

# Economic

# Mobility

The Dream and the Data

**FRBSF Meet the Experts, August 15, 2014**

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Canyon Bosler provided very helpful assistance in preparing this presentation.

# The American Dream

- Children do better than their parents
- Hard work, talent, and effort matter most
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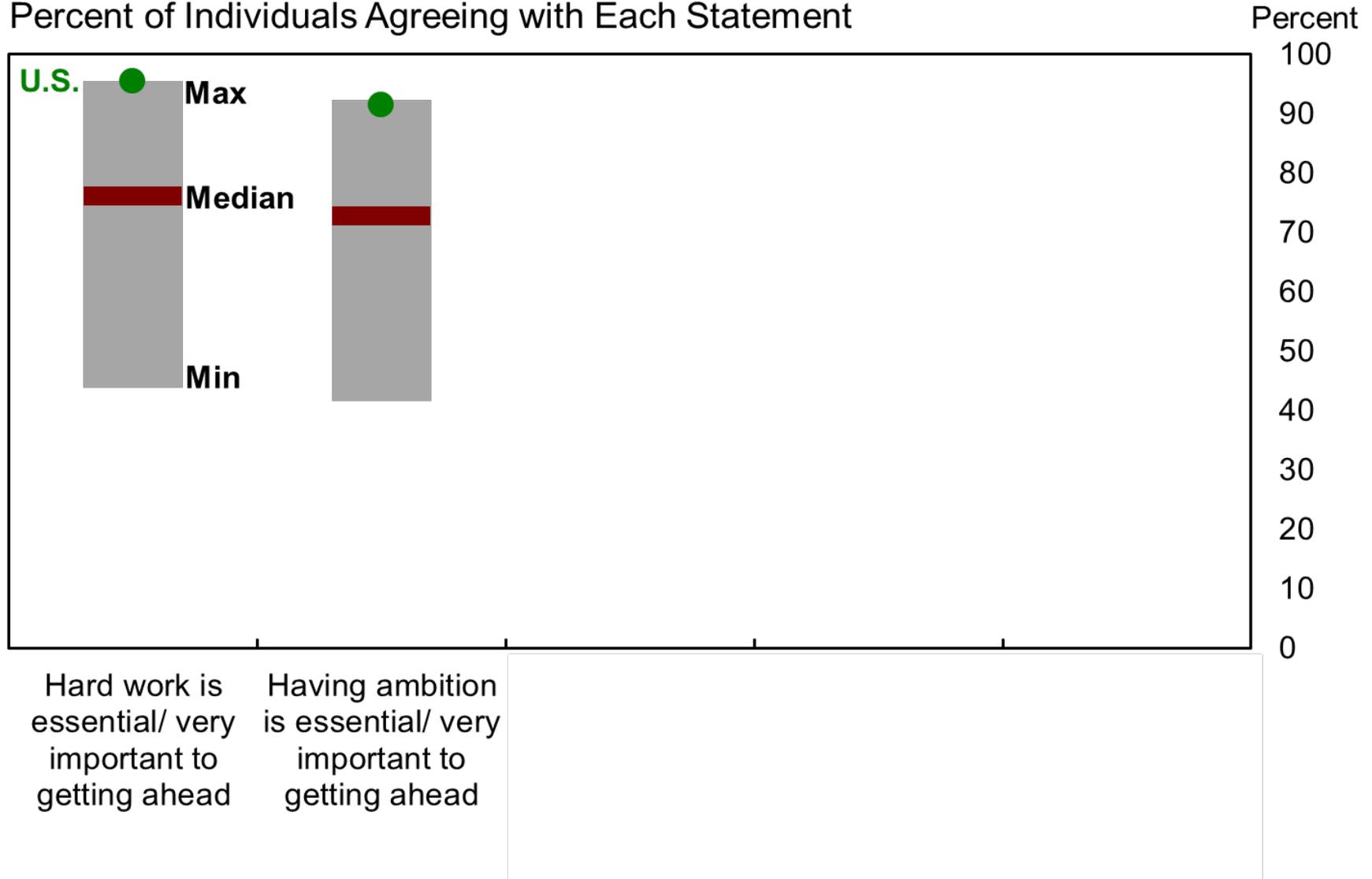
**Surveys show most Americans still:**

**Believe in the Dream!**

# American Beliefs Stand Out

## Cross Country Perceptions of Mobility

Percent of Individuals Agreeing with Each Statement

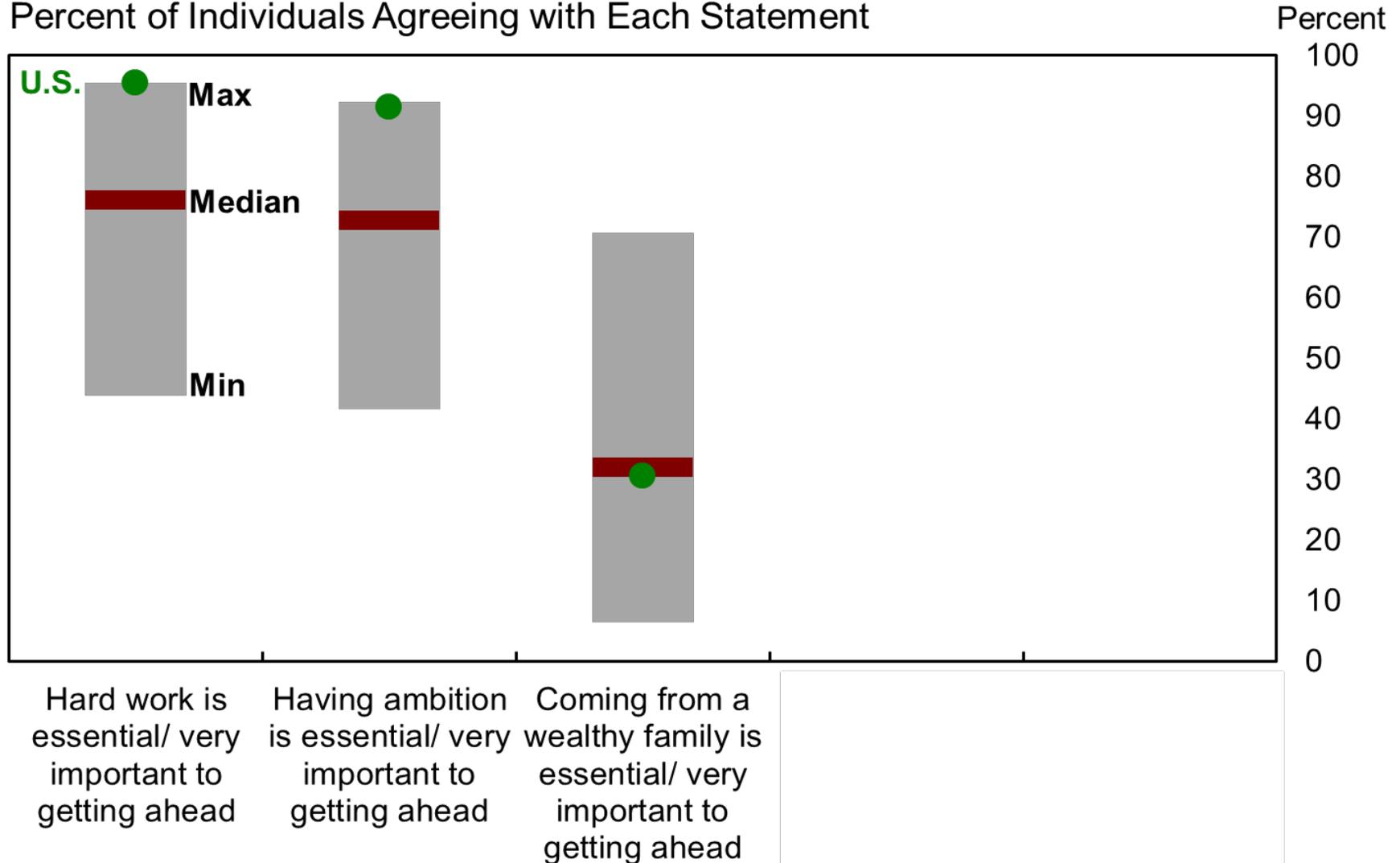


Source: International Social Survey Programme, "Social Inequality IV" 2009

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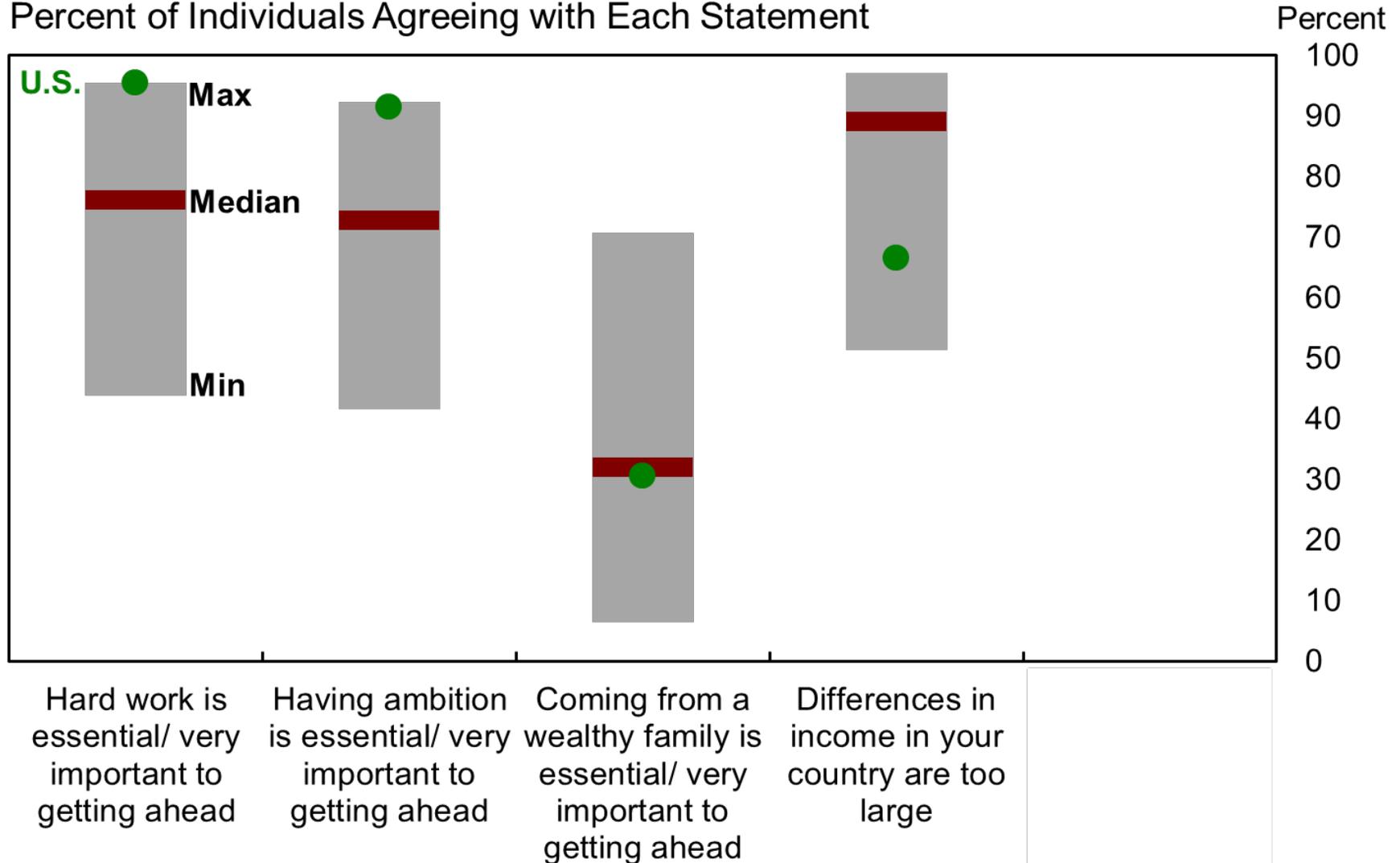
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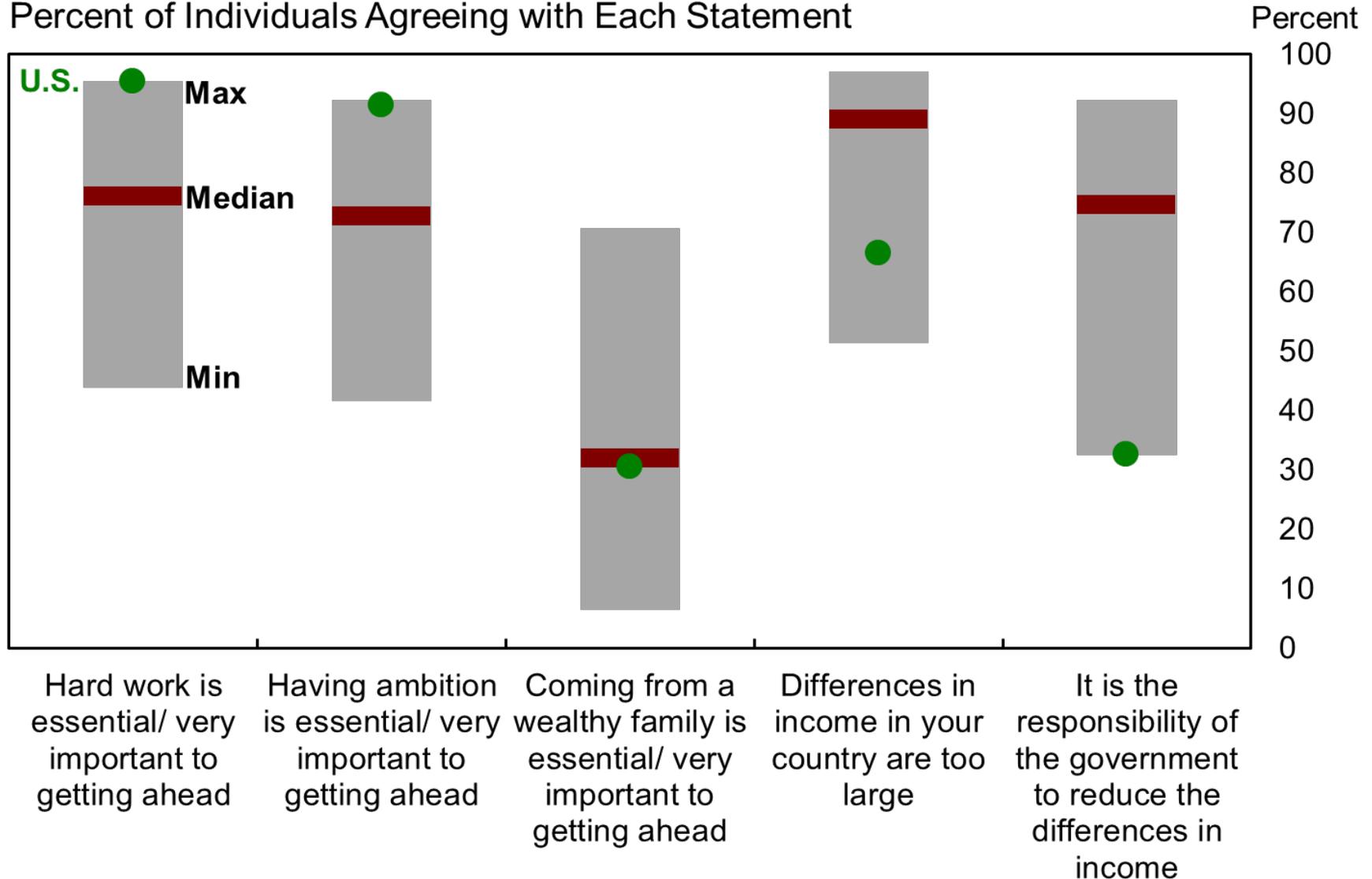
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# Plan of Talk

**Economic Mobility Primer**

**U.S. Mobility and Its Determinants**

**The American Dream Revisited**

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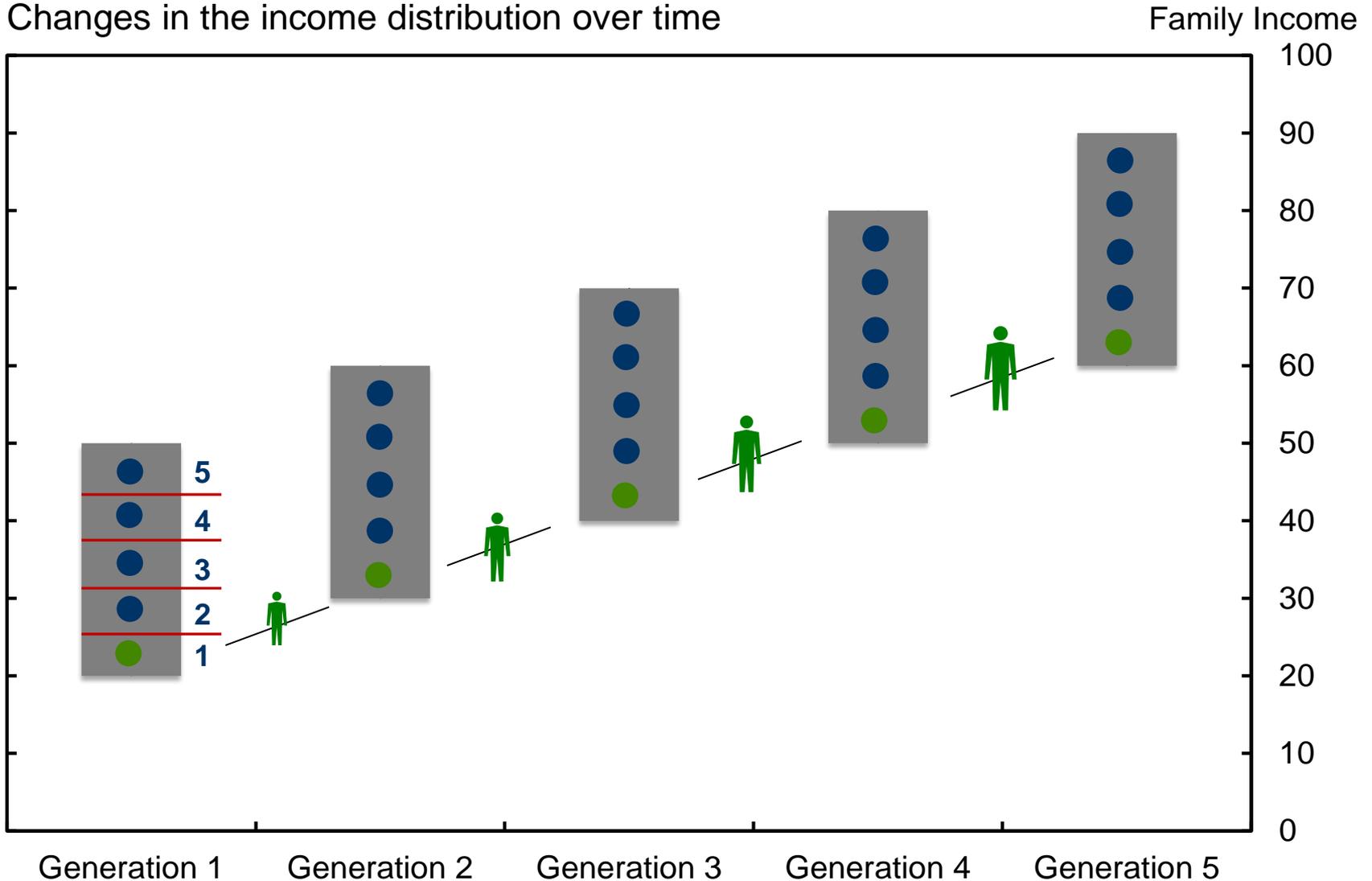
## Mobility can be measured over:

- Individual lifetimes
- Successive generations (focus of talk)

# Absolute: Riding Up Escalator

## Absolute Mobility

Changes in the income distribution over time

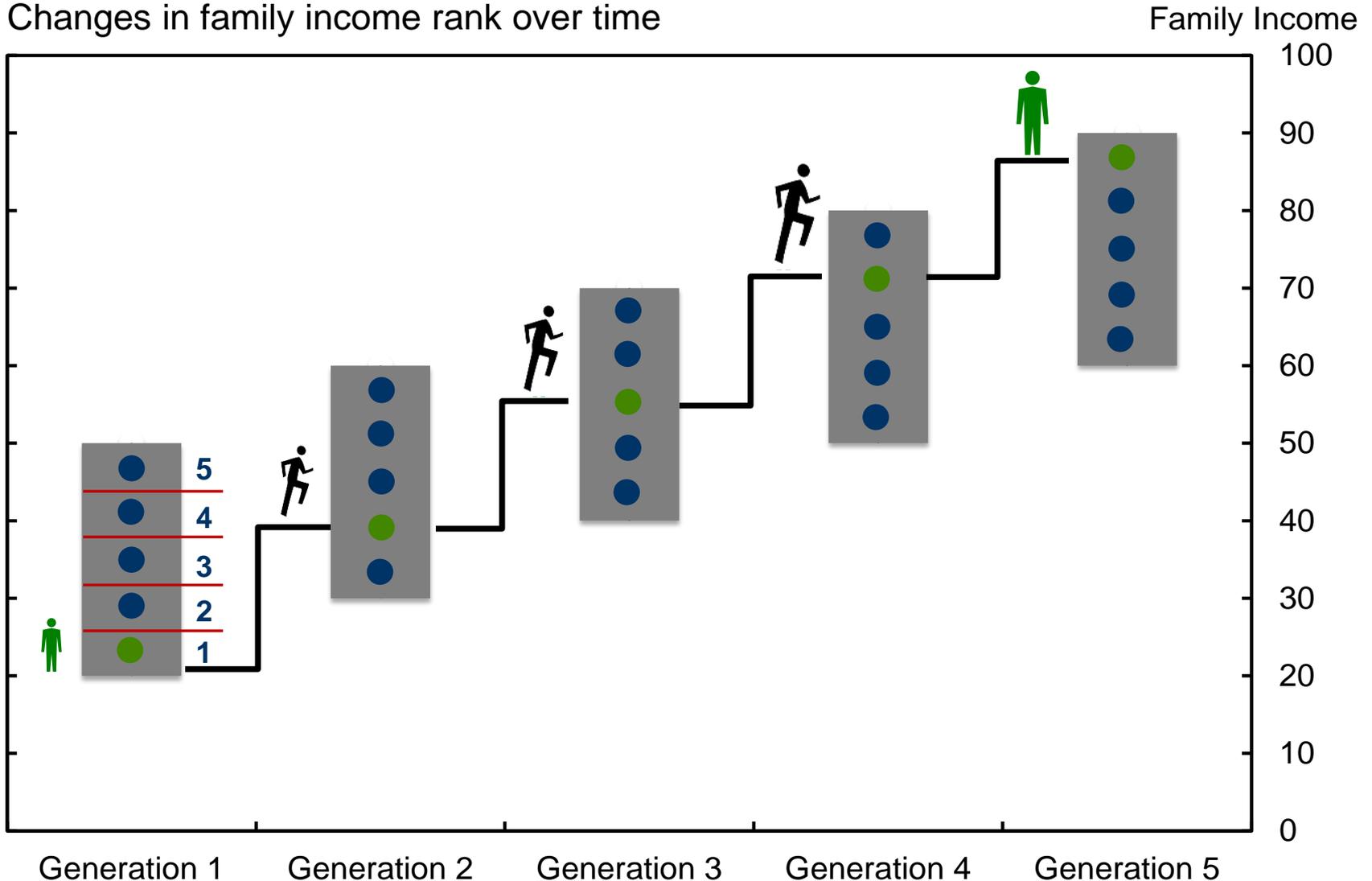


Source: Authors' representation of absolute mobility.

# Relative: Walking Up Escalator

## Relative Mobility

Changes in family income rank over time



# Plan of Talk

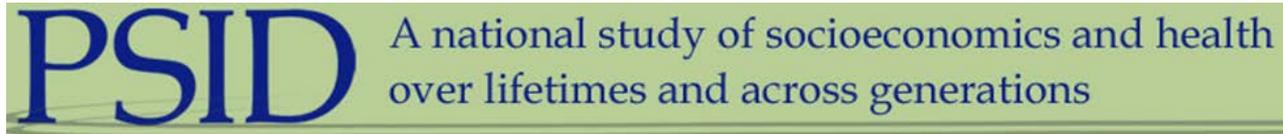
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# Tracking Economic Mobility

**Need data that tracks families over time**



**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  $x$

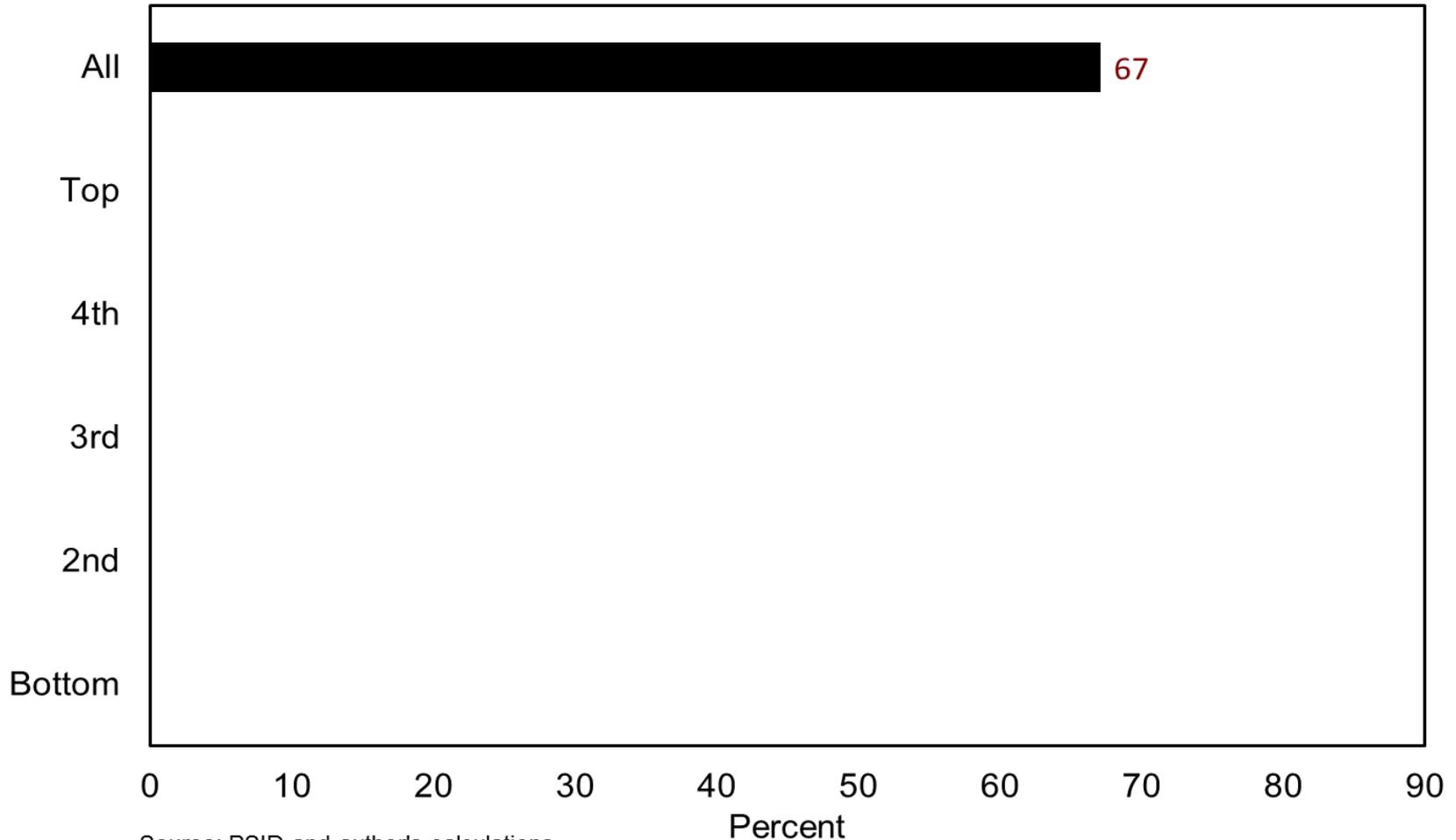
**Relative Mobility:** compare parent's income rank when child was born (**birth income quintile**) to income rank when child is an adult (**working-age quintile**)

# Absolute Mobility is High

## Absolute Generational Mobility

Percent of Children with Family Income > Parents'

Birth Income Quintile



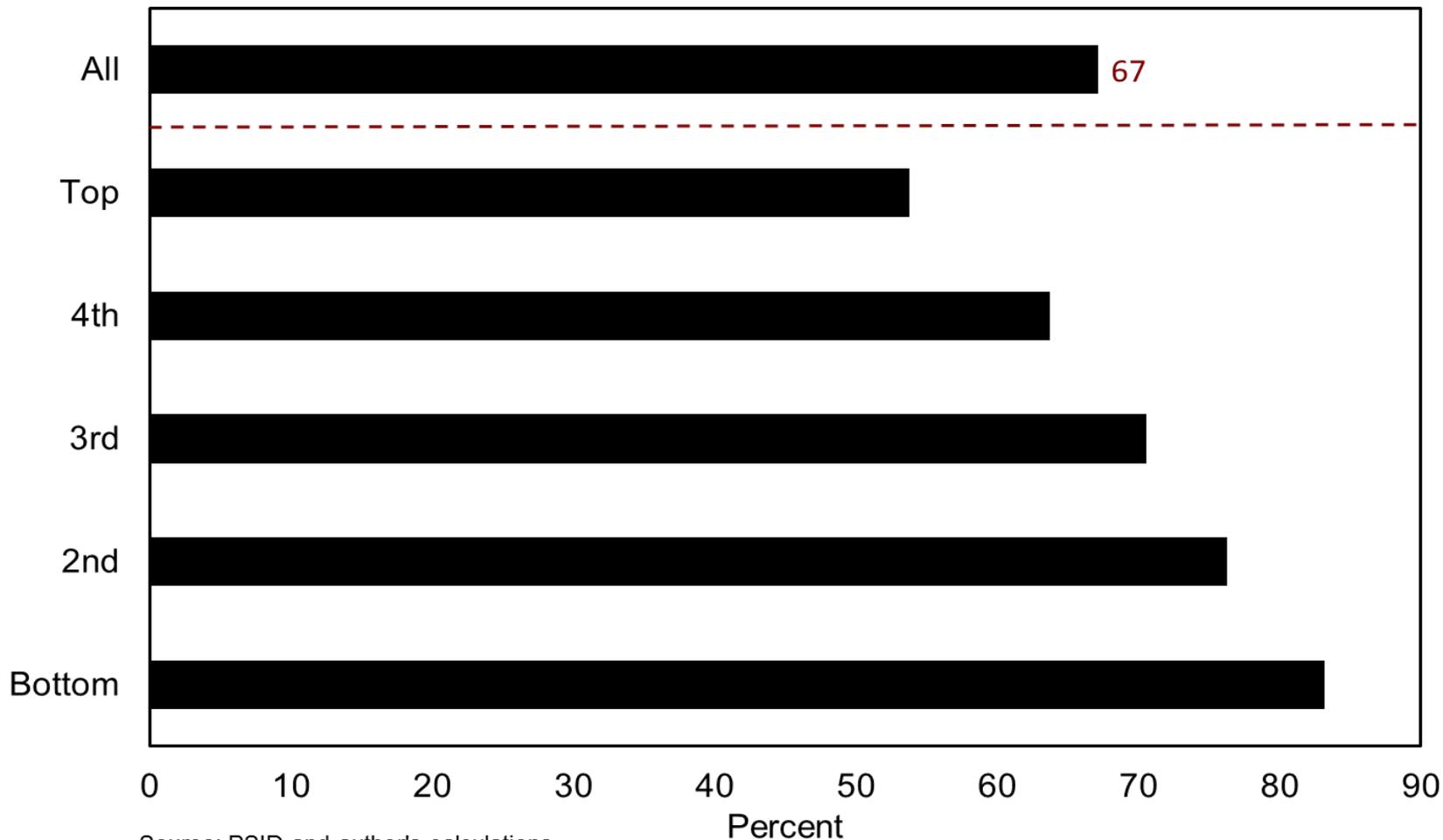
Source: PSID and author's calculations

# Holdings for High and Low Income

## Absolute Generational Mobility

Percent of Children with Family Income > Parents'

Birth Income Quintile



Source: PSID and author's calculations

# Relative Mobility is Less Clear

## No obvious benchmark or metric

**Equal Chance Economy:** socioeconomic status is equally distributed — 20|20|20|20|20

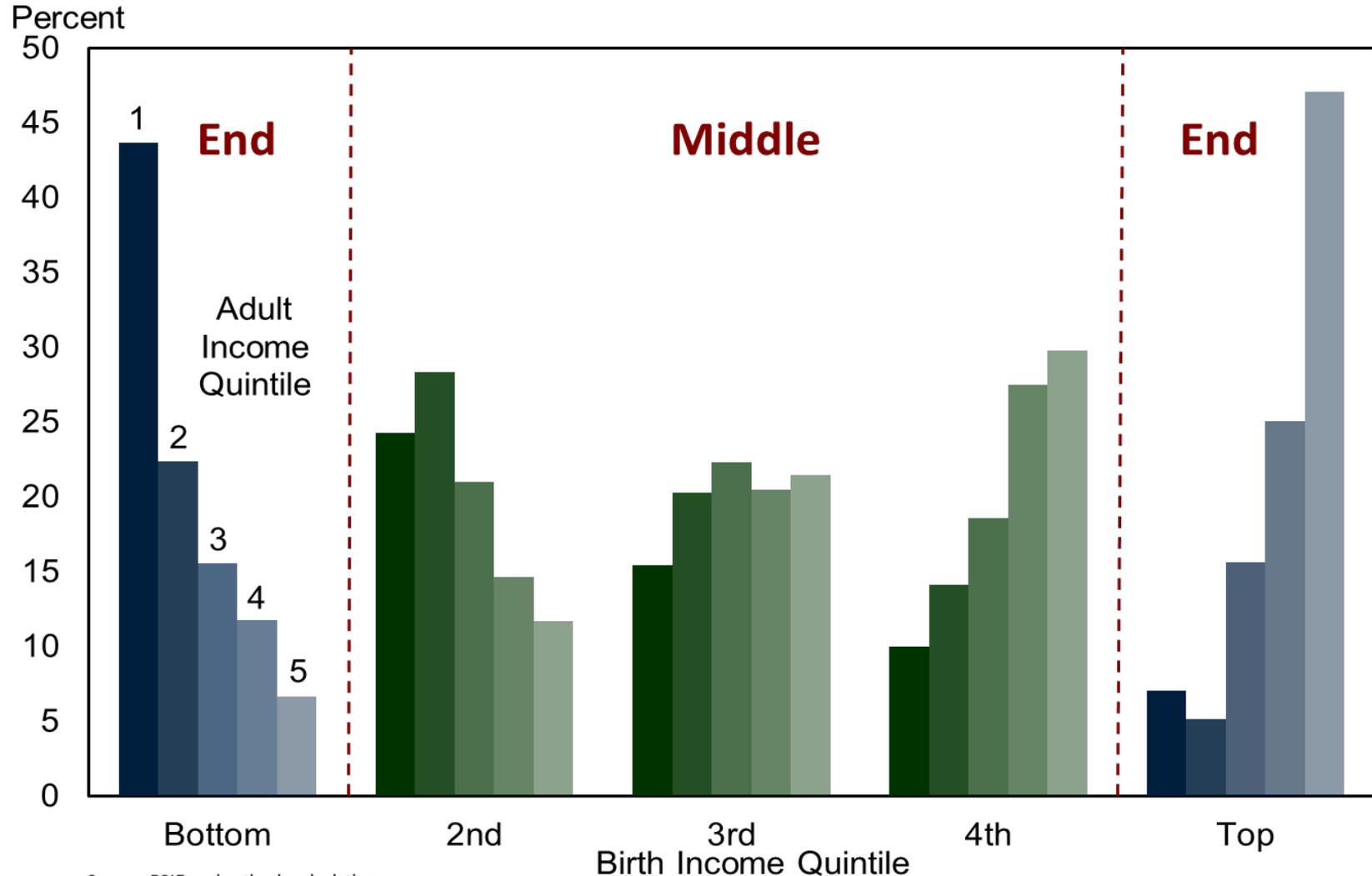
**Birthright Economy:** outcomes are tethered to the socioeconomic class of parents

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

# Relative Mobility Overview

## Relative Generational Mobility

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

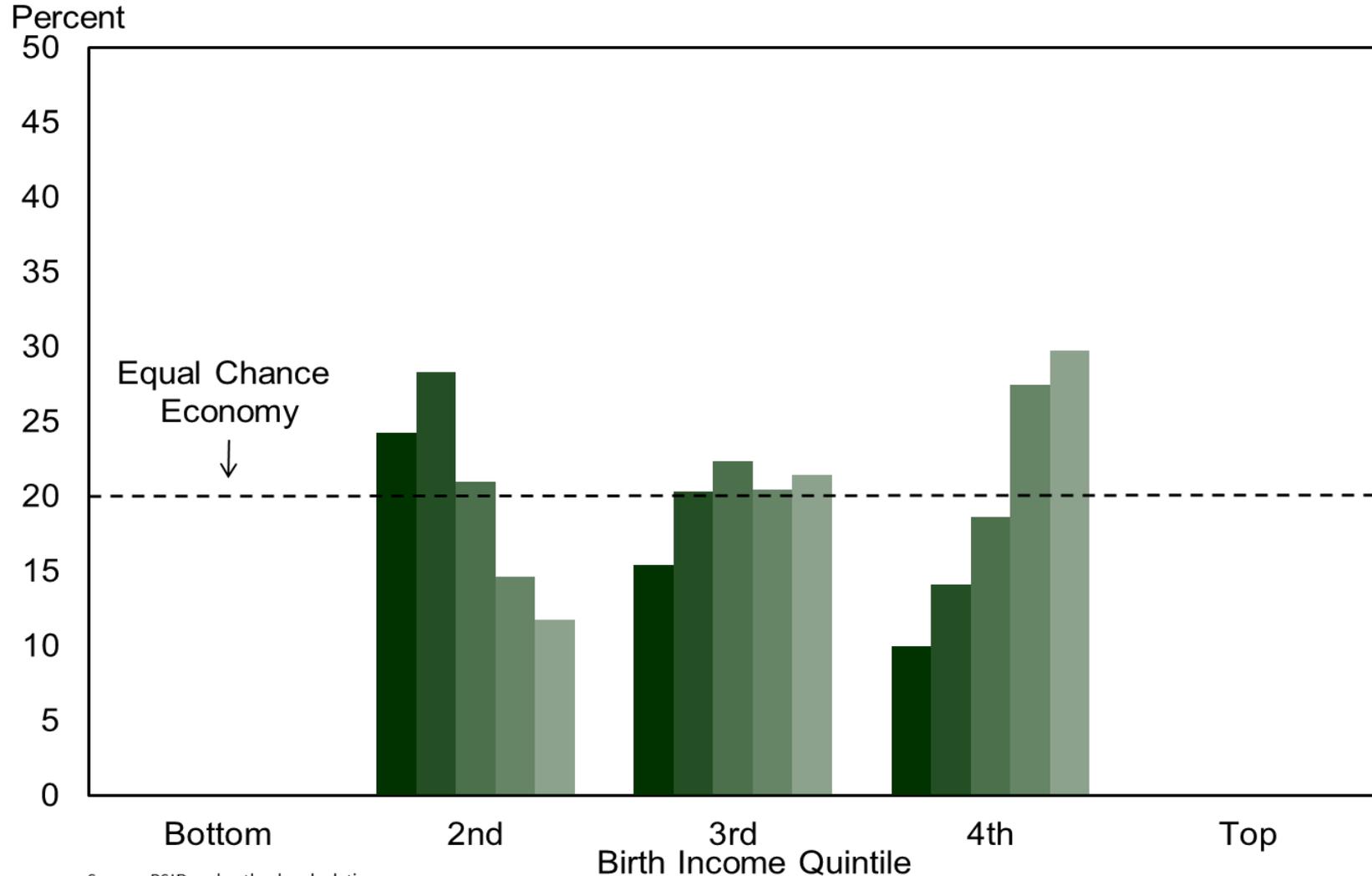


Source: PSID and author's calculations

# Middle is Fairly Mobile

## Relative Generational Mobility

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

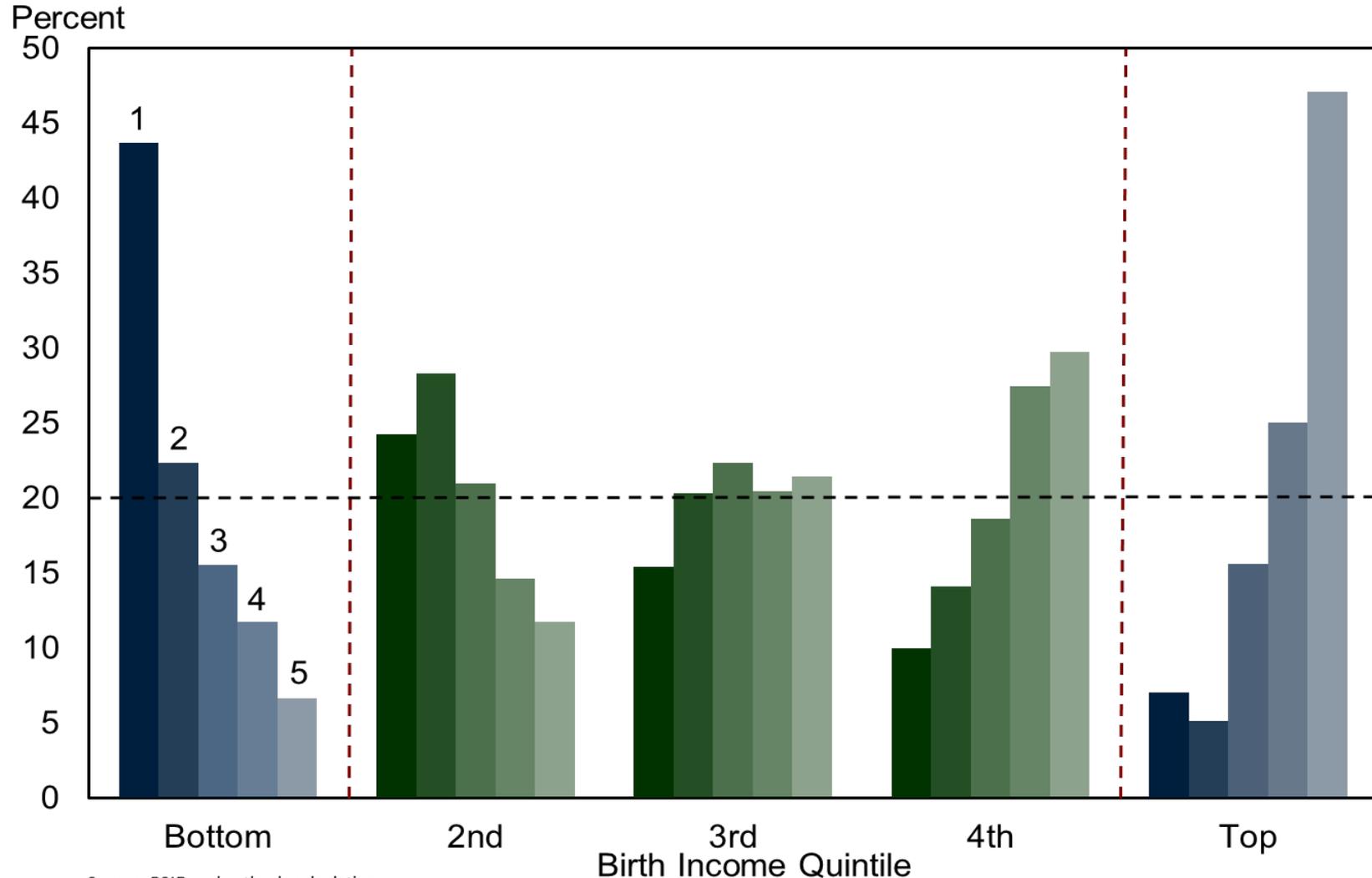


Source: PSID and author's calculations

# Ends are More Sticky

## Relative Generational Mobility

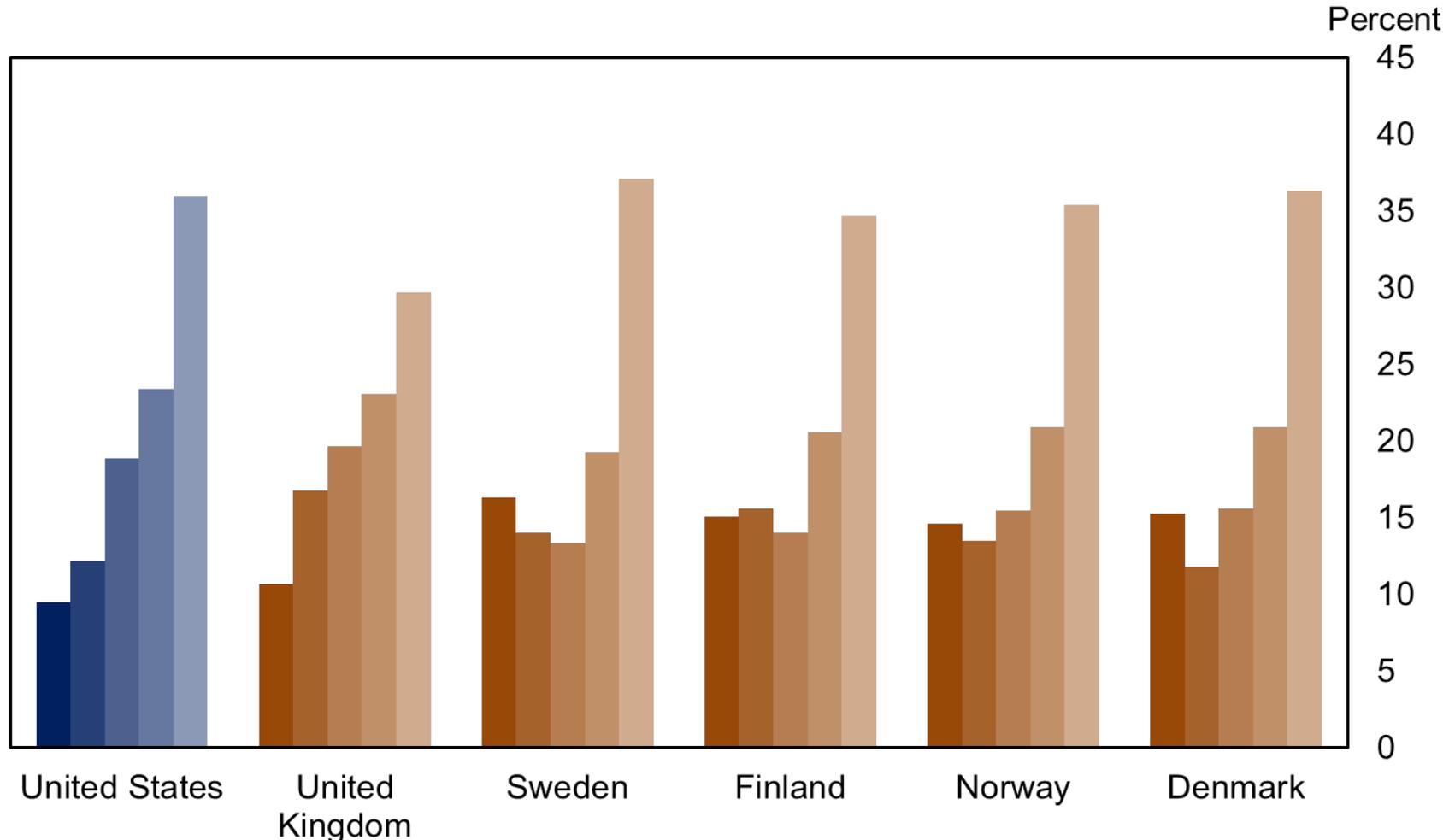
Percent of Adult Children in Each Income Quintile by Birth Income Quintile



# Parental Advantage is Common

## Relative Generational Mobility

Percent of Adult Sons in Each Income Quintile from Top Birth Income Quintile

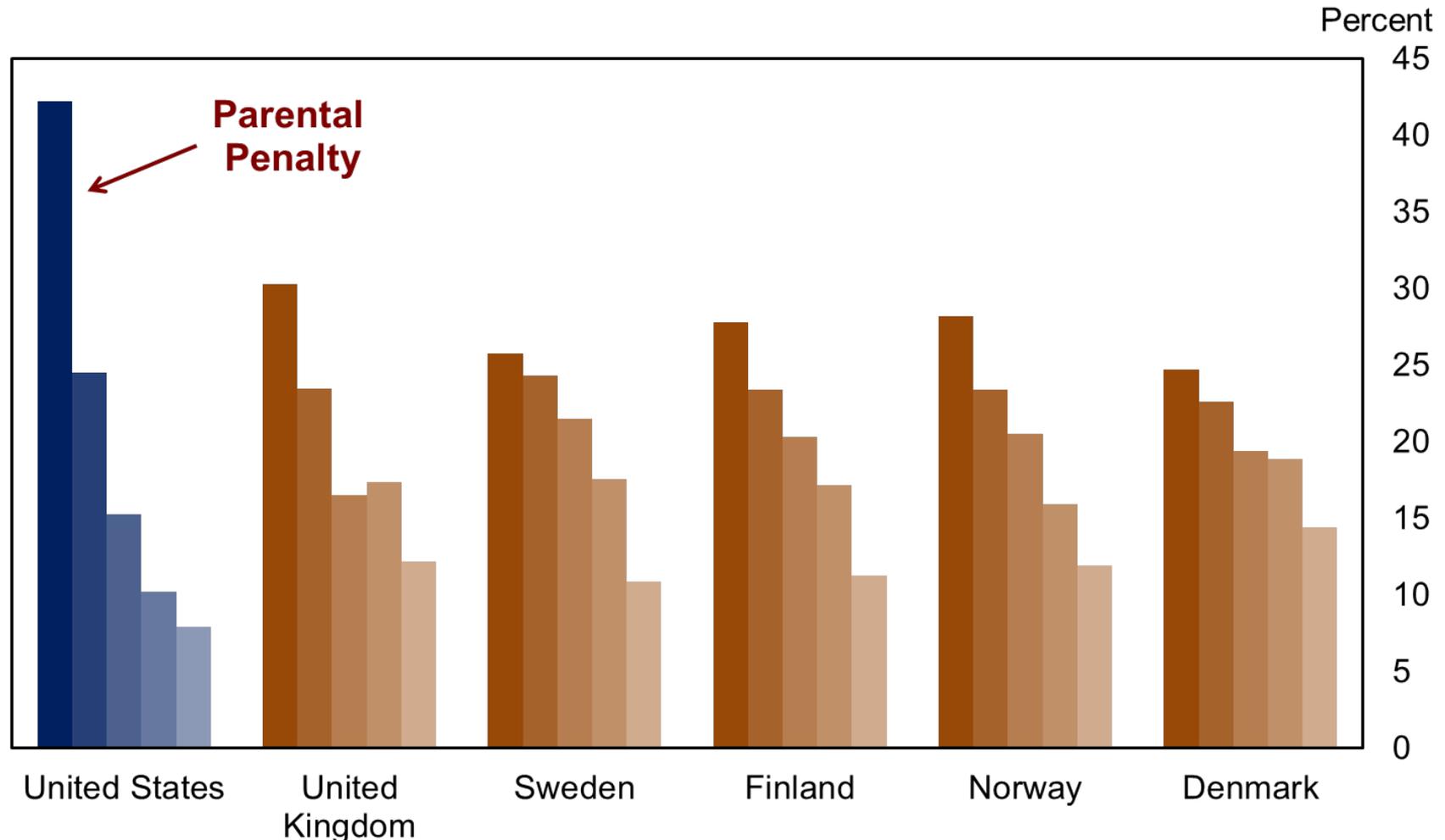


Source: Jäntti, M., Bratsberg, B., Roed, K., Raaum, O., Naylor, R., Osterbacka, E., Bjorklund, A., and T. Eriksson, "American Exceptionalism in a New Light: A Comparison of Intergenerational Earnings Mobility in the Nordic Countries, the United Kingdom and the United States," IZA Discussion Paper No. 1938. Bonn: Institute for the Study of Labor, 2006.

# Penalty is Distinctly American

## Relative Generational Mobility

Percent of Adult Sons in Each Income Quintile from Bottom Birth Income Quintile

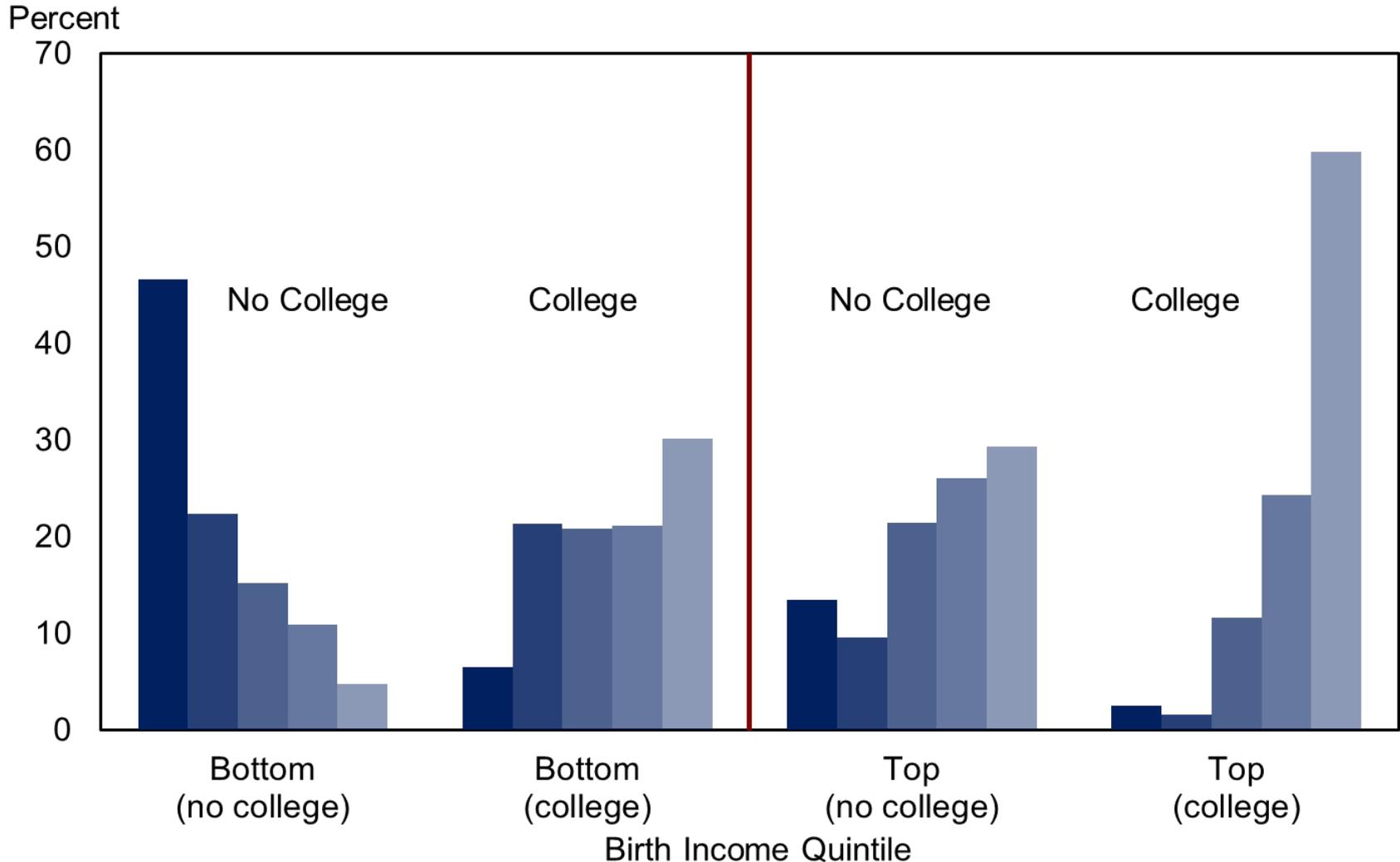


Source: Jäntti, M., Bratsberg, B., Roed, K., Raaum, O., Naylor, R., Osterbacka, E., Bjorklund, A., and T. Eriksson, "American Exceptionalism in a New Light: A Comparison of Intergenerational Earnings Mobility in the Nordic Countries, the United Kingdom and the United States," IZA Discussion Paper No. 1938. Bonn: Institute for the Study of Labor, 2006.

# U.S. Equalizer is College

## Education and Relative Generational Mobility

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

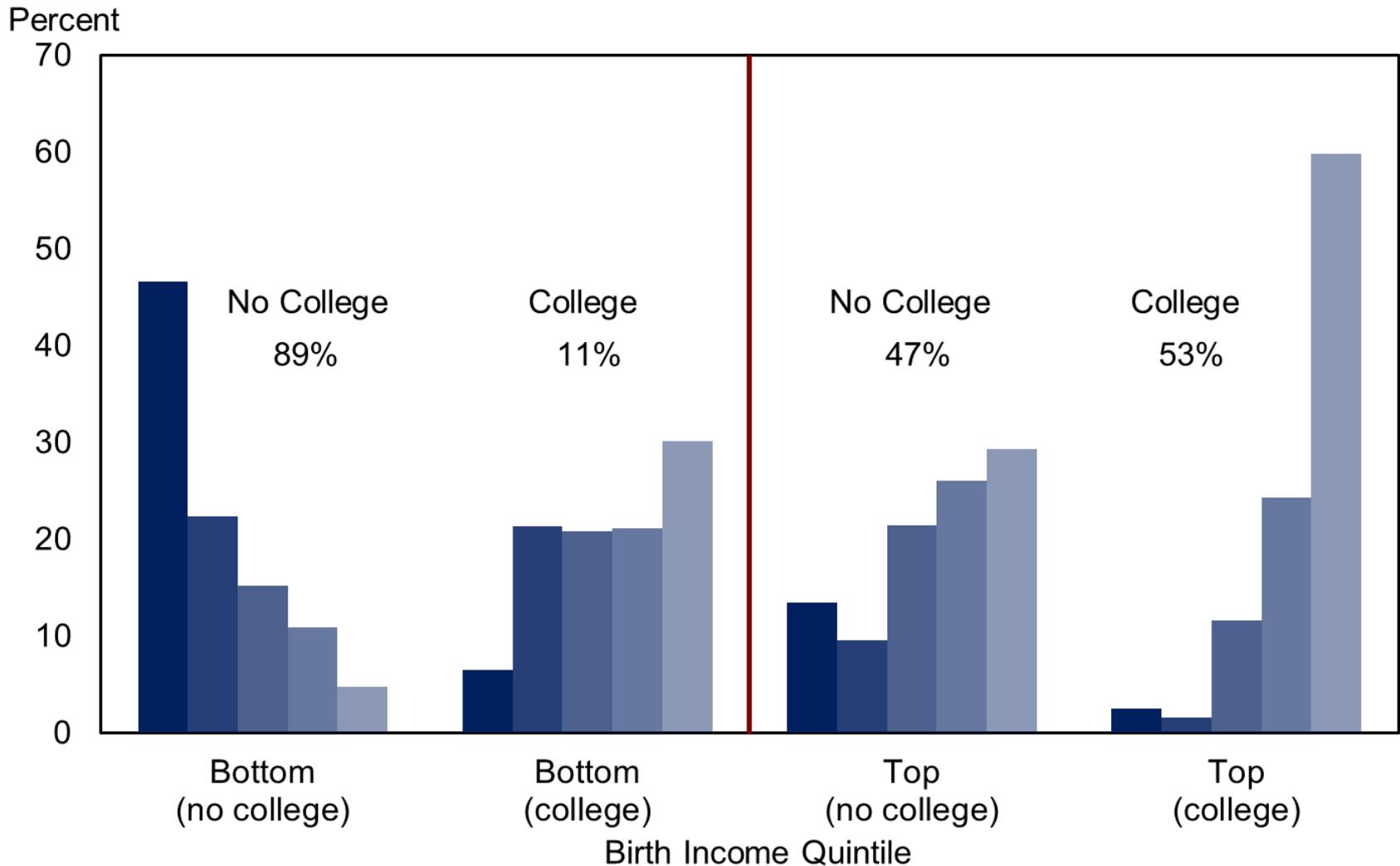


Source: PSID and author's calculations

# College Not Equally Distributed

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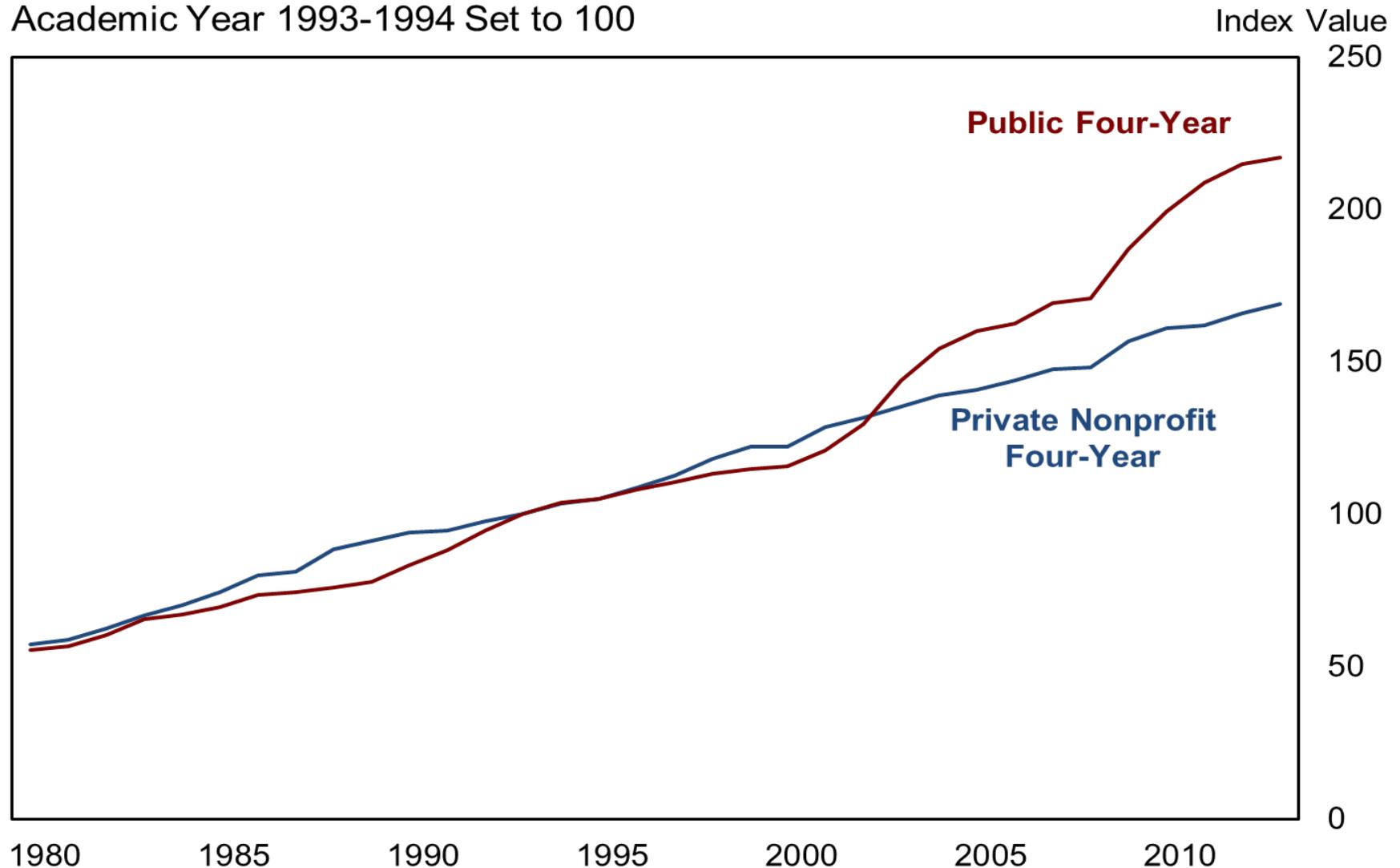


Source: PSID and author's calculations

# College Increasingly Expensive

## Change in Sticker Price of College Education

Academic Year 1993-1994 Set to 100



Source: The College Board, Trends in College Pricing 2013.

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# Do the Data Match Our Beliefs?

## Economic Mobility Scorecard

Children do better than their parents



Hard work, talent, and effort matter most

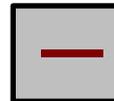


Where you're born is not that important

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%**

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**Because:**

- 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 for the economy and for a just, fair, and civil society

# For More Information

The Pew Charitable Trusts Economic Mobility Project: [economicmobility.org](http://economicmobility.org)

The Brookings Institution topic page on economic mobility: [brookings.edu/topics/economic-mobility.aspx](http://brookings.edu/topics/economic-mobility.aspx)

New York Times economic mobility visualization tool:

[http://www.nytimes.com/packages/html/national/20050515\\_CLASS\\_GRAPHIC/index\\_01.html](http://www.nytimes.com/packages/html/national/20050515_CLASS_GRAPHIC/index_01.html)

Isaacs, J., Sawhill, I., and R. Haskins, "Getting Ahead or Losing Ground: Economic Mobility in America," Economic Mobility Project, an initiative of The Pew Charitable Trusts, 2008, available online at [economicmobility.org/reports\\_and\\_research/mobility\\_in\\_america](http://economicmobility.org/reports_and_research/mobility_in_america).

Jäntti, M., Bratsberg, B., Roed, K., Raaum, O., Naylor, R., Osterbacka, E., Bjorklund, A., and T. Eriksson, "American Exceptionalism in a New Light: A Comparison of Intergenerational Earnings Mobility in the Nordic Countries, the United Kingdom and the United States," IZA Discussion Paper No. 1938. Bonn: Institute for the Study of Labor, 2006, available online at <http://ftp.iza.org/dp1938.pdf>.

Sawhill, I., and Morton, J., "Economic Mobility: Is the American Dream Alive and Well?" The Brookings Institution, May 2007, available online at [http://www.brookings.edu/papers/2007/05useconomics\\_morton.aspx](http://www.brookings.edu/papers/2007/05useconomics_morton.aspx).