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# Economic mobility

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- **Please submit questions of clarification in the chat.**
  - I will try to handle them as they come up.
- **We will do a verbal Q&A once the material has been presented.**
- **Slides will be available from the NEED website tomorrow**
  - ([https:// NEEDEcon.org/delivered\\_presentations.php](https://NEEDEcon.org/delivered_presentations.php))



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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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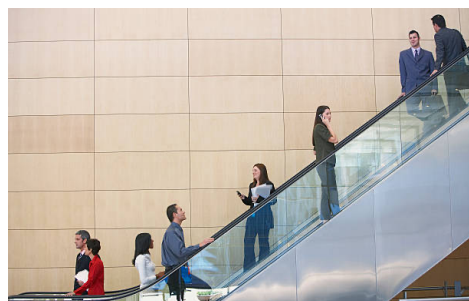
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## I. What do we mean by economic mobility?

## Absolute and Relative Mobility

- **Absolute mobility:** the difference in income from one's parent.
  - You're higher on the escalator than your parents were at that same age.
  - It is possible for *everyone* to experience upward absolute mobility, especially if the escalator is going up.
- **Relative mobility:** the change in income rank from one's parent.
  - You have fewer people above you on the escalator than your parents did.
  - Increased relative mobility requires both upward and downward movement.

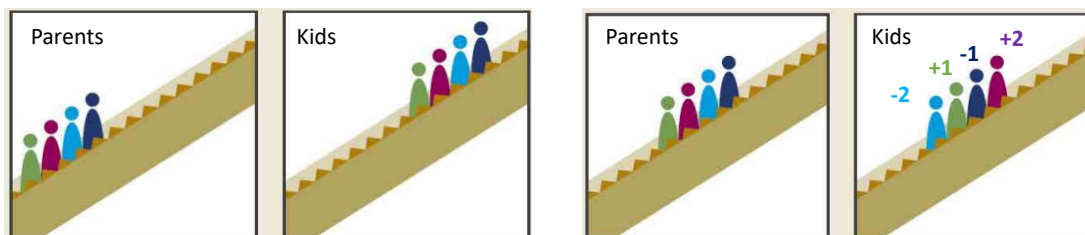


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## I. What do we mean by economic mobility?

## 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 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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## 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 whether kids are more or less likely to rise above their parent's position in the income distribution.

## II. Empirical patterns of Economic Mobility

What are the facts?

## II. Empirical Patterns of Economic Mobility

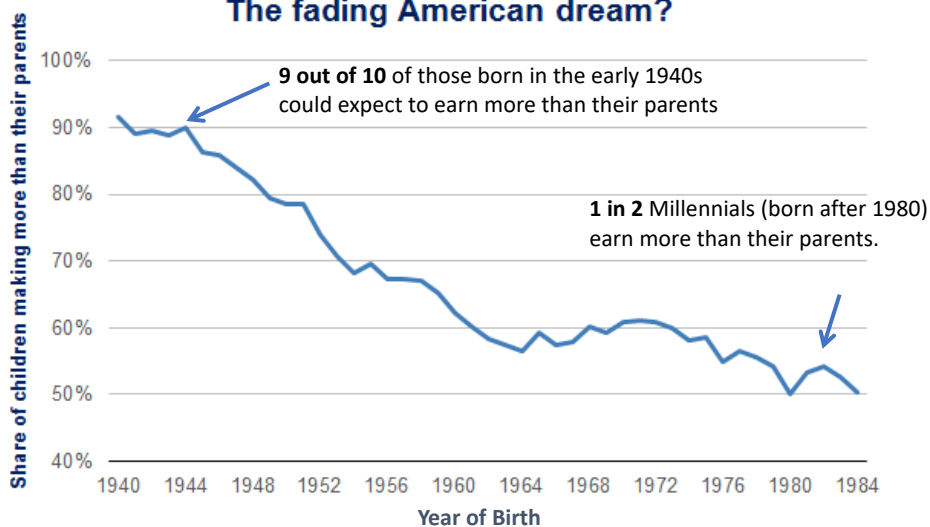
# Mobility – Big Picture for Absolute Mobility

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

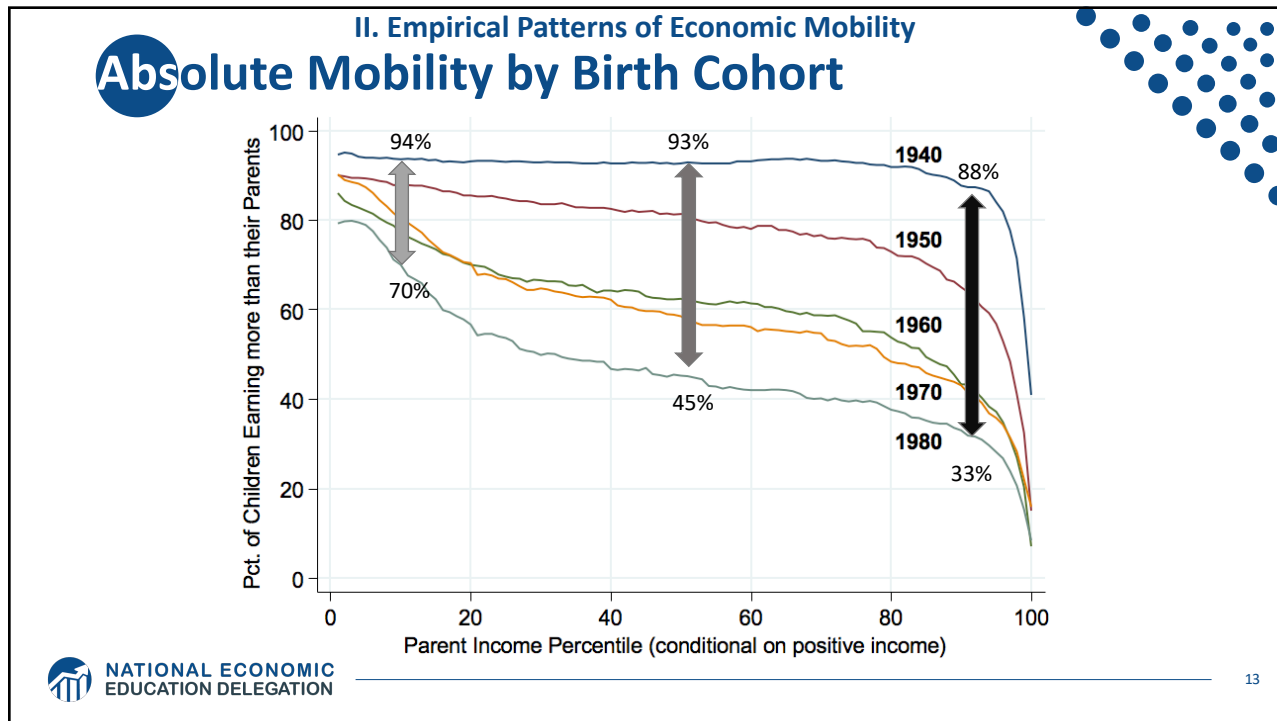
- 90% of those born in the early 1940s could expect to earn more than their parents in real terms. For millennials, the fraction is closer to 50%
- Below-median earnings have not increased in real terms since the 1970s.

## II. Empirical Patterns of Economic Mobility

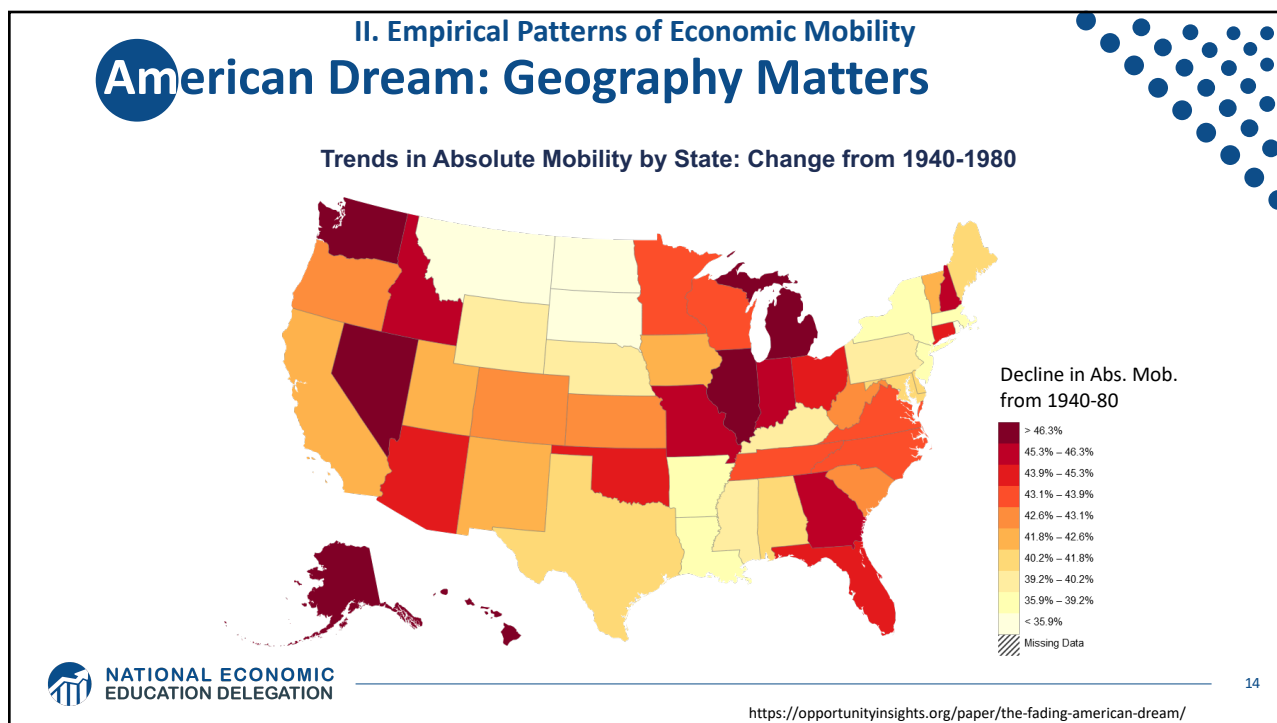
### The fading American dream?



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

# Measuring Relative Mobility

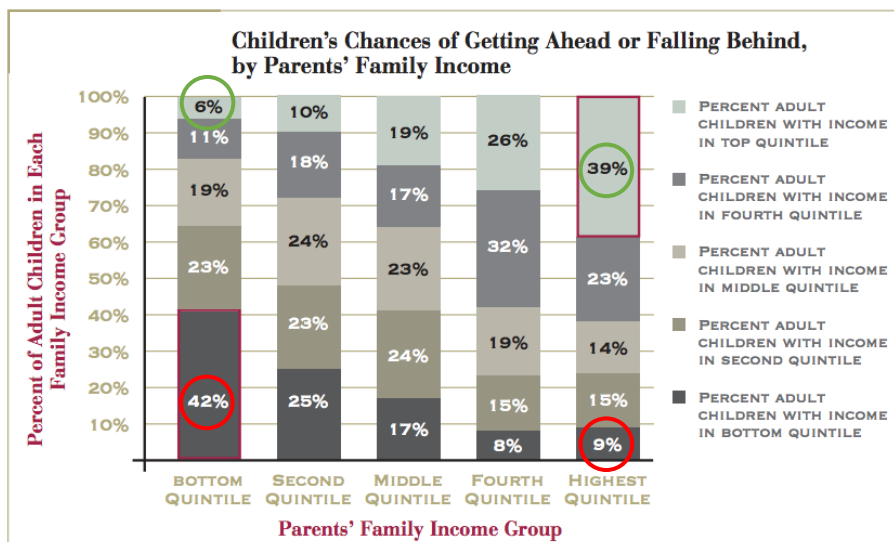
- **Reminder:** Relative mobility is the change in income rank from one's parent.
- **Transition Probabilities:** Likelihood that an individual ends up in a different income quintile than their parents.

Quintile	Bottom (below 20%)	Lower (20% to 40%)	Middle (40% to 60%)	Upper (60%-80%)	Top (above 80%)
Income	Below \$27,000	\$27,000-\$52,000	\$52,000-\$85,000	\$85,000-\$141,000	Above \$141,000

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

II. Empirical Patterns of Economic Mobility

# Transition Probabilities in the United States



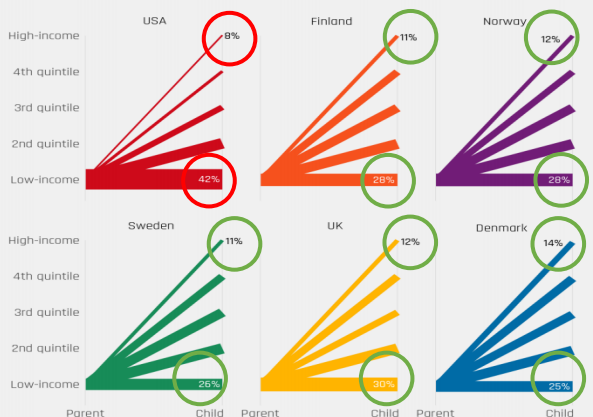


## II. Empirical Patterns of Economic Mobility

# 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.



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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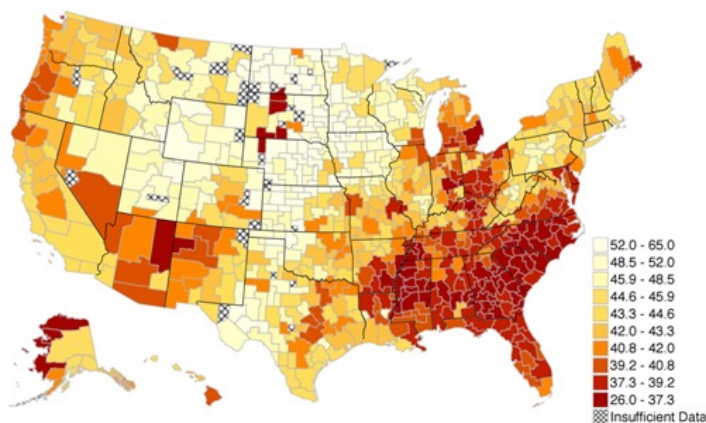
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## II. Empirical Patterns of Economic Mobility

# American Dream: Geography Matters

The Geography of Upward Mobility in the United States

Mean Child Percentile Rank for Parents at 25<sup>th</sup> Percentile ( $Y_{25}$ )



Note: Lighter Color = More Absolute Upward Mobility



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<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/>


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**II. Empirical Patterns of Economic Mobility**

## **Summary of Empirical Patterns**

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

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## **III. What is the 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”

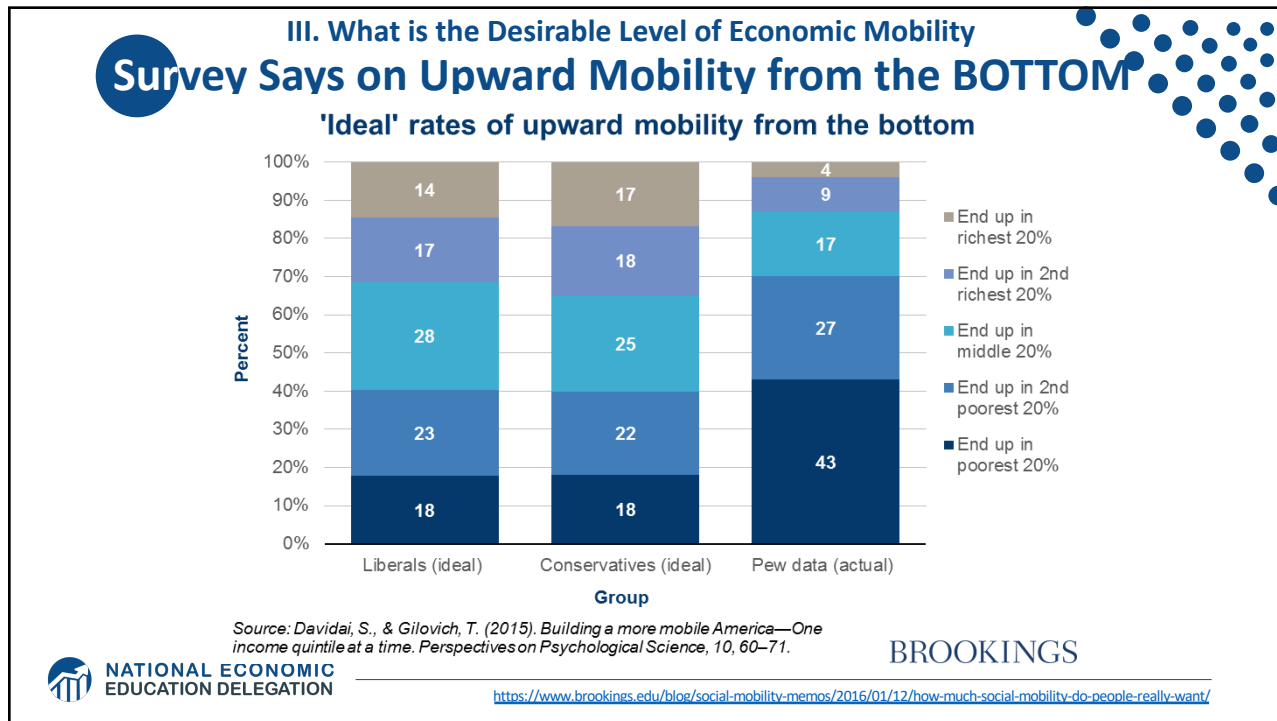
#### What is the *optimal* level of relative mobility?

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

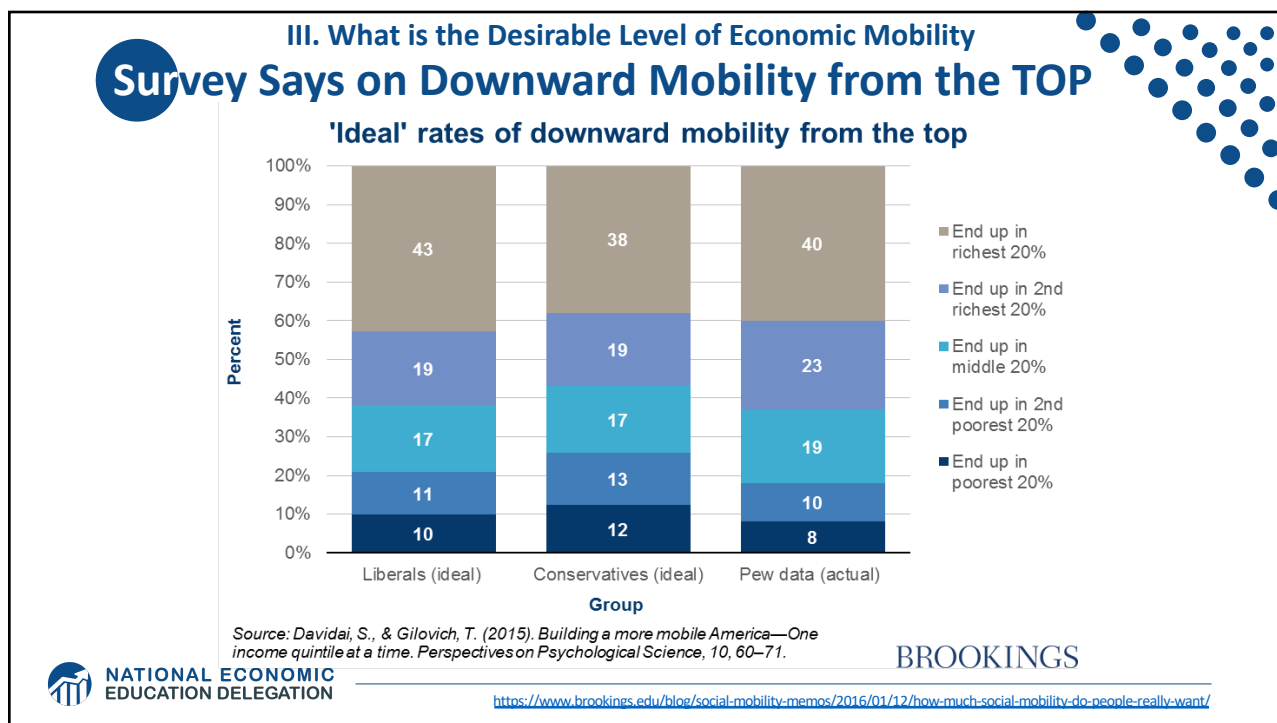
#### Is current relative mobility too low (or too high)?

The answer would suggest the best incremental 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

## Preferences hit Awkward Truth: Math

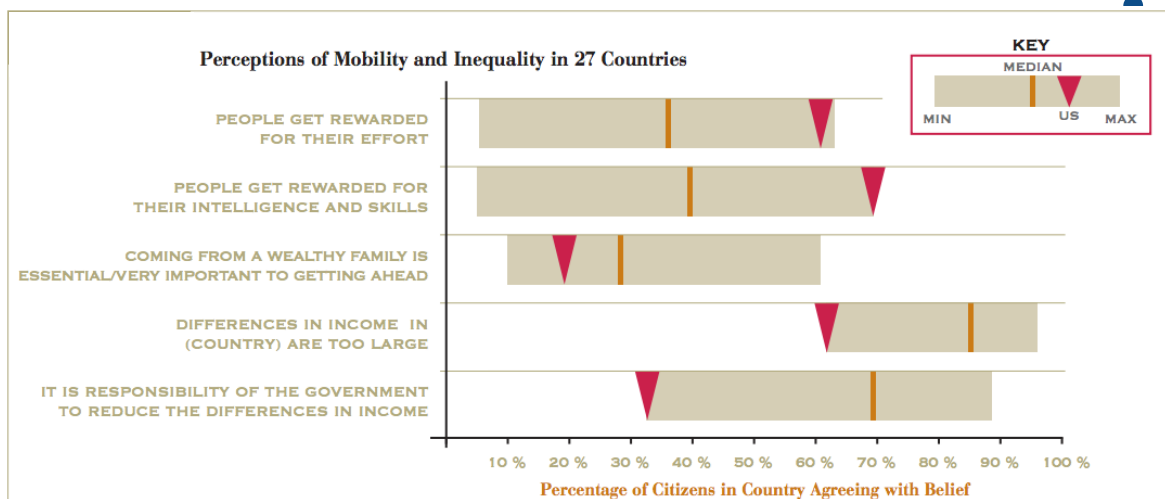
- **Again: relative mobility is a zero-sum game**
  - There are only so many spots in the top quintile (only 20% of population can be there)
    - Preferences want:
      - 43% of them for kids born into the top
      - 16% for those born into the bottom
      - Leaves about 14% for each of the other 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

## The “American Dream” Shapes Perceptions



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



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

Focus on Education and Career Opportunities



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## 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

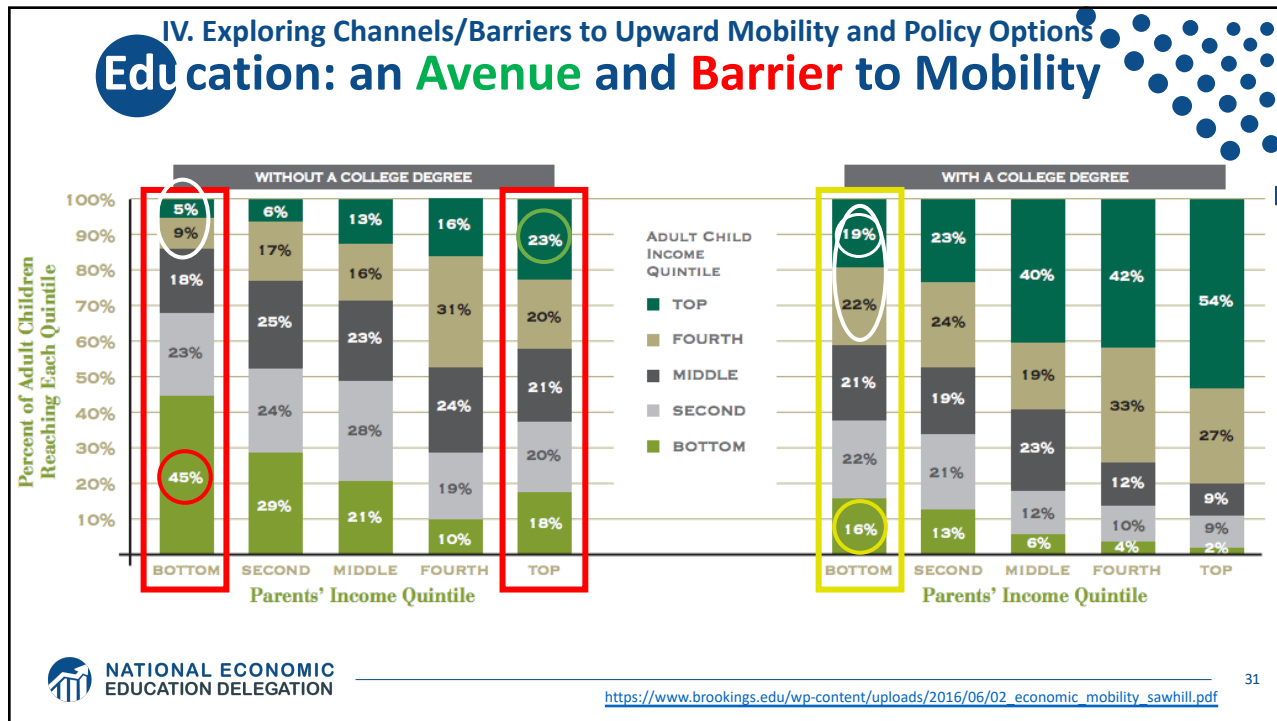


## IV. Exploring Channels/Barriers to Upward Mobility and Policy Options

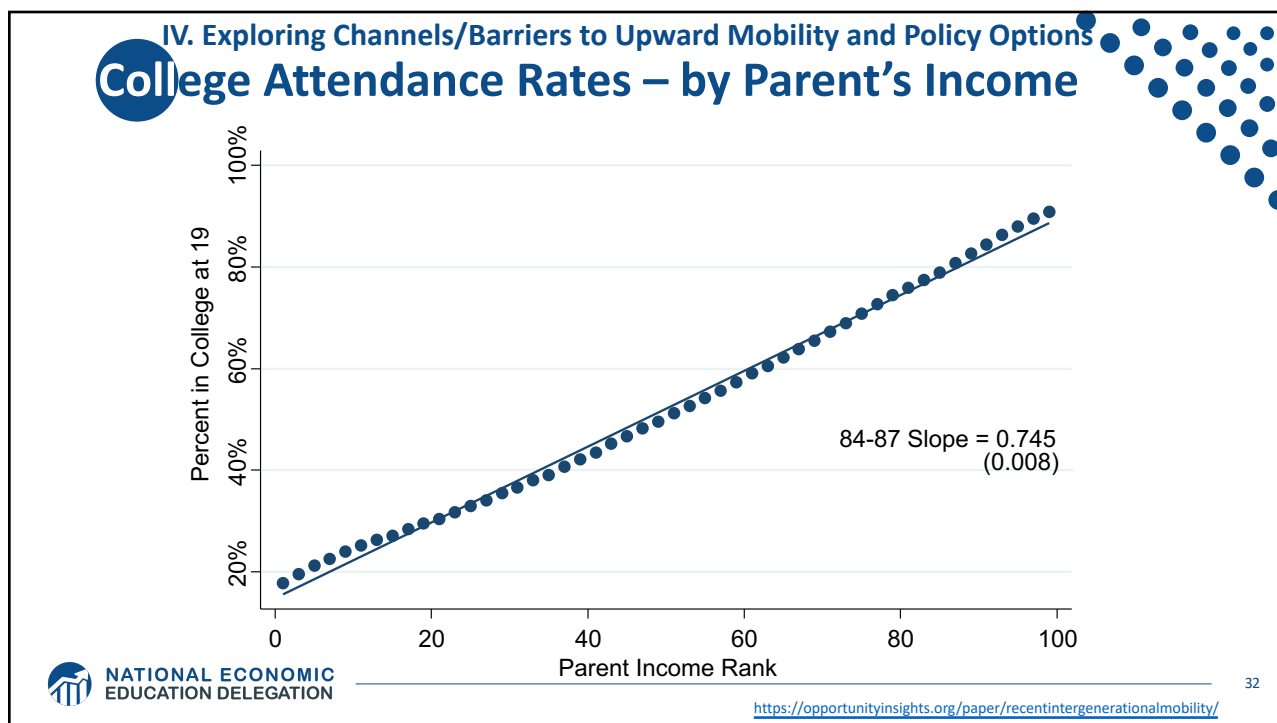
### Barriers to Upward Mobility – Structural

- **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

# 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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**Thank you!**

## Any Questions?

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