U.S. Income Inequality in Perspective
Prepared for FRBSF Seminar
U.S. Income Inequality in Perspective
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The American Dream

Surveys show Americans believe:

- Each generation does better than the last
- Hard work, talent, and effort create success
- Birthright plays only a small role

American Beliefs Stand Out

Cross Country Perceptions of Mobility

Percent of Individuals Agreeing with Each Statement

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 your country are too large
It is the responsibility of the government to reduce the differences in income

Plan of Talk

- Economic Mobility Primer
- U.S. Mobility and Its Determinants
- The American Dream Revisited
Economic mobility describes:
- the ability of people to move up, or down, the economic ladder

Two types of economic mobility:
- Absolute mobility (*income* rises with time)
- Relative mobility (*income rank* rises with time)

Mobility can be measured over:
- Individual lifetimes
- Successive generations (focus of talk)
Absolute: Riding an Escalator

Absolute Mobility
Changes in the income distribution over time

Source: Authors' representation of absolute mobility.
Economic mobility describes:

- the ability of people to move up, or down, the economic ladder

Two types of economic mobility:

- Absolute mobility (*income* rises with time)
- Relative mobility (*income rank* rises with time)

Mobility can be measured over:

- Individual lifetimes
- Successive generations (focus of talk)
Relative Mobility
Changes in family income rank over time

Source: Authors' representation of relative mobility.
Economic Mobility Primer

Economic mobility describes:

- the ability of people to move up, or down, the economic ladder

Two types of economic mobility:

- Absolute mobility (*income* rises with time)
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Mobility can be measured over:

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- Successive generations (*focus of talk*)
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Tracking Economic Mobility

- Need data that tracks families over time
  - **PSID** A national study of socioeconomics and health over lifetimes and across generations

- Data: Parents (30-50) to Children (30-50)
  - **Absolute Mobility:** compare real $$$ value of parent’s income at age \( x \) to the real $$$ value of adult child’s income at age \( x \)
  - **Relative Mobility:** compare parent’s income rank when child was born (birth income quintile) to income rank when child is an adult (working-age quintile)
Absolute Mobility is High

**Absolute Generational Mobility**
Percent of Children with Family Income > Parents'

Birth Income Quintile

- All: 67%
- Top
- 4th
- 3rd
- 2nd
- Bottom

Holds for all Birth Quintiles

**Absolute Generational Mobility**

Percent of Children with Family Income > Parents'

<table>
<thead>
<tr>
<th>Birth Income Quintile</th>
<th>Percent of Children with Family Income &gt; Parents'</th>
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<tbody>
<tr>
<td>All</td>
<td>67</td>
</tr>
<tr>
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</tr>
<tr>
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<td></td>
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<tr>
<td>2nd</td>
<td></td>
</tr>
<tr>
<td>Bottom</td>
<td>80</td>
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For one, no obvious benchmark or metric

- **Birthright Economy**: outcomes are tethered to the socioeconomic class of parents

- **Meritocracy**: outcomes are based on talent, effort, hard work

- **Equal Chance Economy**: socioeconomic status is equally distributed--\[20|20|20|20|20\]
Relative Mobility in the U.S.

Relative Generational Mobility
Percent of Adult Children in Each Income Quintile by Birth Income Quintile

What Does This Chart Show?

Relative Generational Mobility
Percent of Adult Children in Each Income Quintile by Birth Income Quintile

Relative Mobility in the U.S.

Relative Generational Mobility

Percent of Adult Children in Each Income Quintile by Birth Income Quintile

Middle is Fairly Mobile

Equal Chance Economy

Relative Mobility in the U.S.

Relative Generational Mobility
Percent of Adult Children in Each Income Quintile by Birth Income Quintile

Ends are More Sticky

Parental Penalty High in U.S.

Relative Generational Mobility
Percent of Adult Sons in Each Income Quintile from Bottom Birth Income Quintile

Parental Advantage is Universal

Relative Generational Mobility
Percent of Adult Sons in Each Income Quintile from Top Birth Income Quintile

College is an Equalizer in U.S.

Education and Relative Generational Mobility

Percent of Adult Children in Each Income Quintile from Top/Bottom Birth Income Quintile

Source: Haskins, R., “Education and Economic Mobility,” Economic Mobility Project, an initiative of The Pew Charitable Trusts,
But Not Equally Distributed

Education and Relative Generational Mobility
Percent of Adult Children in Each Income Quintile from Top/Bottom Birth Income Quintile

Source: Haskins, R., “Education and Economic Mobility,” Economic Mobility Project, an initiative of The Pew Charitable Trusts,
One Reason is Rising Cost

Change in Cost of College Education
Academic Year 1980-1981 Set to 100

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Economic Mobility Scorecard

- Each generation does better than the last
- Hard work, talent, and effort create success
- Birthright plays only a small role
  - Middle of the income distribution
  - At the ends it is not so clear
Are Our Beliefs Immutable?

Post Great Recession Surveys Say No

- Will your child’s opportunity to succeed be better or not as good as you’ve had?
  - Better: 47%  Worse: 46%

- When your children reach your age now, will they be better or worse off than you?
  - Better: 33%  Worse: 40%

- Will your children have an easier or harder time moving up the income ladder?
  - Easier: 21%  Harder: 72%

Is the Dream Important?

Reasons that it might:

- Inequality is harder to tolerate when mobility is limited or restricted
- The ability to move up drives individuals to work hard, innovate, and contribute
- Opportunity matters both for the economy and for a just, fair, and civil society
For More Information

- The Pew Charitable Trusts Economic Mobility Project: economicmobility.org
- The Brookings Institution topic page on economic mobility: brookings.edu/topics/economic-mobility.aspx