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# Economic mobility



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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?
- II. What are the facts? Broad patterns
- III. Potential channels of upward mobility; evaluating higher education
- 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 two 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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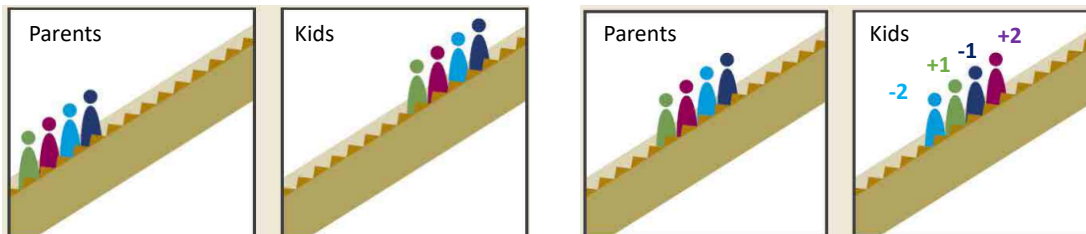
# Absolute vs Relative: Escalator Analogy

- **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.
- **Can there be relative mobility with NO absolute mobility?**
  - Yes: There can be a dramatic reshuffling of the distribution without a change in the average



## Economic Growth and Mobility

- **Economic growth should drive absolute mobility**
  - If the gains are distributed to all.
- **Economic growth can coexist with zero *relative* mobility**
  - However, low mobility can lead to sluggish growth
- **High inequality is more easily tolerated if mobility is high**
  - But does high inequality allow for high mobility in practice?



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## II. What are the facts? Broad patterns

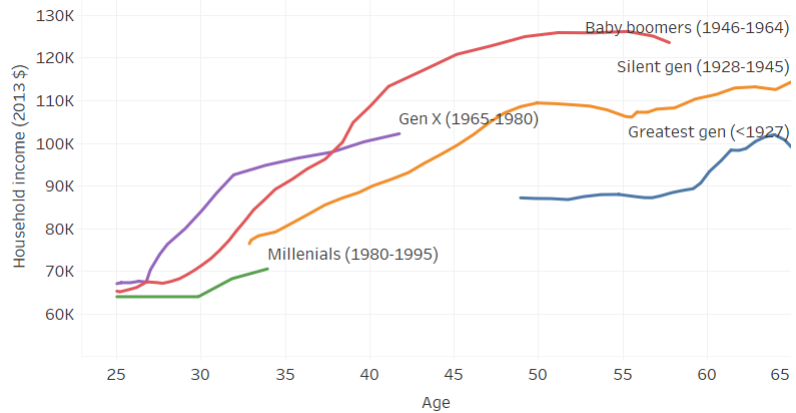
What are observed levels of mobility?



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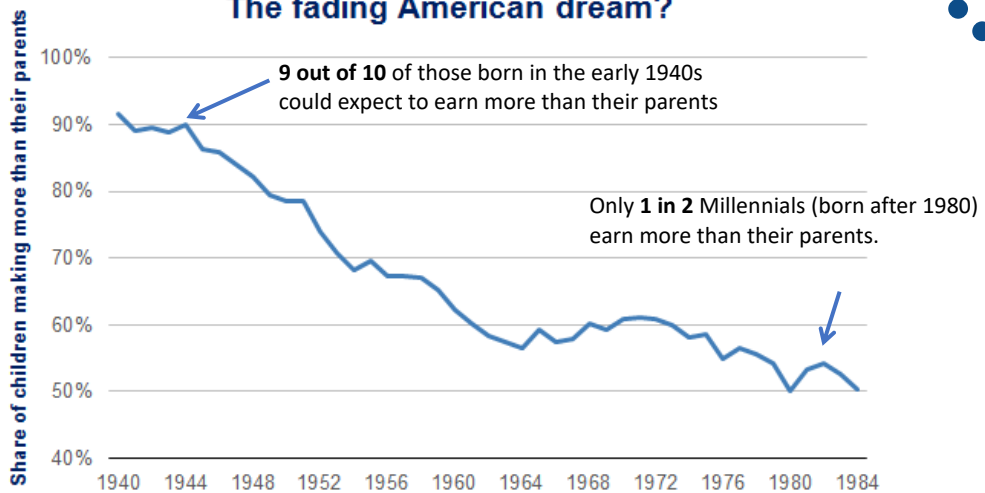
# Absolute mobility in the US

I use a longitudinal panel dataset, which tracks the same families and their descendants across time, starting in 1969



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# The fading American dream?

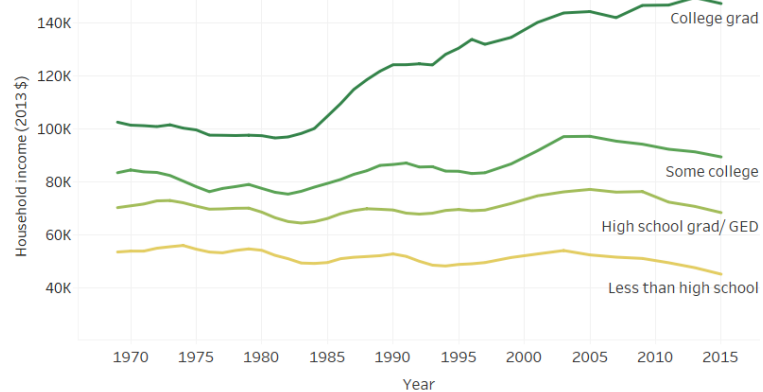


Source: Chetty et al., "The fading American dream: Trends in absolute income mobility since 1940"

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## Absolute mobility in the US

Only college graduates have had real gains.



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PSID data, my calculations

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## Absolute mobility in the US

- **There has been a *decline in absolute mobility* in the United States**
  - Newer generations no longer reliably out-earn their parents
- **The income distribution has widened**
  - Returns to a college education have increased.
  - Incomes for those without a college degree have stagnated or even decreased.
- **Is there *relative* mobility?**



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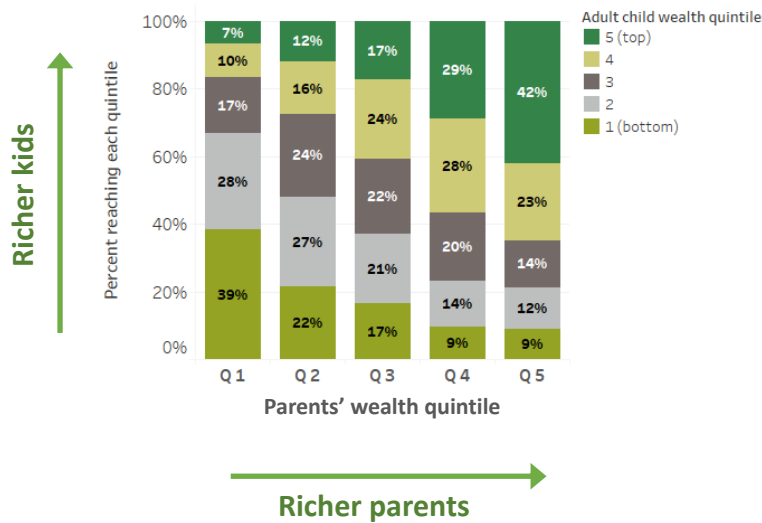
## Measuring relative mobility

### Multiple ways to measure relative mobility:

1. Transitions across quintiles in the income/wealth distribution.  
E.g., what share of children born in poor families (bottom 20%) become well-off (top 20%)?
2. Correlation between income/wealth rank across generations  
On average, how much higher in the distribution is a child if her parents are 1 decile higher?

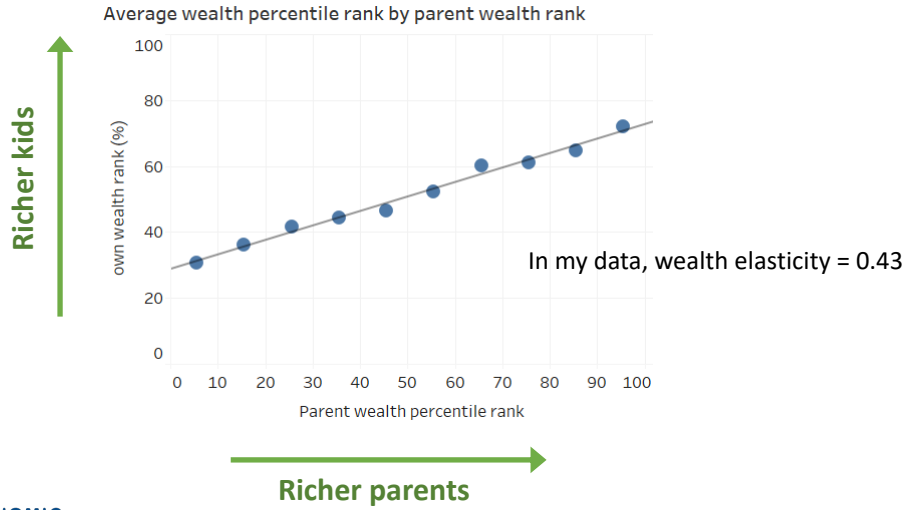
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## Measuring relative mobility: wealth transition chart



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## Measuring relative mobility: intergenerational elasticity



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## Measuring relative mobility – context and movement

### Questions:

- How does the US compare to other developed countries?

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## Measuring relative mobility – context and movement

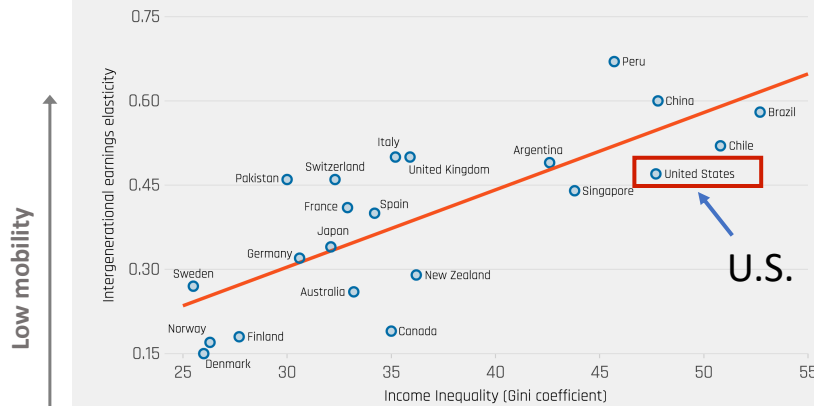
### Questions:

- **How does the US compare to other developed countries?**
  - Not very favorably
    - Kids from low income households in Denmark, Norway, Canada are almost twice as likely to rise than in the US
  - Lower mobility is correlated with high income inequality

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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]



High inequality

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## Measuring relative mobility – context and movement

### Questions:

- How does the US compare to other developed countries?
  - Not very favorably
    - Kids from low income households in Denmark, Norway, Canada are almost twice as likely to rise than in the US
  - Lower mobility is correlated with high income inequality
  
- Has relative mobility changed over time?

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## Mobility over time



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## Measuring relative mobility – context and movement

### Questions:

- **How does the US compare to other developed countries?**

- Not very favorably
  - o Kids from low income households in Denmark, Norway, Canada are almost twice as likely to rise than in the US
- Lower mobility is correlated with high income inequality

- **Has relative mobility changed over time?**

- Typical finding: no change in relative income mobility (Gen X vs Millennials)
- I find some evidence of increased wealth persistence

**Next: what determines mobility?**



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PSID data, my calculations

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## III. Potential channels of upward mobility; evaluating higher education

Theoretical considerations and empirical evidence



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## Channels to Upward Mobility

### Healthy *development* takes many ingredients:

- *Birth lottery and early advantages:*
  - Genetic and epigenetic traits; pre-natal care
  - Clean water and air; nutritious food
  - Early and K-12 education – teachers matter
  - Mentors and role models
  - Social capital (networks, trust)
- *Access to **higher education***
  - Merit-based admission (?)
  - Affordable



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## Channels to Upward Mobility, cont'd:

### To flourish as an adult, a young person also needs:

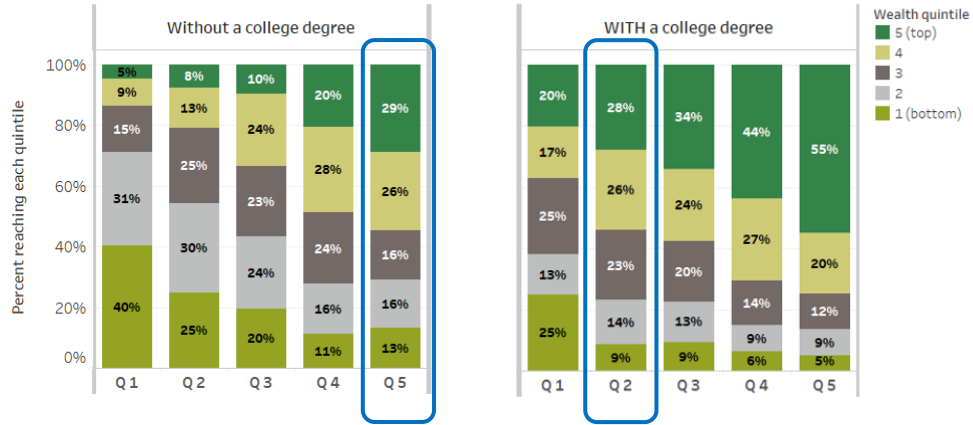
- The basic support of an enlightened and fair society
  - Effective access to family planning
  - Freedom from harassment and arbitrary criminal prosecution
  - Freedom from non-discretionary debt
- Access to lucrative employment or business ownership
  - Availability of good jobs
  - Nepotism-free and unbiased internships, networking, hiring and promotion
  - Access to initial capital to start a business
- Access to wealth-building assets and strategies
  - Financing to buy a house; tax-deferred accounts

**Next: let's evaluate education!**



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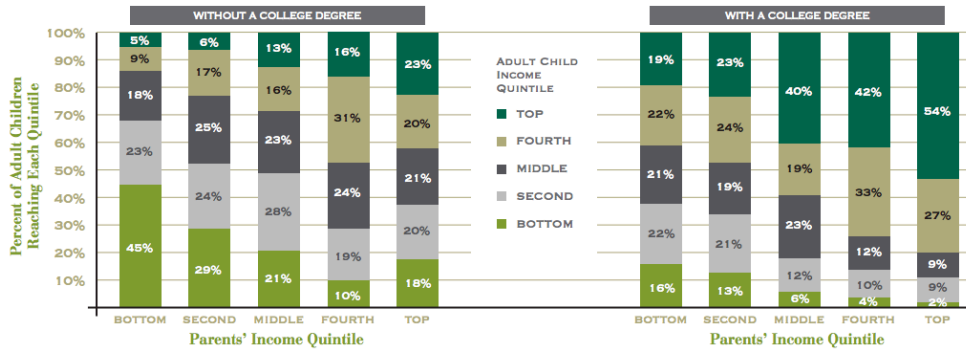
# Mobility by education



A college diploma is a wealth equalizer

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(this is consistent with what others found for income)

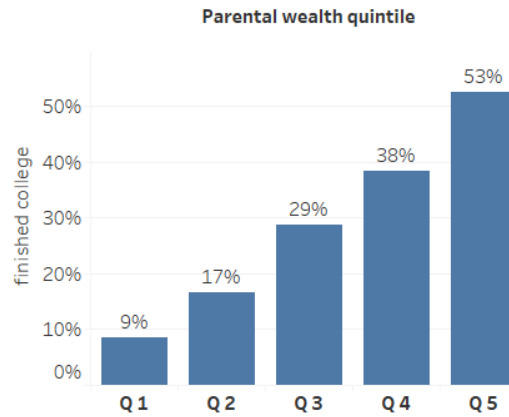


Problem solved!

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## Higher education access

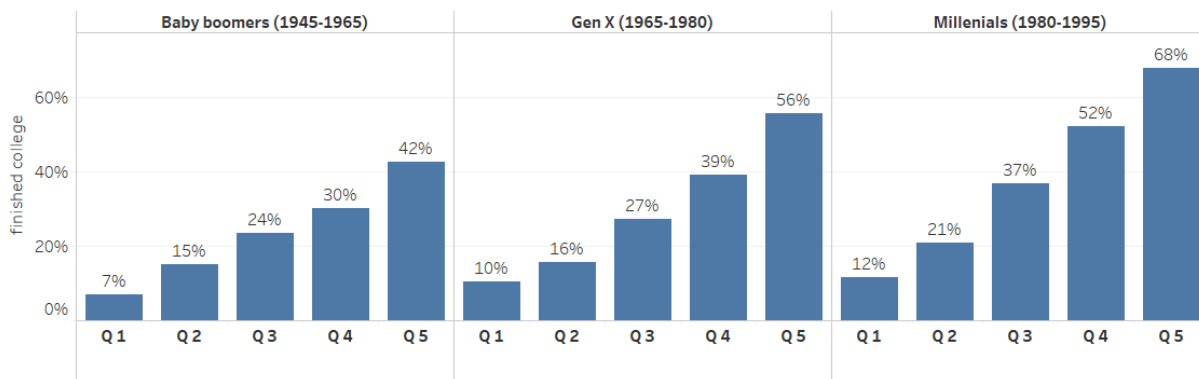
- Is access to college meritocratic?
- Probability of earning a 4-year college degree, by parental wealth:



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## Higher education access, over time

- Higher rates of college completion over time, increasing importance of wealth



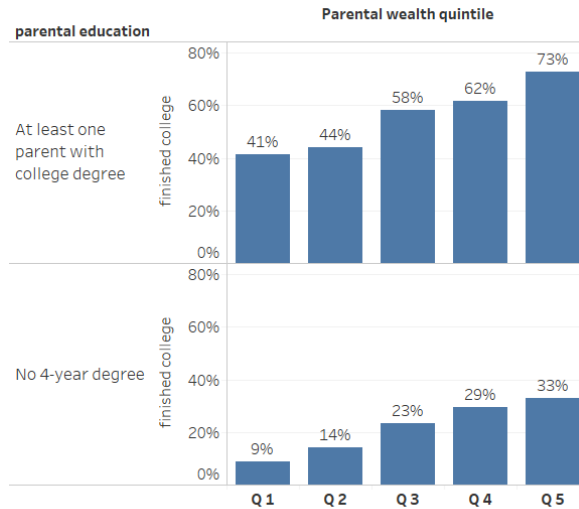
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## Higher education access, by parental education

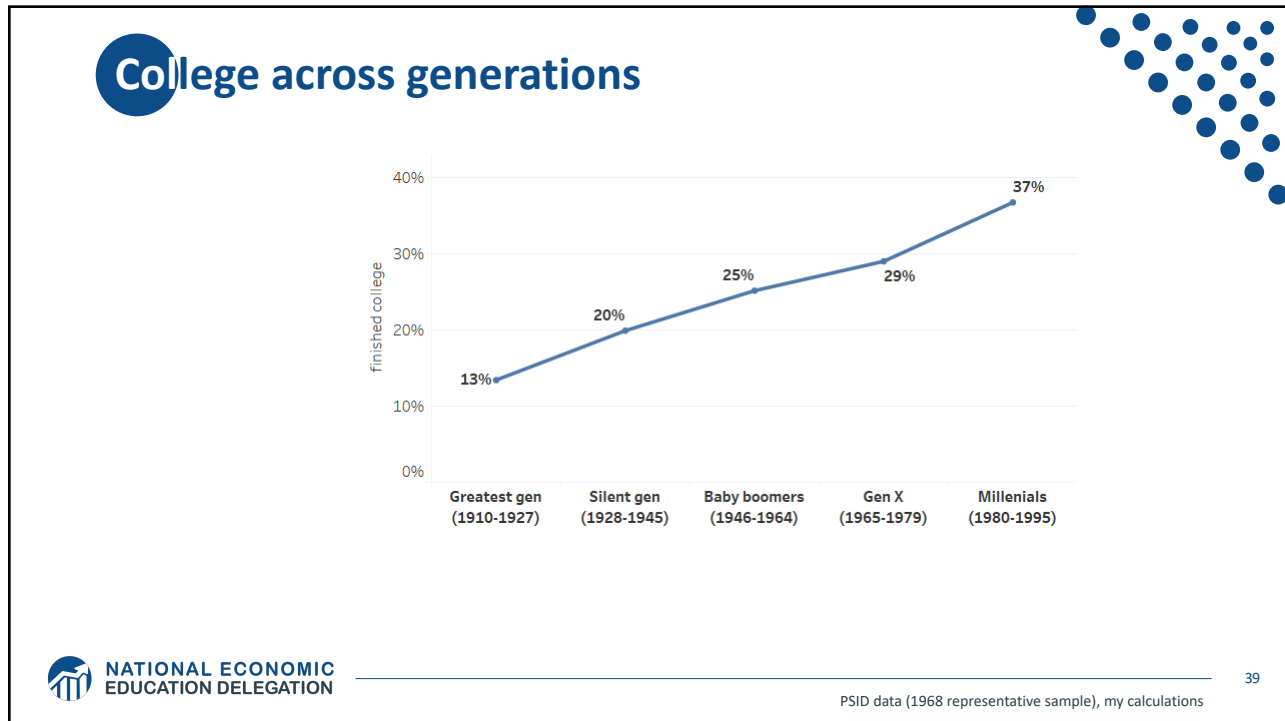
Parental education matters more than wealth!

What does this say about meritocracy in higher education?

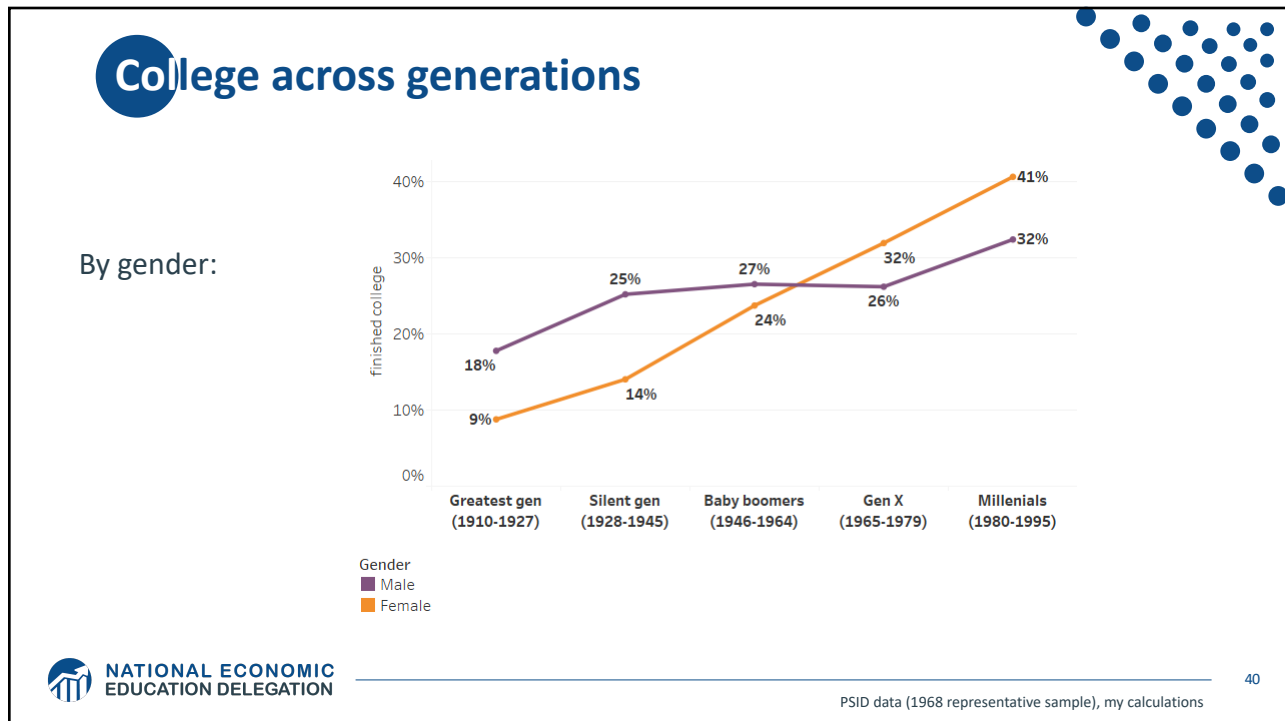


## Mobility through education?

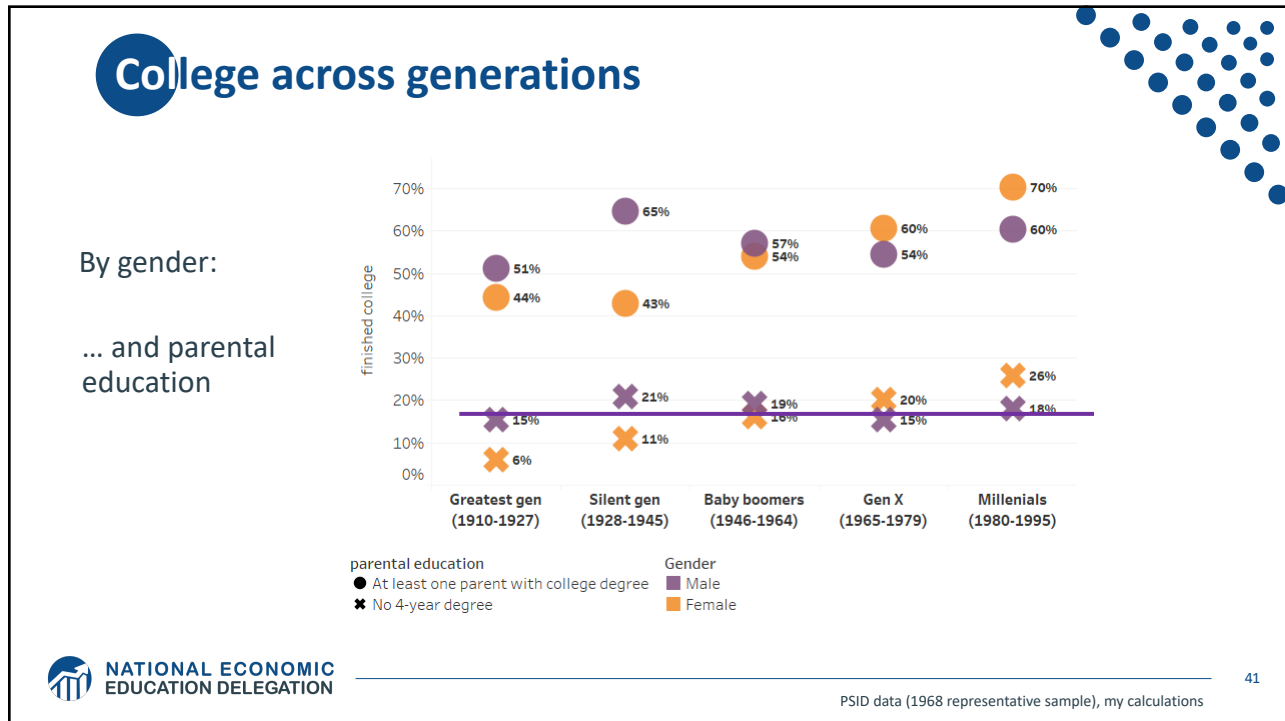
- **Is there access to higher education, regardless of wealth?**
  - Yes (as long as your parents went to college – otherwise no)
- **Is there *increasing* access to higher education?**



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## Mobility through education? Conclusion

- **Is there access to higher education, regardless of wealth?**
  - Yes (as long as your parents went to college – otherwise no)
- **Is there *increasing* access to higher education?**
  - Only for women
  - Low parental achievement continues to be barrier
    - Working class men are as likely to get a college degree as their grandfathers
    - Women and minorities from educated families have surpassed them

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PSID data, my calculations

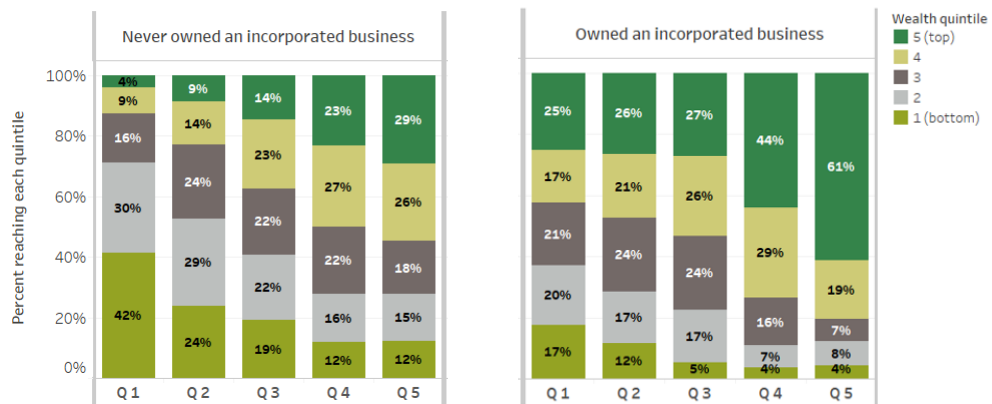
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## Mobility through business ownership?

- What about *entrepreneurship* as a path to the American Dream?

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## Mobility through business ownership



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## Mobility through business ownership?

- What about *entrepreneurship* as a path to the American Dream?

We find the same pattern as with education:

- Business ownership helps (incorporated business)
- But access is highly contingent on parental experience and wealth

### Conclusion?

- The rhetoric that “you can make it if you try” is deceptive

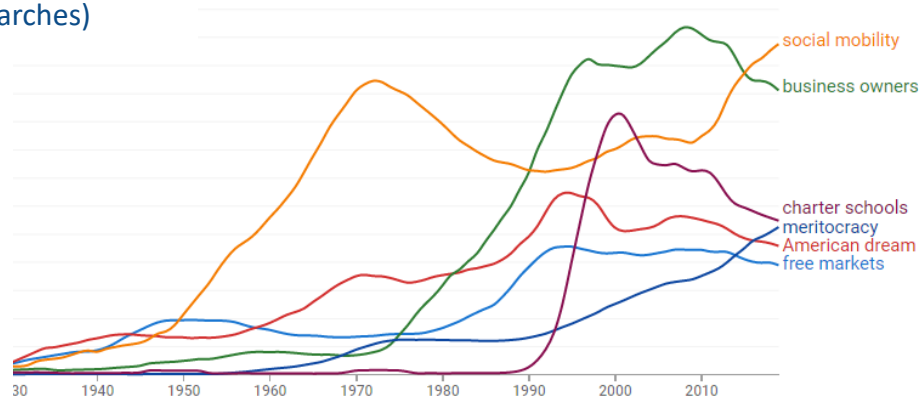
- *Some* do make it
- But most don't

→ Is it productive to tell them they just need to try harder?



## The rhetoric changes...

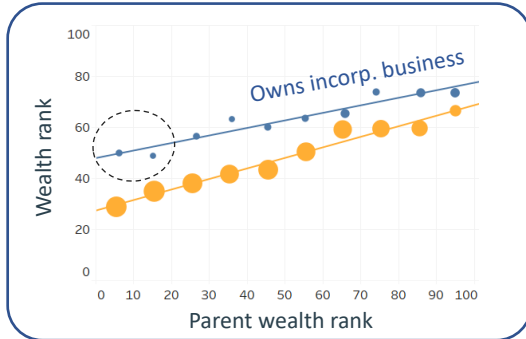
Google Books Ngram  
(text searches)



## The reality is different

Business ownership and higher education are poor engines for mobility.

People whose parents did not own a business:

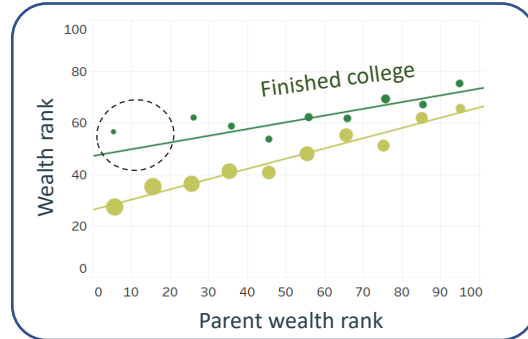


Number of Records: 16, 50, 100, 150  
 Business ownership: Never owned an incorporated business, Owned an incorporated business



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People whose parents did not finish college:



Number of Records: 13, 50, 100, 150  
 college grad: no college degree, college grad

Graph from Sarada and Tocoian (2018)

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## Empirical Findings in the Broader Literature

- **Many of the channels we listed were found to matter**
  - E.g. food deserts, environmental pollution, low job availability are all barriers
- **Identification of *precise causal* effects can be difficult**
  - E.g. how much extra funding will increase a school's graduation rate by 10%?
- **We have improved empirical methods (econometrics, Big Data) which give us a progressively clearer picture**
  - E.g. we can compare the *marginal value of public funds* (MVPF) across public policies <https://www.policyinsights.org/>  
 (spoiler: policies which help low-income kids have the best social returns)



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



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## Dimensions of disparate mobility

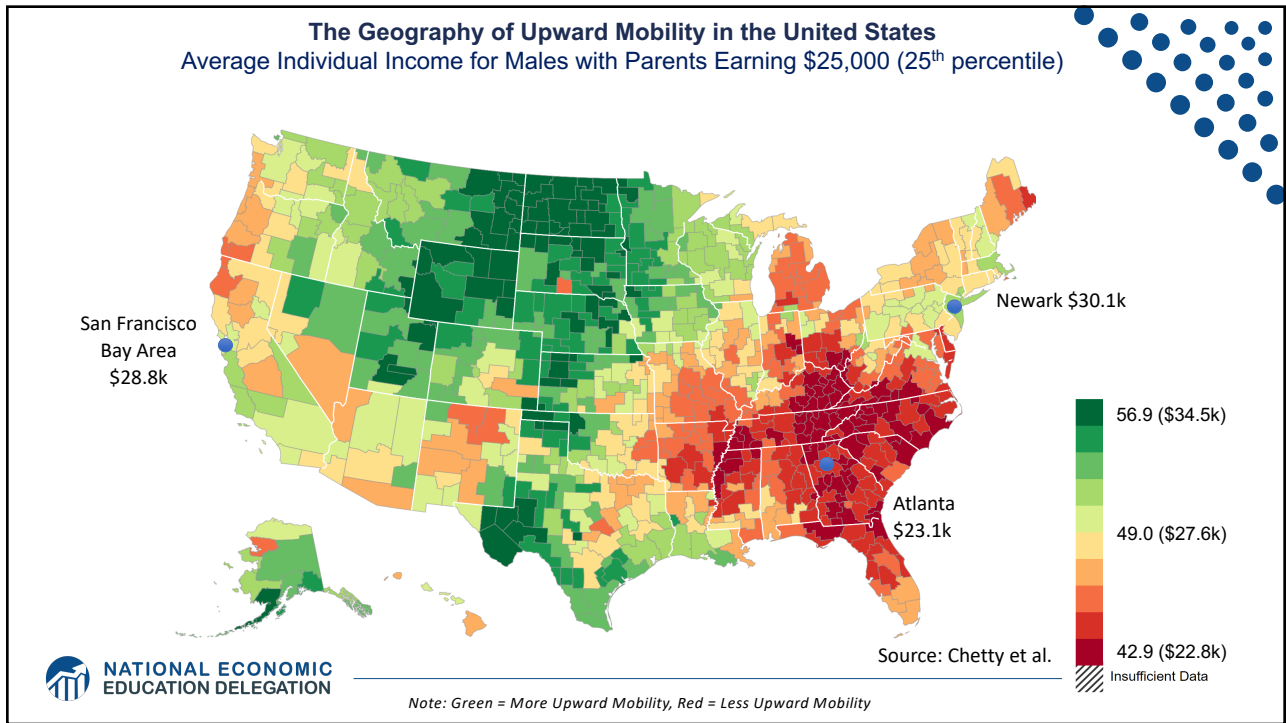
The most significant dimensions of inequity in mobility are:

- Race
- Geography (at all levels)

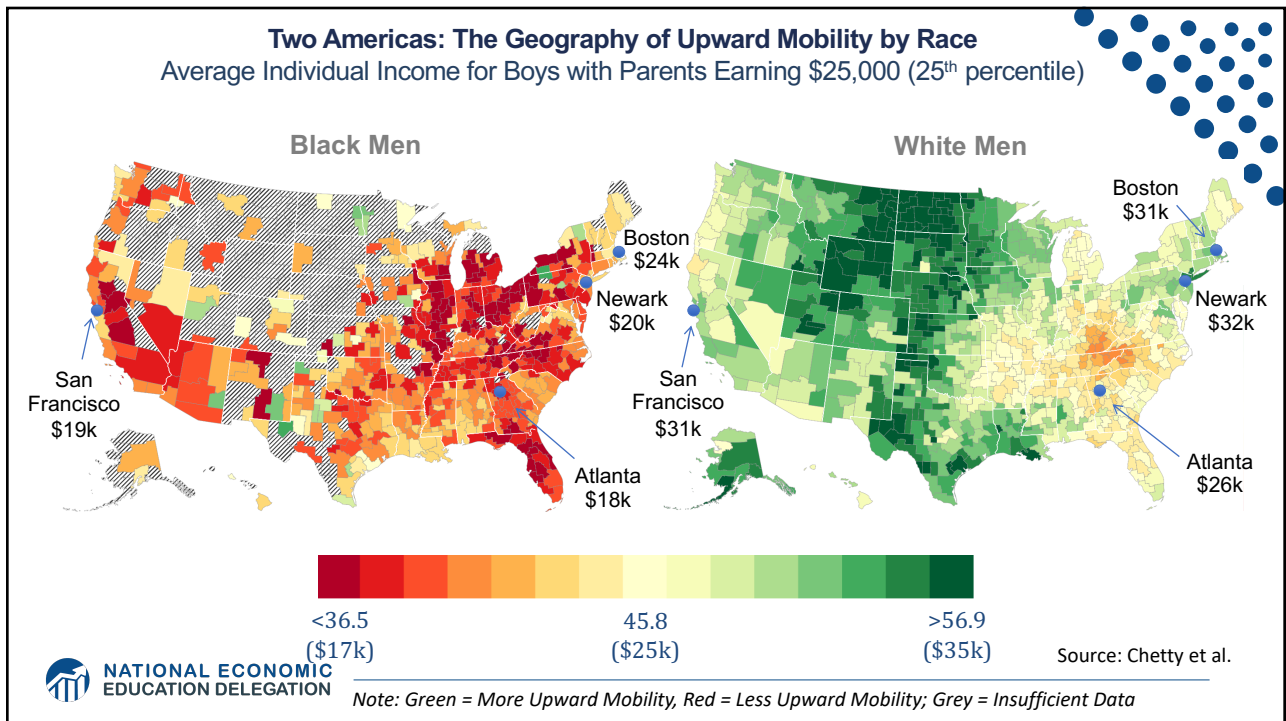
**These are interconnected, and they both correlate with access to higher education, business ownership, environmental pollution, access to jobs, etc.**



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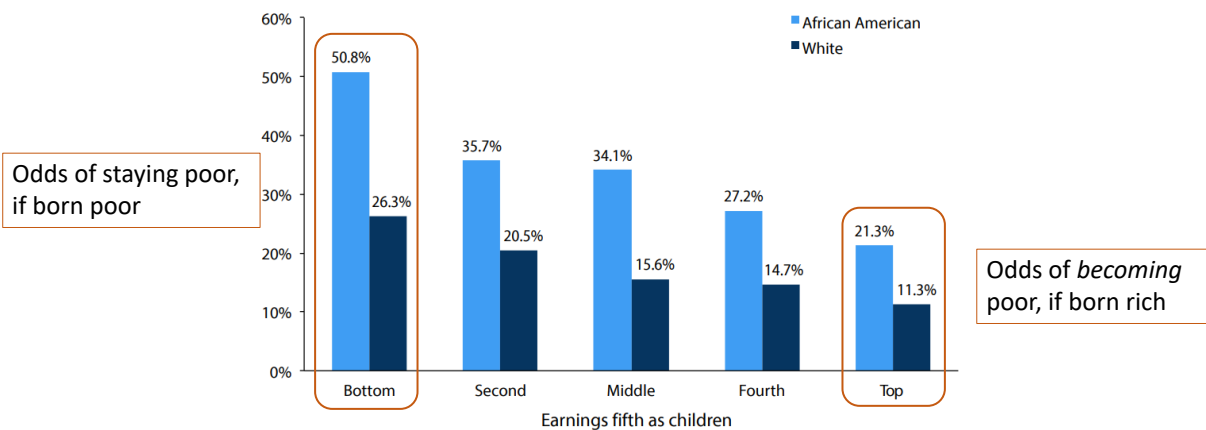


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## U.S. – racial differences

**Figure 3L** Share of children from various earnings fifths ending up in the bottom fifth as adults, by race

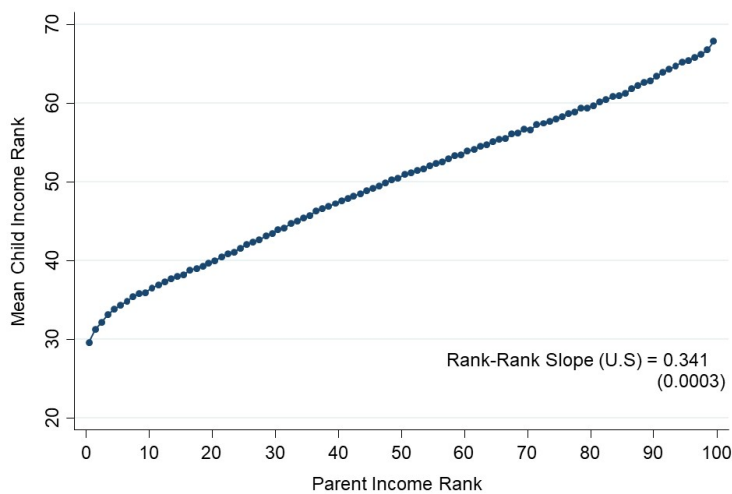


Source: Authors' analysis of Mazumder (2011, Table 7)

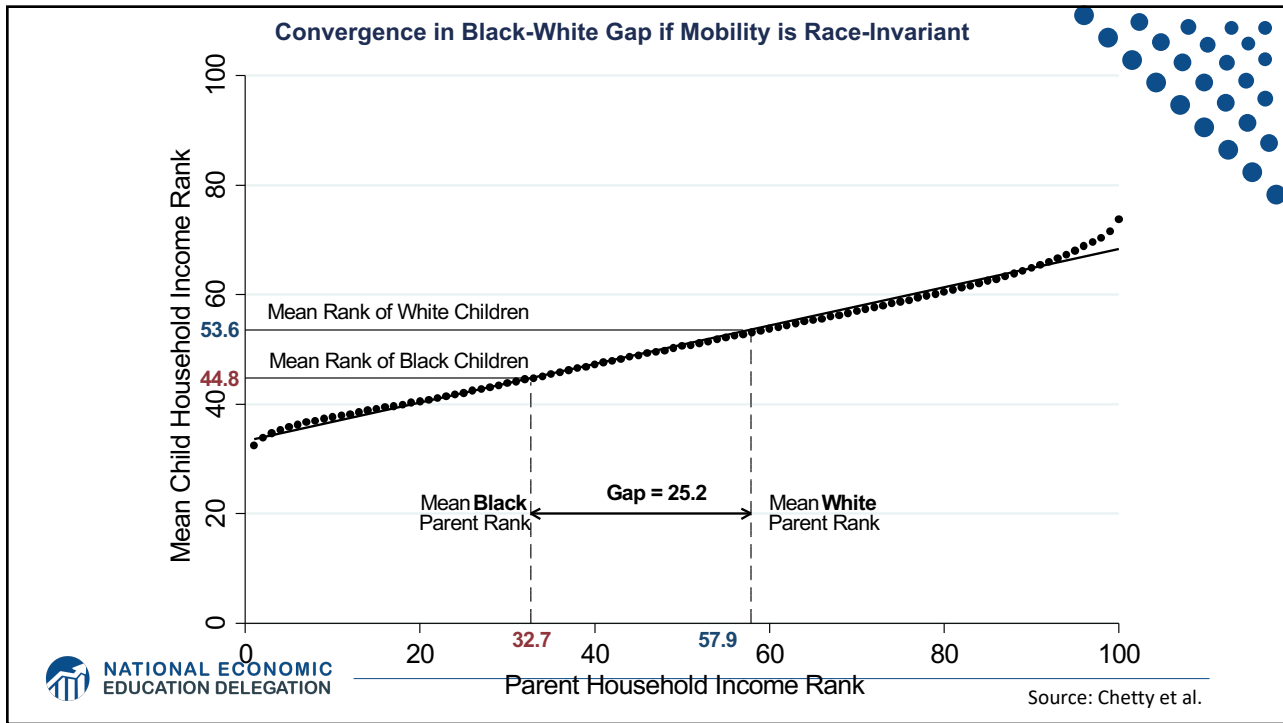
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## Relative Mobility – Rank Correlation

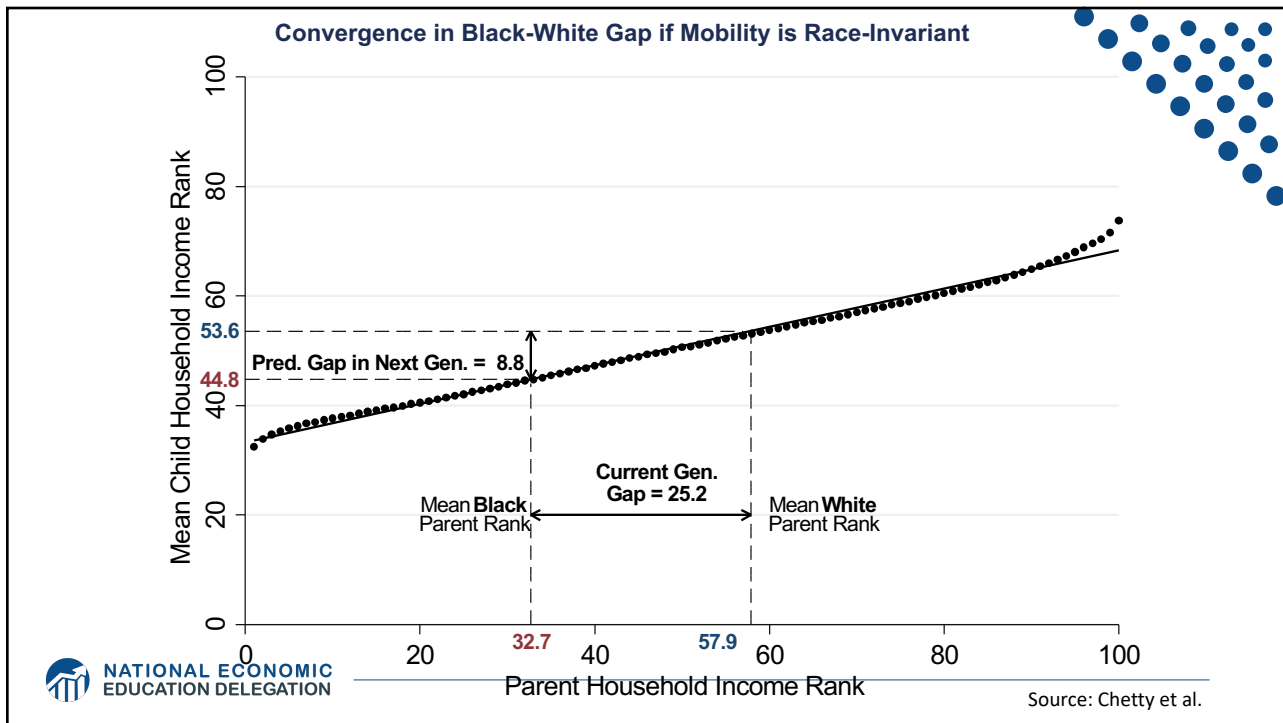
Mean Child Percentile Rank vs. Parent Percentile Rank



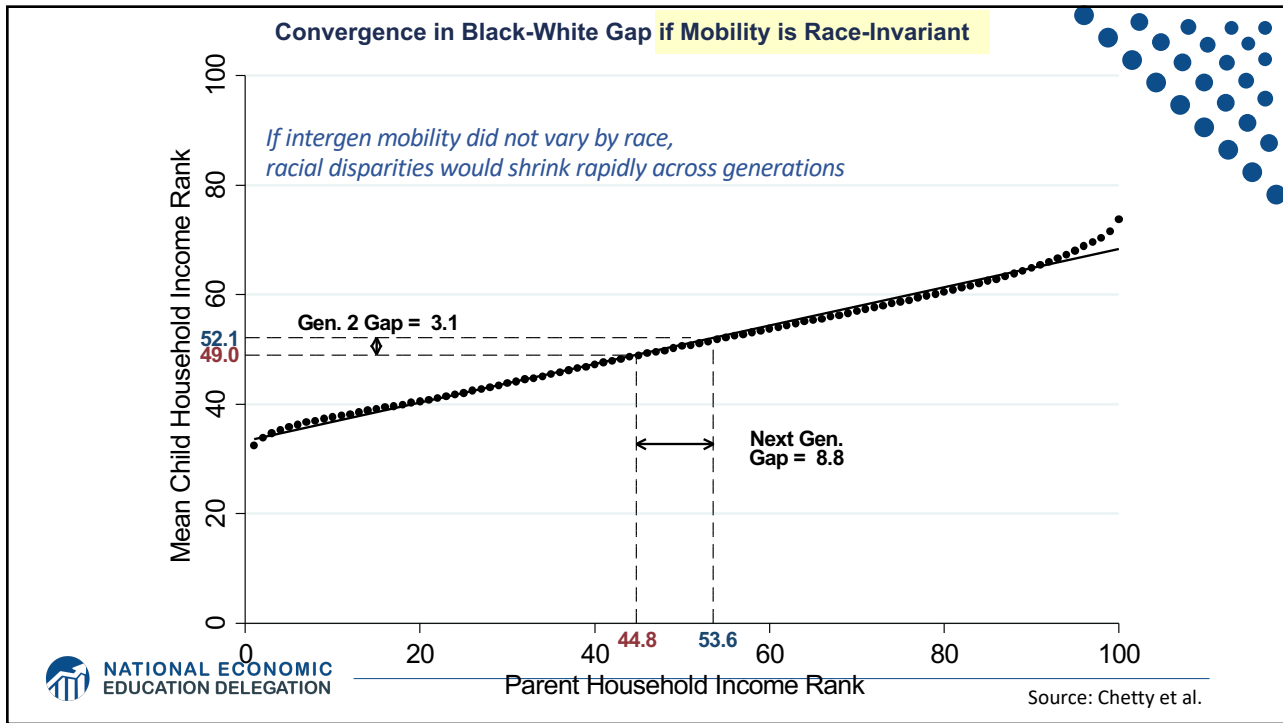
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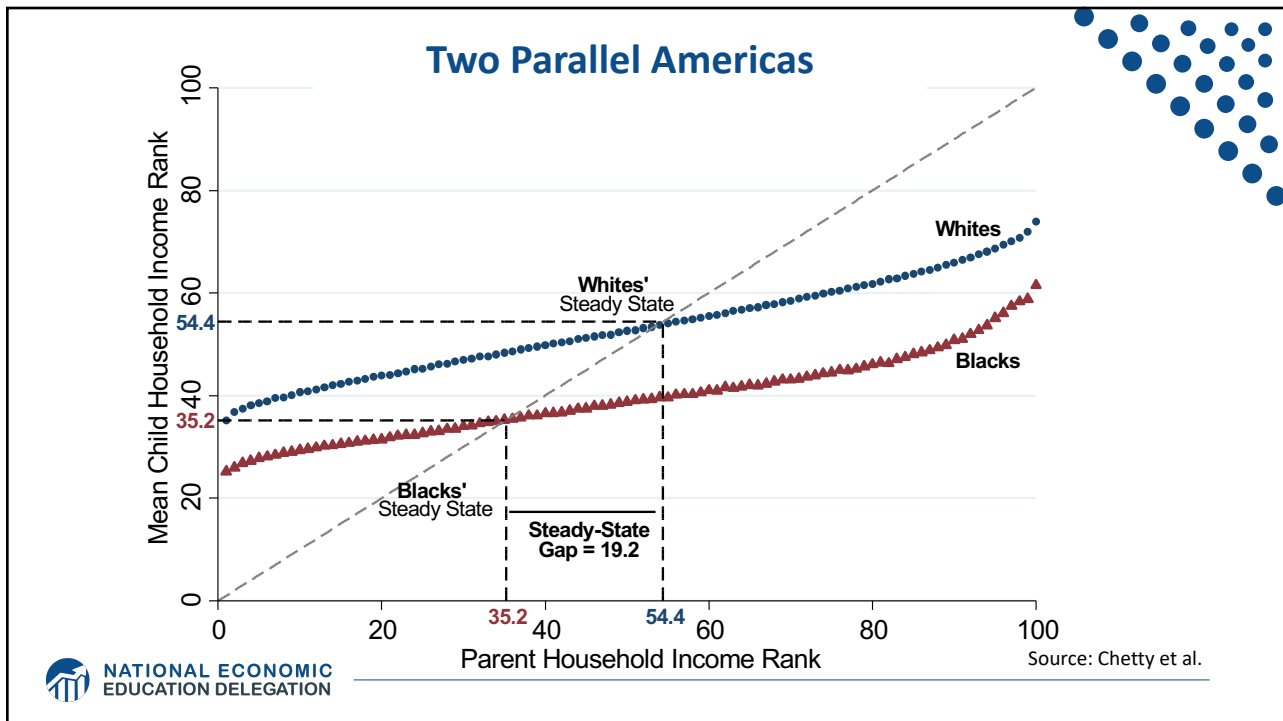
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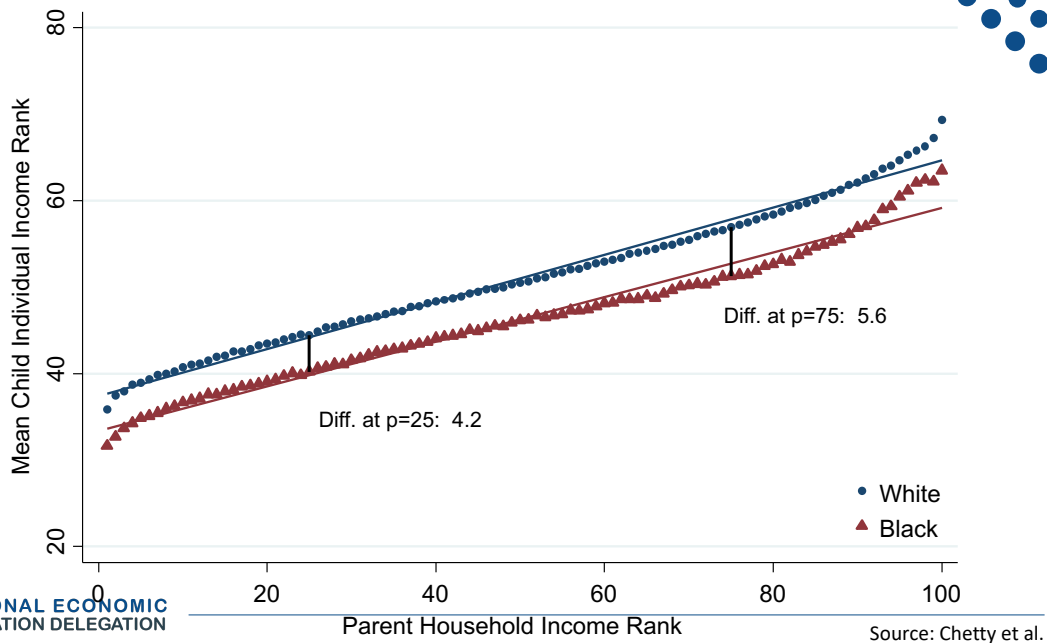
## Black families are not catching up

- **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?**

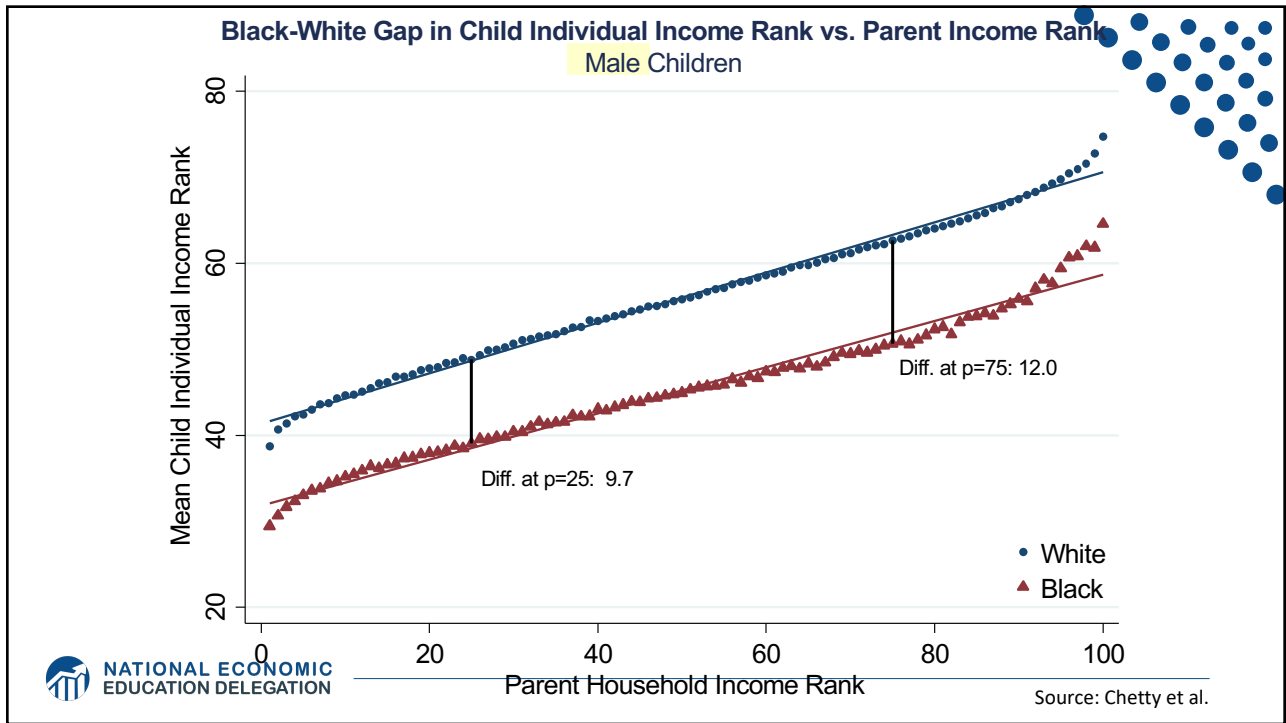


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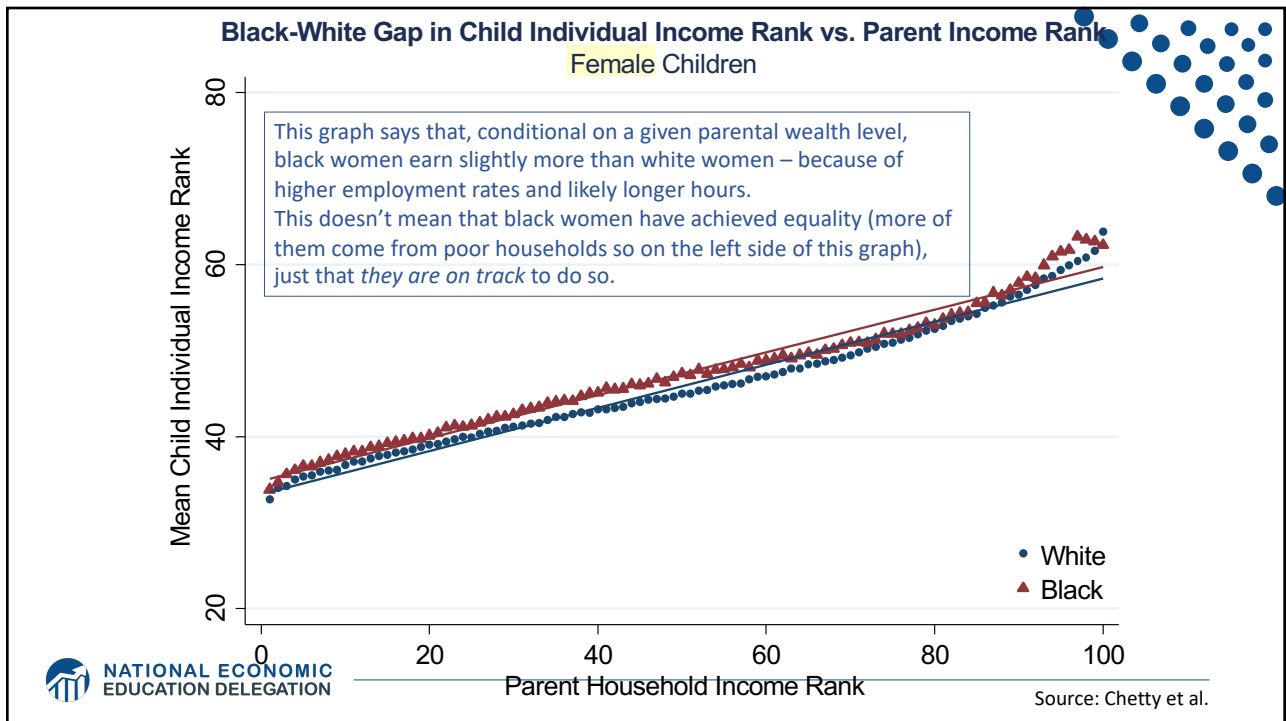
Black-White Gap in Child Individual Income Rank vs. Parent Income Rank



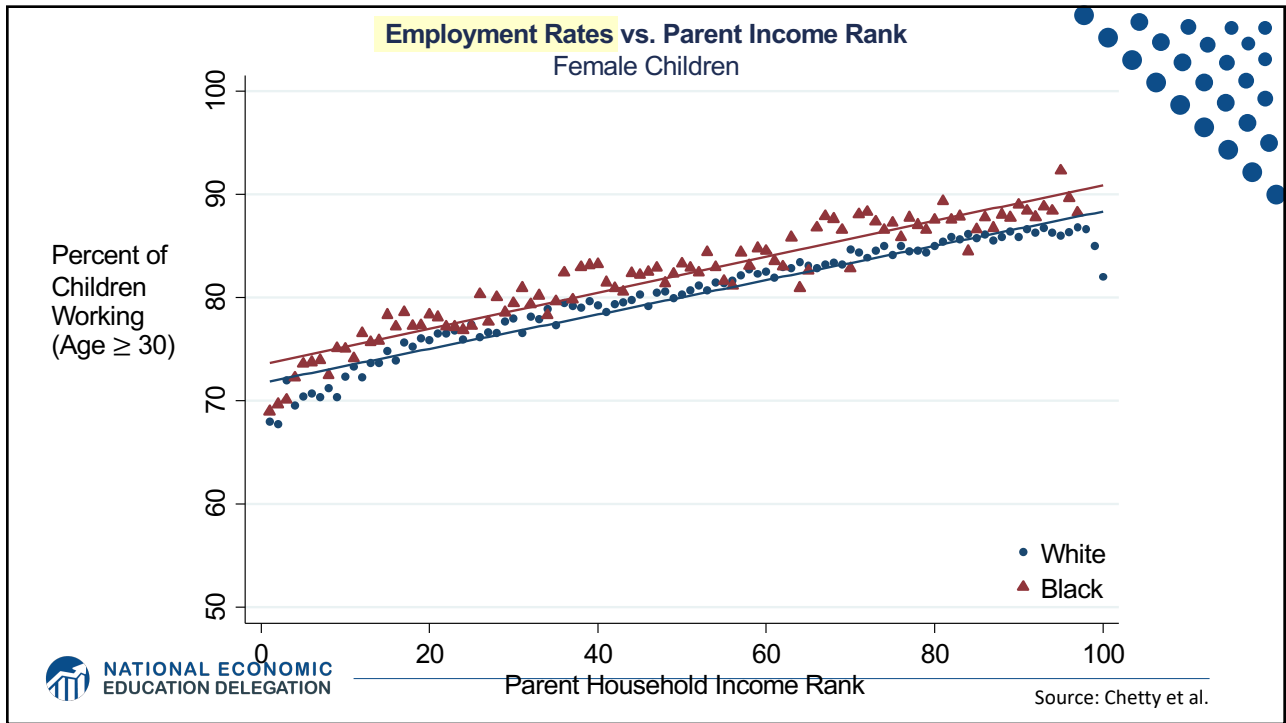
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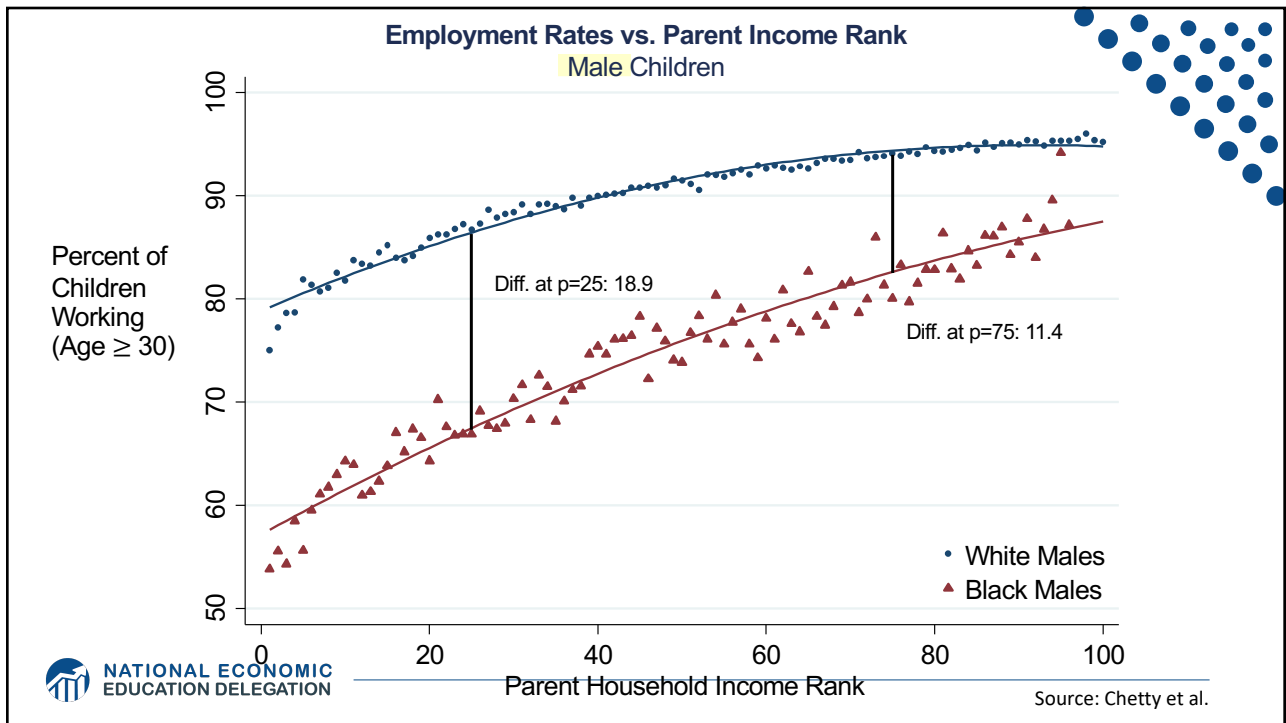
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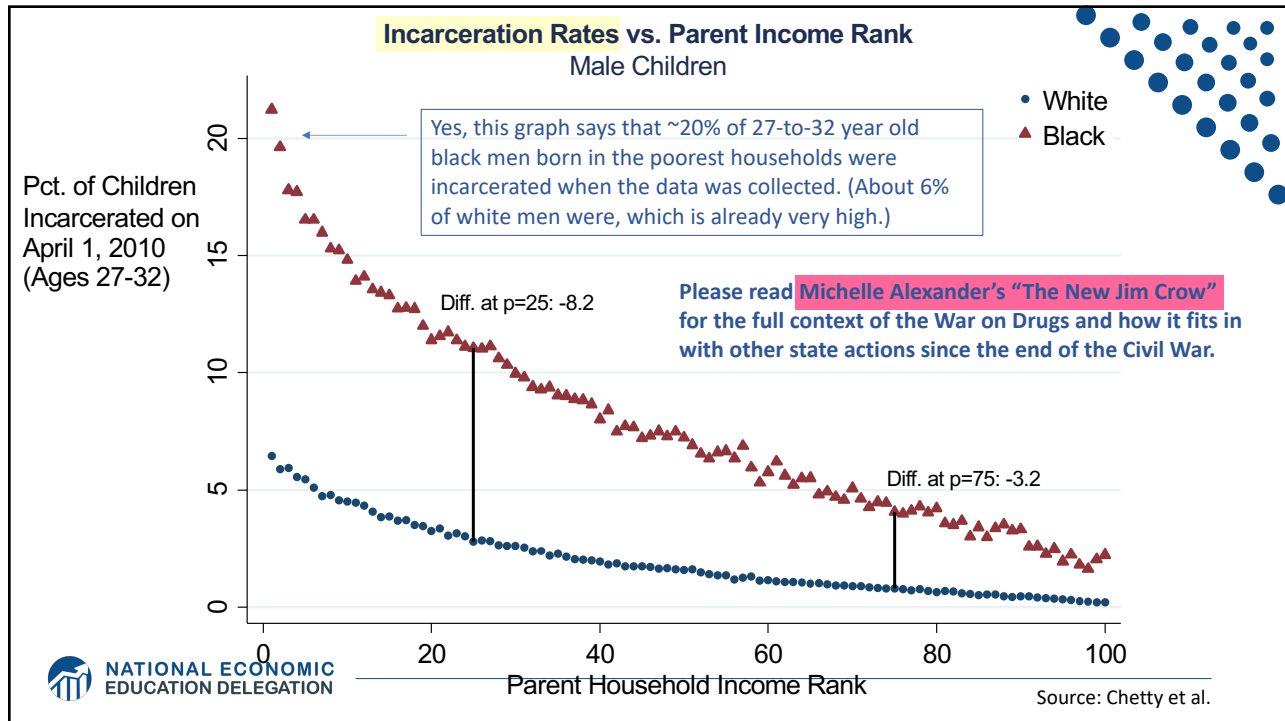
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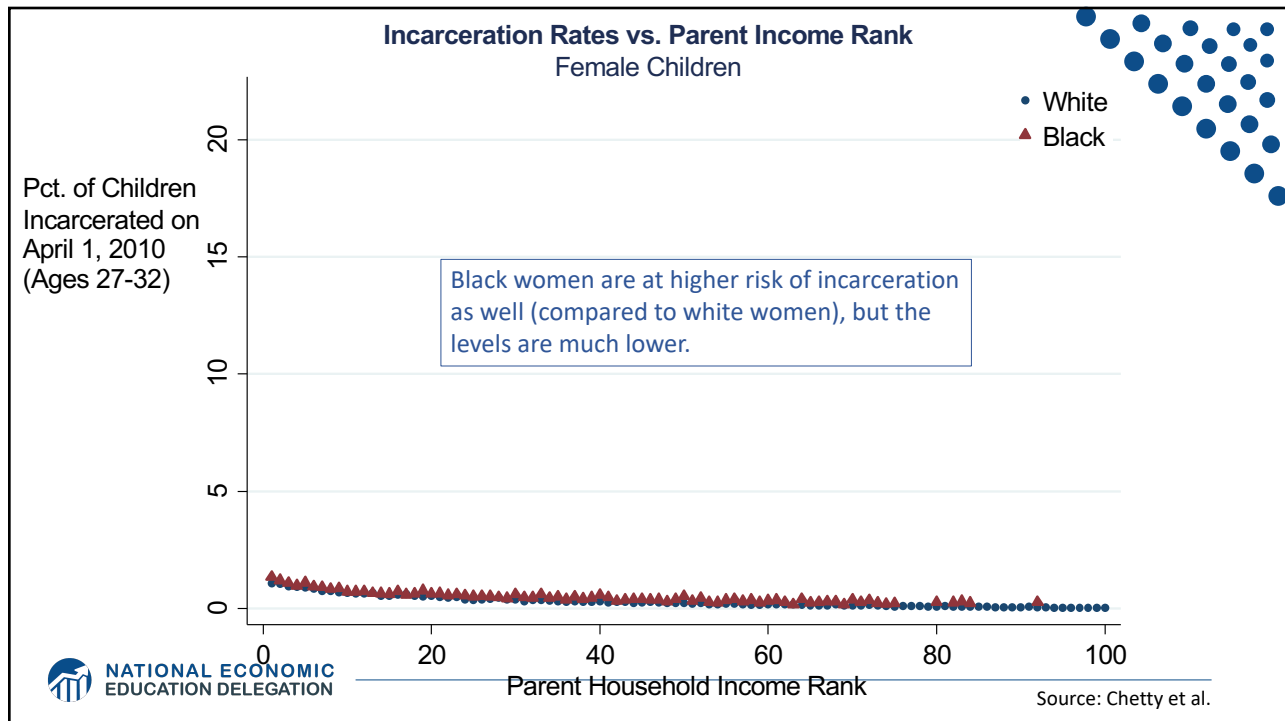
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## Black families are not catching up

- **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
- **Why?**
  - Shockingly high rates of incarceration of black men
  - Recent phenomenon, linked to the War on Drugs



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## Summary and conclusions, I

- **Absolute vs Relative mobility vs Inequality**
  - Although mobility excuses inequality, in practice inequality limits mobility
- **Absolute mobility has declined over the past century**
  - only 50-50 chance that American Millennials earn more than their parents did
- **Relative mobility (churning) in the U.S. is lower than elsewhere**
  - Relatively stable, but with increasing inequality and stickiness at the top



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## Summary and conclusions, II

- **Fallen heroes: education and entrepreneurship**
  - Higher education and entrepreneurship have become more effective at entrenching inequalities than at enabling mobility.
- **Urgent problem of mass incarceration threatens to prevent convergence across race**
- **Need bold change, including but not only:**
  - Reforming the criminal justice system, de-stigmatizing felons
  - Intervening in the labor market to create decent jobs
  - Desegregating neighborhoods and schools (how is this still a thing??)
  - Honoring the universal right to education and healthcare



## Summary and conclusions, III (extra)

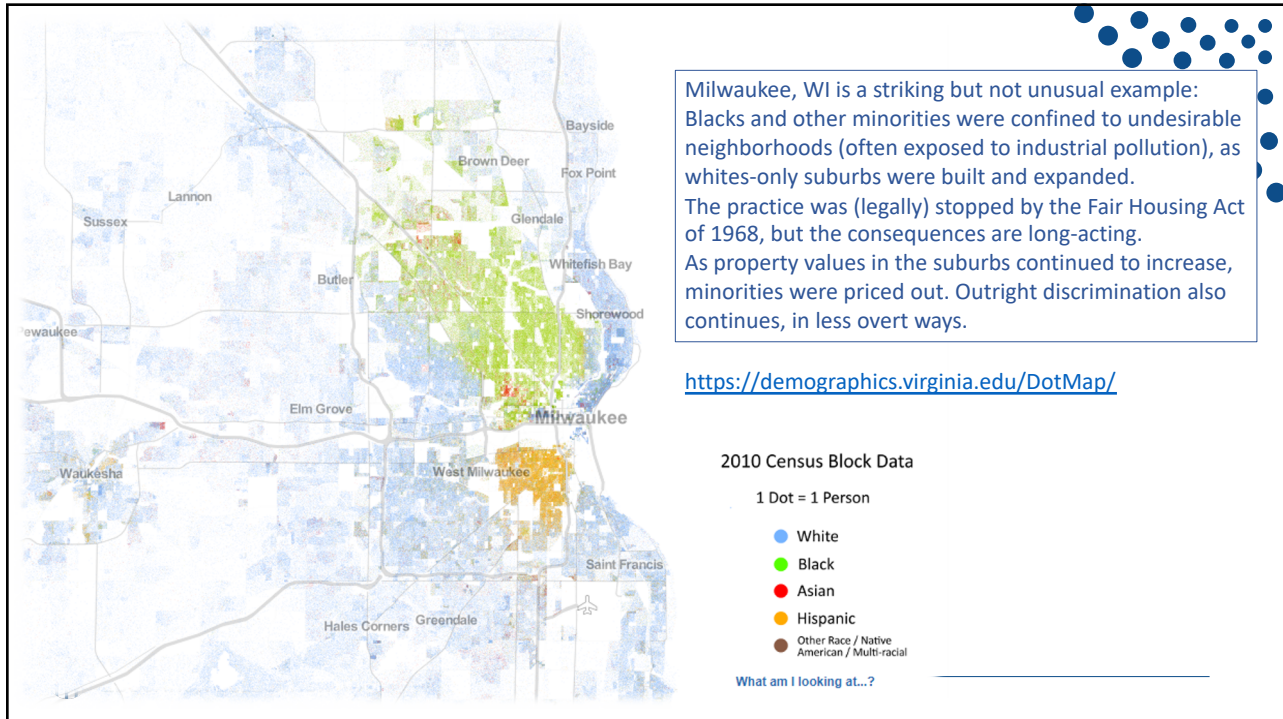
### Some other needed reforms:

- Impose a more aggressive tax code (e.g. on inherited estates), close tax loopholes
  - Enforce antitrust laws to break up monopolies and give new entrants a better chance to compete. (Another reason to worry about large corporations is their influence on policy)
  - De-link public school funding from local property values
    - o (attendee-shared link: <https://www.nytimes.com/2020/07/23/podcasts/nice-white-parents-serial.html> Thanks!)
  - Increase funding for state schools (including vocational, not just college)
- **Residential segregation is at the root of a lot of the problems we face.**

(causing not just unequal access to education, but also police abuse and cultural disconnect)

    - Race-coded maps of American cities are an embarrassment (see the next slide)
    - Informative clip about redlining: <https://www.youtube.com/watch?v=O5FBJyqfoLM>
    - For more on this history, read **“The color of law” by Richard Rothstein.**





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# Thank you!

## Any Questions?


[www.NEEDelegation.org](http://www.NEEDelegation.org)

Oana Tocoian; [otocoian@ucsd.edu](mailto:otocoian@ucsd.edu) → Please send me your follow-up questions and suggestions.

Contact NEED: [Info@NEEDelegation.org](mailto:Info@NEEDelegation.org)

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## Citations and recommendations

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 (see also [opportunityatlas.org](#) and [policyinsights.org](#))

Other sources used and recommended:

- **Brookings Institute** – [Brookings.edu](#) (see their [report](#) on economic mobility)
- **The Washington Center for Equitable Growth** – [EquitableGrowth.org](#) ([report](#))
- **The Urban Institute** – [Urban.org](#)
- **The Economic Policy Institute** – [epi.org](#)
- **Pew Research Center** – [pewresearch.org](#)

### Book recommendations

- Michelle Alexander – “The new Jim Crow”
- Michael Sandel – “The tyranny of merit”; Daniel Markovits – “The meritocracy trap”
- Peter Temin – “The vanishing middle class”
- Robert Putnam – “Our kids”; Richard Reeves – “Dream hoarders”

(These are all informative *and* engaging reads – no special qualifications or extra coffee needed! Although, you *may* need a stiff drink on occasion...)

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## Bonus slides

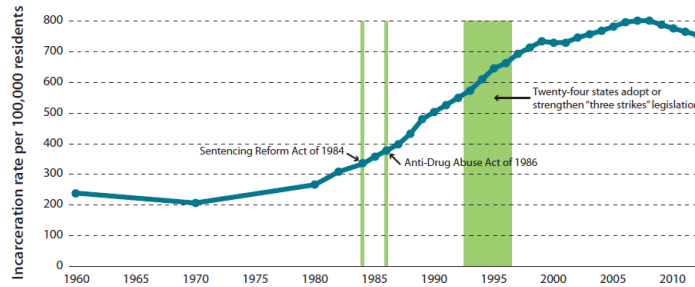


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## The rate of incarceration in the US nearly quadrupled from 1970 to 2010...

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.

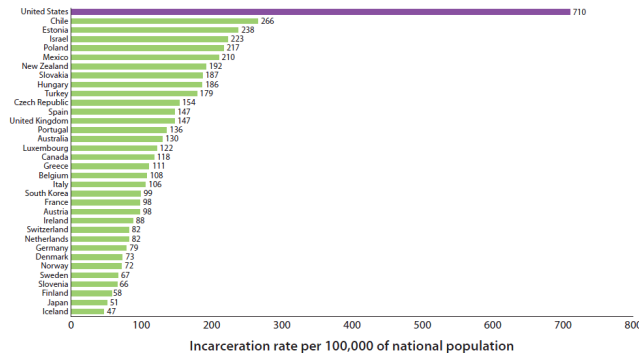


[https://www.brookings.edu/wp-content/uploads/2016/06/v8\\_thp\\_10crimefacts.pdf](https://www.brookings.edu/wp-content/uploads/2016/06/v8_thp_10crimefacts.pdf)

## ... 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.

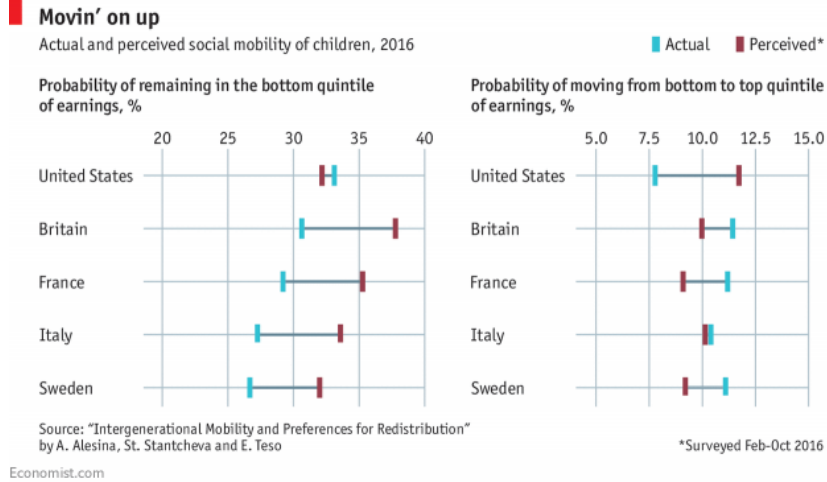


Sources: Glaze and Herberman 2013; Walmisley 2013; authors' calculations.  
Note: All incarceration rates are from 2013, with the exception of the rates for Canada, Greece, Israel, the Netherlands, Sweden, Switzerland, and the United States; of these countries, all rates are from 2012, with the exception 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.



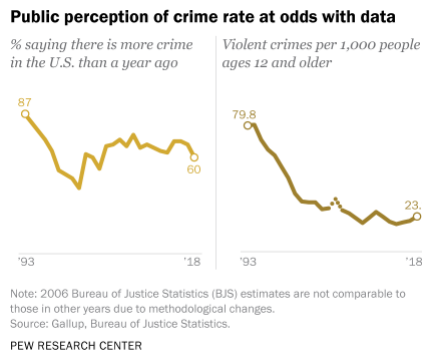
[https://www.brookings.edu/wp-content/uploads/2016/06/v8\\_thp\\_10crimefacts.pdf](https://www.brookings.edu/wp-content/uploads/2016/06/v8_thp_10crimefacts.pdf)

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



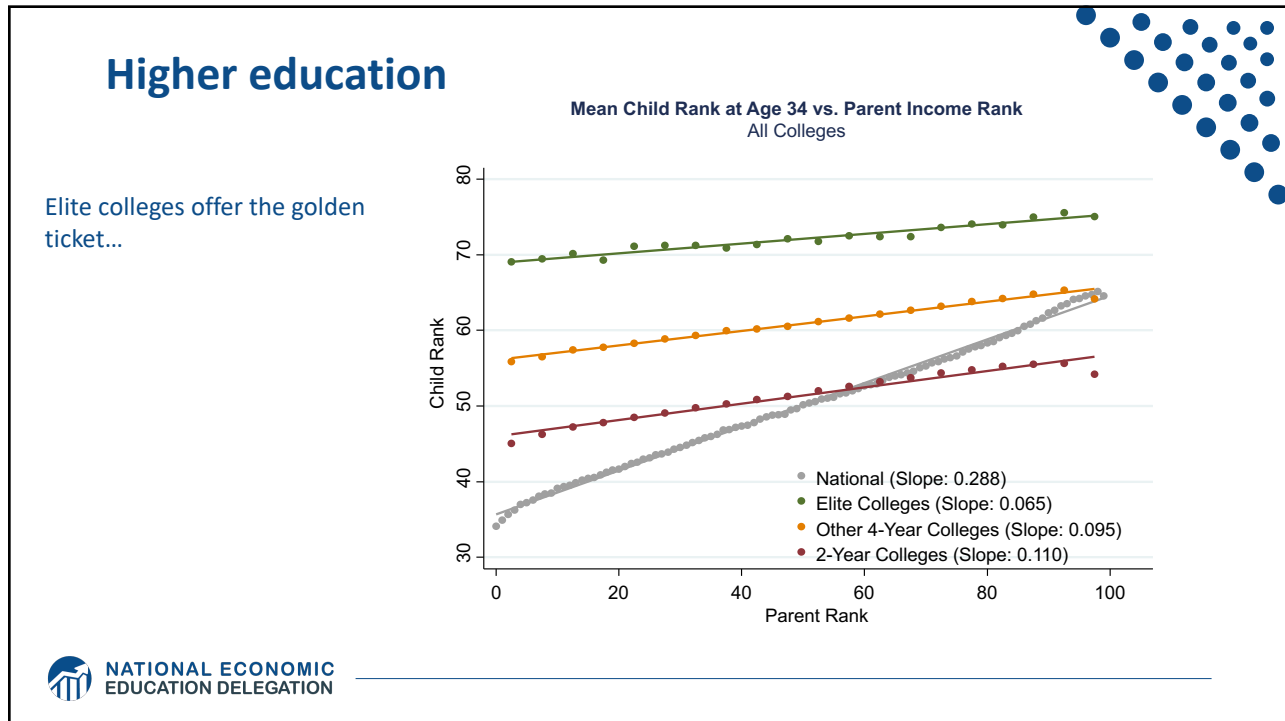
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## ... except when it comes to crime

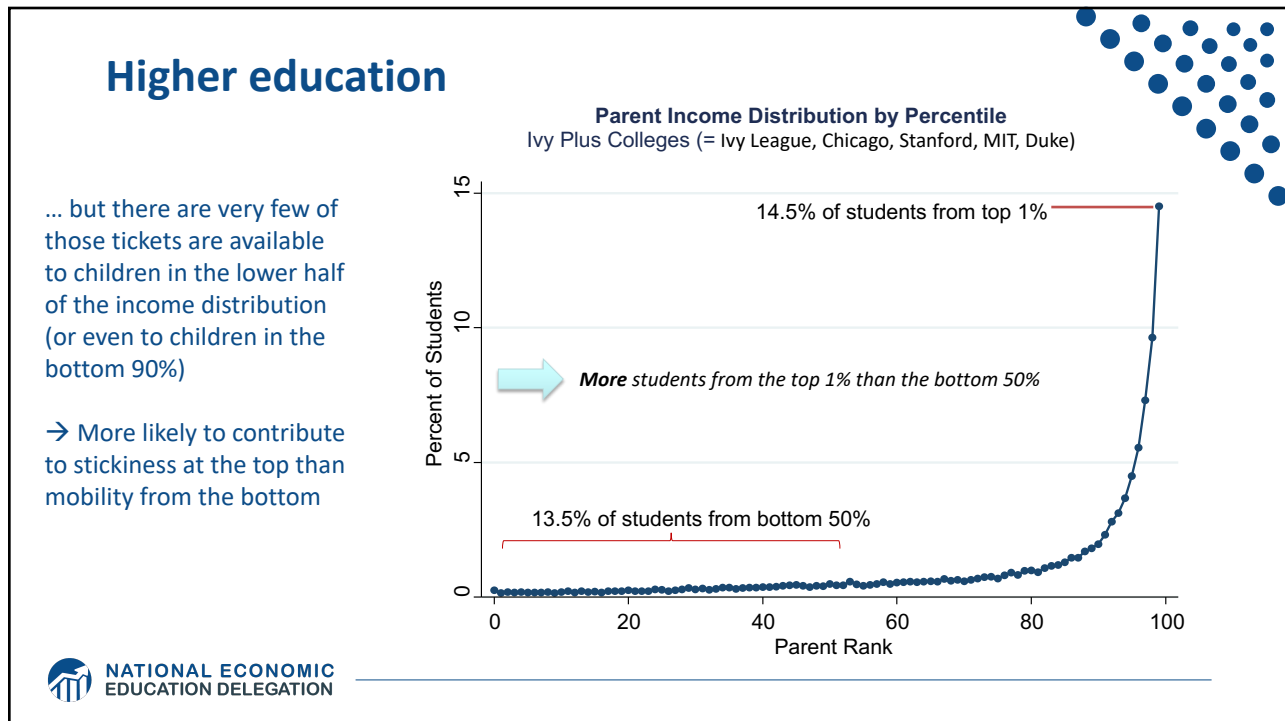


This misperception may help explain the lack of vocal public opposition to mass incarceration.

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