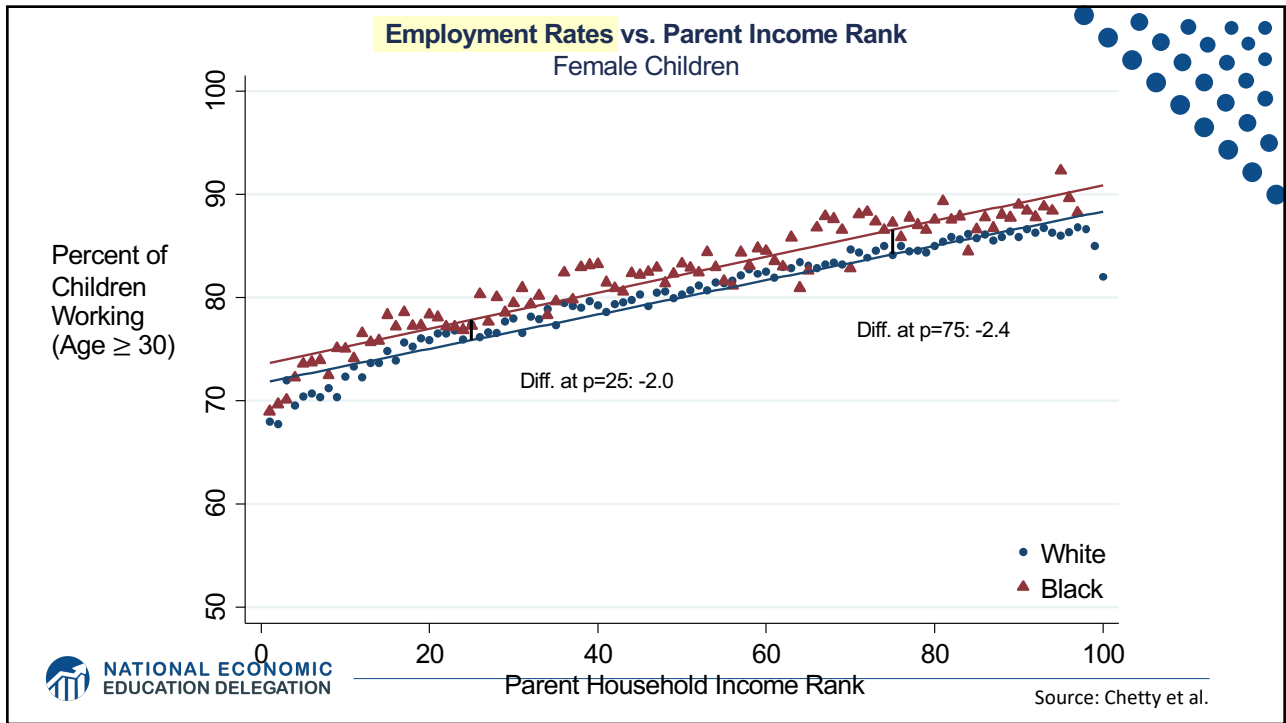
Source: Chetty et al.



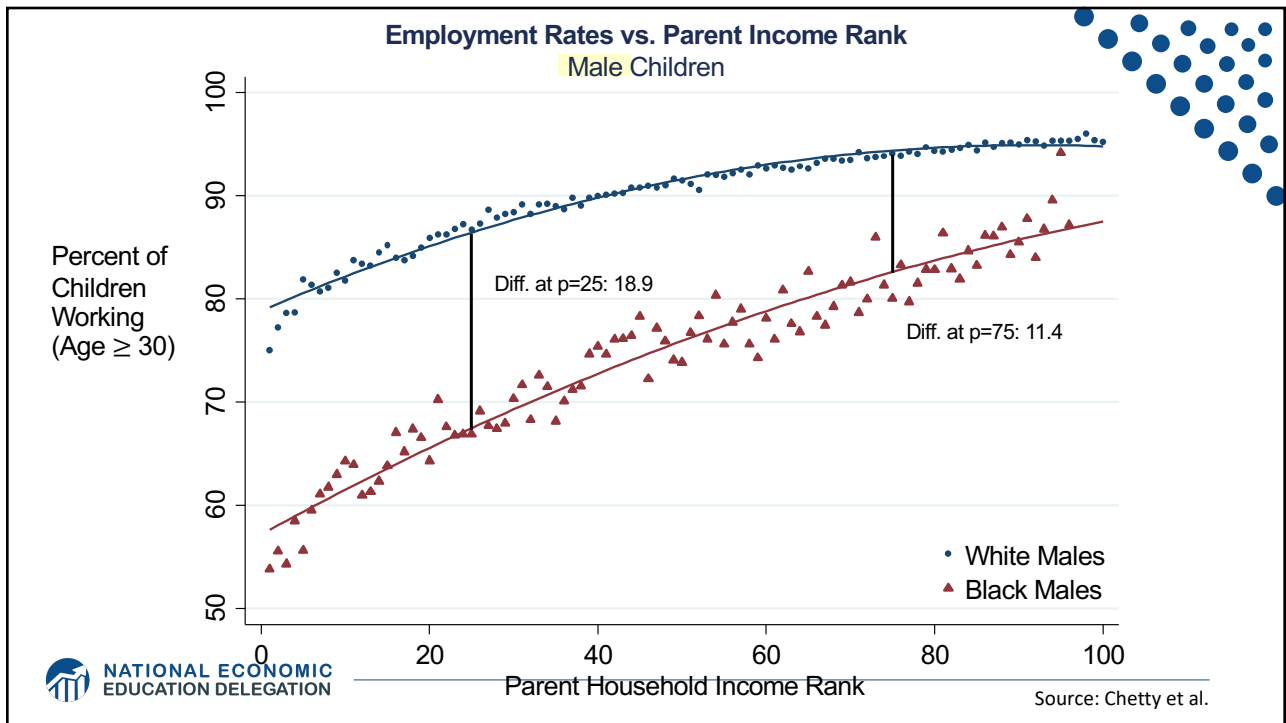
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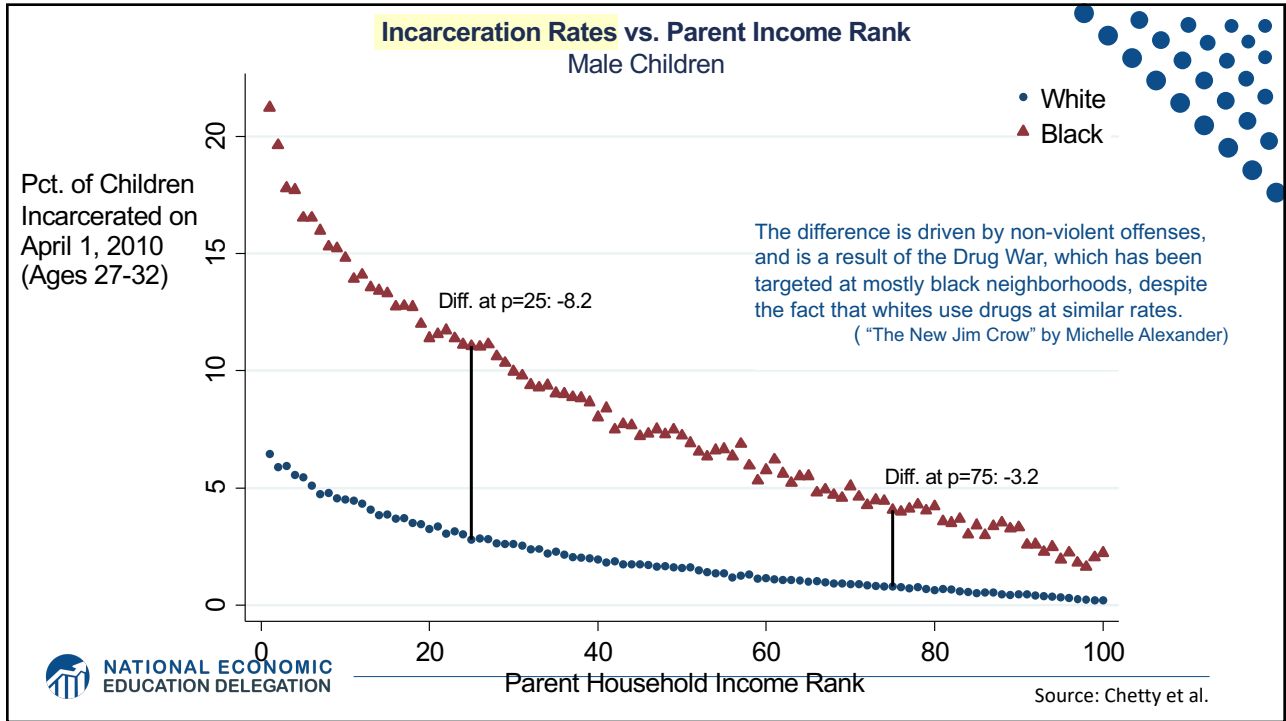
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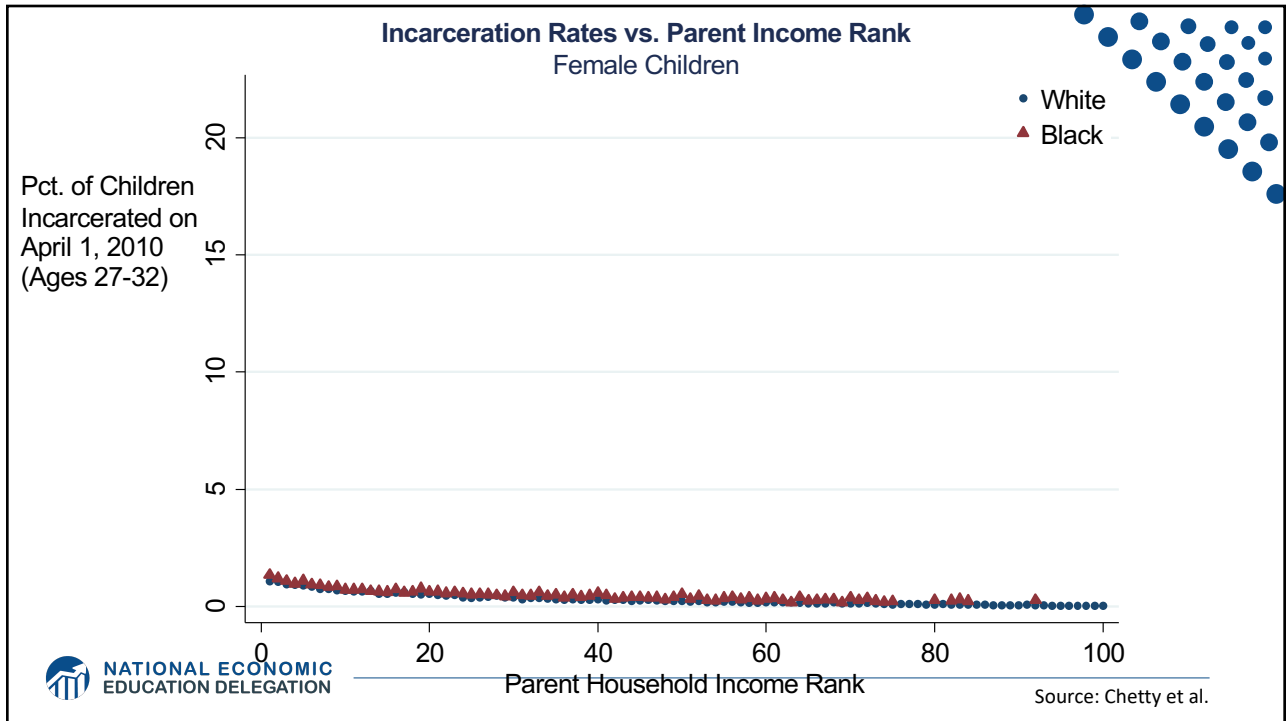
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Mobility – Important Relationships

• Mobility and Growth

- What is the relationship between the two?
- Growth drives absolute mobility.
- Mobility drives growth.
 - o 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.

Why are black families not catching up?

Differences across gender suggest some answers:

• Differences in human capital *development*

- Ability? } → Highly unlikely
- Access to good education? } → Unlikely as *primary* drivers
- Childhood neighborhood effects? }
- Parental presence? } → Impactful for boys

• Differences in human capital *deployment*

- Disproportionate incarceration? } → Likely very relevant, given lifelong legal discrimination
- Implicit bias? } → Likely relevant
- Explicit racial animus? }

Summary and conclusions

- **Absolute vs Relative mobility**
- **Absolute mobility has declined: only 50-50 chance that American Millennials earn more than their parents did**
- **Relative mobility (churning) in the U.S. is lower than elsewhere**
- **Relative mobility is stagnant, but inequality increases → higher stakes**
- **There are many sources of mobility/ barriers to it.**
 - Policies with huge potential impact: reforming the criminal justice system, de-stigmatizing felons; desegregating neighborhoods and schools.



Thank you!

Any Questions?

www.NEEDelegation.org

Oana Tocoian; otocoian@ucsd.edu

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Submit a testimonial: www.NEEDelegation.org/testimonials.php

Get NEED Updates: www.NEEDelegation.org/friends.php

Book recommendations

- Michelle Alexander: “The new Jim Crow”
- Robert Putnam – “Our kids”
- Richard Reeves – “Dream hoarders”



Sources

This presentation draws heavily on the work done by the **Raj Chetty** group at Harvard. Their papers on [mobility trends](#) and the effects of [education](#), [race](#), and [neighborhood](#) are all at: [OpportunityInsights.org](#) , along with non-technical summaries and highlights.

Other sources used and recommended:

- **Brookings Institute** – [Brookings.edu](#)
 - (see their [report](#) on economic mobility)
- **The Washington Center for Equitable Growth** – [EquitableGrowth.org](#)
 - (see [report](#) on how inequality limits mobility)
- **The Urban Institute** – [Urban.org](#)
- **The Economic Policy Institute** – [epi.org](#)
- **The World Bank** – new international [dataset](#) and [report](#)
- **Pew Research Center** – [pewresearch.org](#)



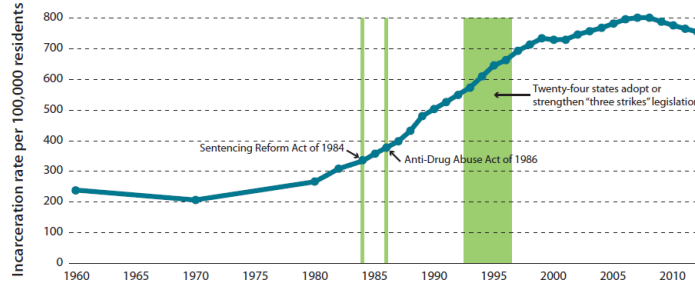
Bonus slides



The rate of incarceration in the US nearly quadrupled from 1970 to 2010...

FIGURE 5.
Incarceration Rate in the United States, 1960–2012

Federal policies, such as the Sentencing Reform Act, and state policies, such as the “three strikes” legislation, were major contributing factors to the 222 percent increase in the incarceration rate between 1980 and 2012.



Source: Austin et al. 2000; Cahalan 1986; personal communication with E. Ann Carson, Bureau of Justice Statistics, January 24, 2014; Census Bureau 2001; Glaze 2010, 2011; Glaze and Herberman 2013; Raphael and Stoll 2013; Sabol, Couture, and Harrison 2007; Sabol, West, and Cooper 2010; authors' calculations.
Note: Incarceration rate refers to the total number of inmates in custody of local jails, state and federal prisons, and privately operated facilities within that year per 100,000 U.S. residents. The three events highlighted in this figure are examples of the many policy changes that are believed to have influenced the incarceration rate since the 1980s. For more details, see the technical appendix.

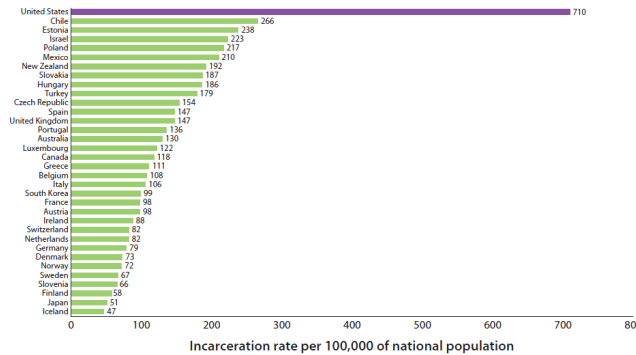


https://www.brookings.edu/wp-content/uploads/2016/06/v8_thp_10crimefacts.pdf

... and is far higher than that in other countries

FIGURE 6.
Incarceration Rates in OECD Countries

With an incarceration rate of 710 inmates per 100,000 residents, the United States stands in stark contrast to the typical incarceration rate of 115 among OECD nations.

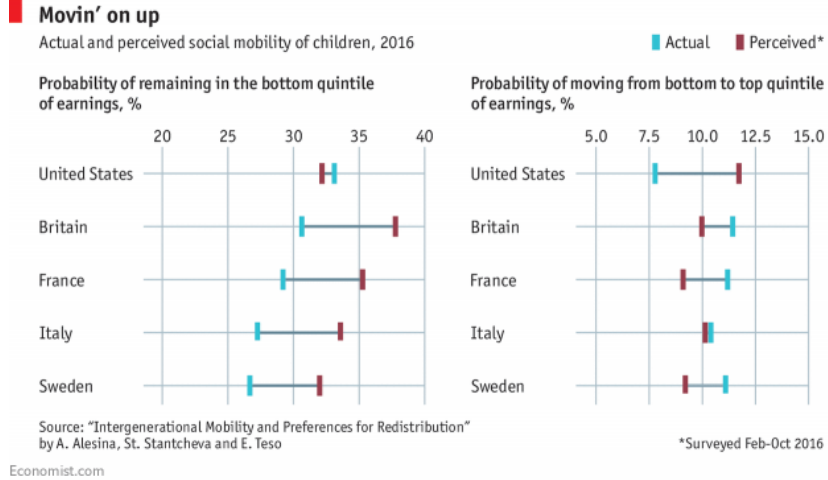


Sources: Glaze and Herberman 2013; Wainsley 2013; authors' calculations.
Note: All incarceration rates are from 2013, with the exception of the rates for Canada, Greece, Israel, the Netherlands, Sweden, Switzerland, and the United States; of these countries, all rates are from 2012, with the exception of Canada, whose rate is from 2011–12. The incarceration rate for the United Kingdom is a weighted average of England and Wales, Northern Ireland, and Scotland. For more details, see the technical appendix.



https://www.brookings.edu/wp-content/uploads/2016/06/v8_thp_10crimefacts.pdf

It's the Americans who see *la vie on rose*...



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<https://www.economist.com/graphic-detail/2018/02/14/americans-overestimate-social-mobility-in-their-country>

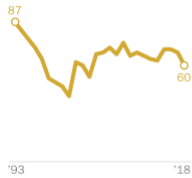
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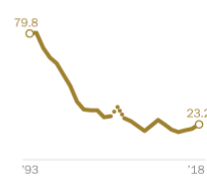
... except when it comes to crime

Public perception of crime rate at odds with data

% saying there is more crime in the U.S. than a year ago



Violent crimes per 1,000 people ages 12 and older



Note: 2006 Bureau of Justice Statistics (BJS) estimates are not comparable to those in other years due to methodological changes.
Source: Gallup, Bureau of Justice Statistics.

PEW RESEARCH CENTER

This misperception may help explain the lack of vocal public opposition to mass incarceration.



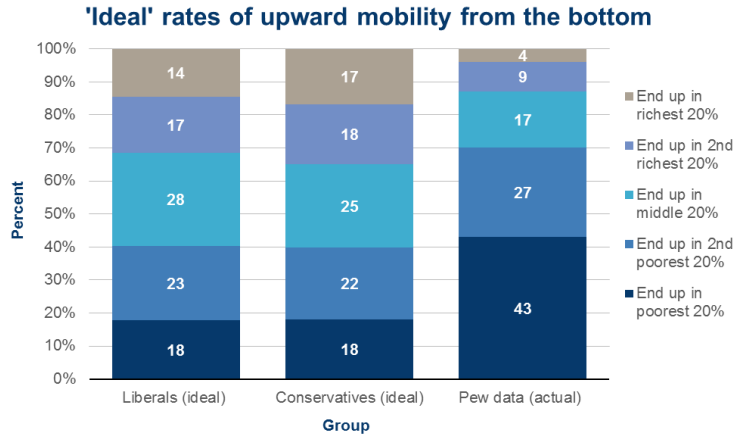
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<https://www.pewresearch.org/fact-tank/2019/10/17/facts-about-crime-in-the-u-s/>

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Bi-partisan desire for more upward mobility



Source: Davidai, S., & Gilovich, T. (2015). *Building a more mobile America—One income quintile at a time. Perspectives on Psychological Science, 10*, 60–71.

BROOKINGS

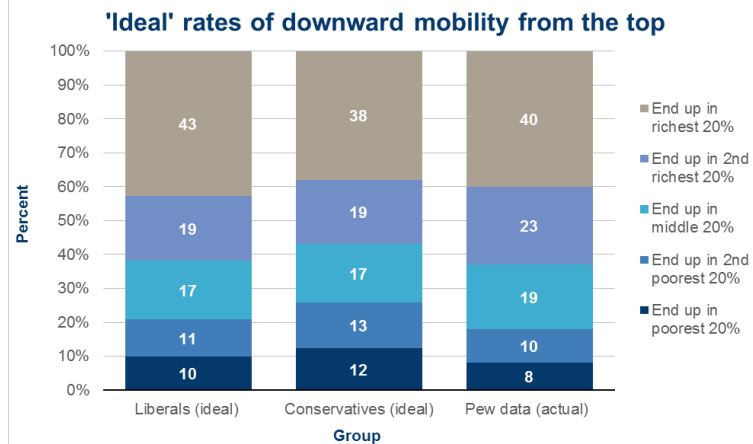


<https://www.brookings.edu/blog/social-mobility-memos/2016/01/12/how-much-social-mobility-do-people-really-want/>

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Bi-partisan agreement that more downward mobility is *not* desirable

This is inconsistent, since relative mobility is zero-sum: To have more *upward* mobility, there has to also be more *downward* mobility



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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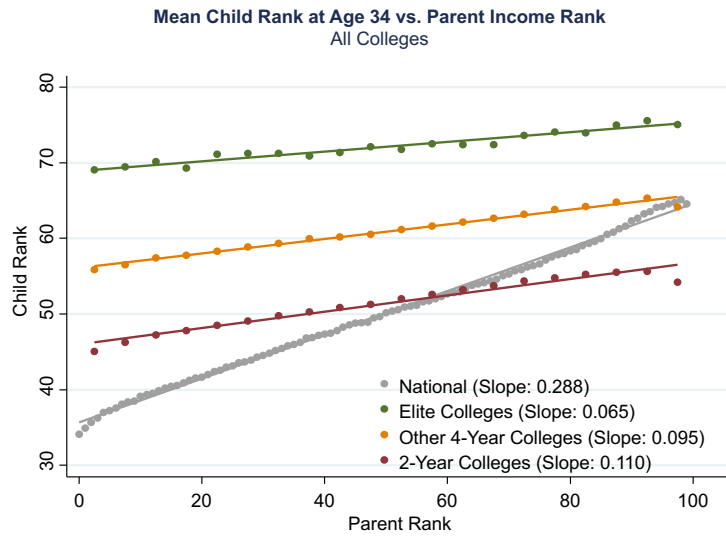


<https://www.brookings.edu/blog/social-mobility-memos/2016/01/12/how-much-social-mobility-do-people-really-want/>

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Higher education

Elite colleges offer the golden ticket...

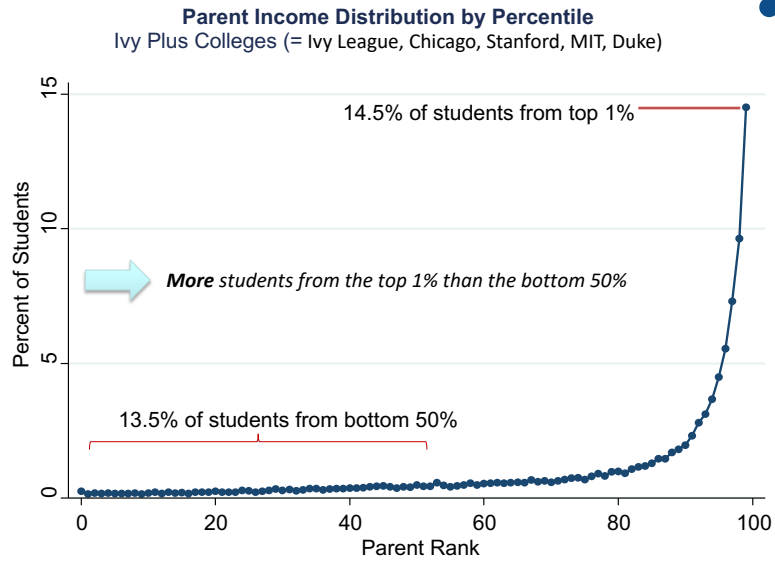


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Higher education

... but there are very few of those tickets available to children in the lower half of the income distribution (or even to children in the bottom 90%)

→ More likely to contribute to stickiness at the top than mobility from the bottom



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