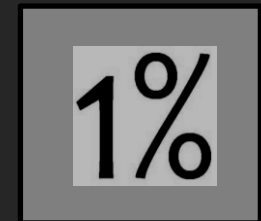
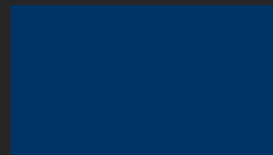
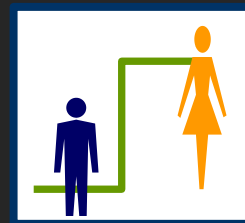
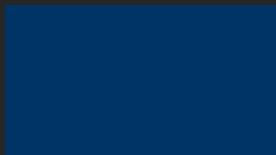
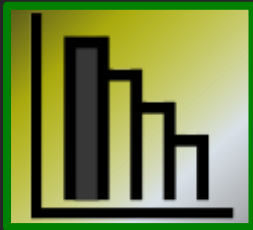
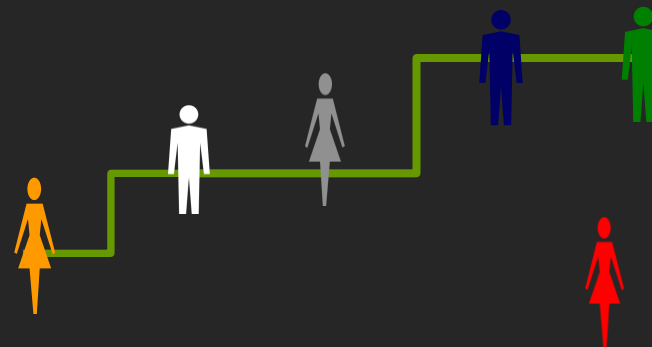


FRBSF Joint Board of Directors Meeting
Economic Research Seminar Session
April 11, 2012

U.S. Income Inequality in Perspective





Economic Mobility

**Prepared for FRBSF Seminar
U.S. Income Inequality in Perspective
April 11, 2012**

**Mary C. Daly
Associate Director of Research and Group Vice President
Federal Reserve Bank of San Francisco**

Thanks to Leila Bengali, Jody Hoff, Katherine Kuang, Kevin Riehman and FRBSF staff in Community Development, Economic Research, and the Research Library for assistance with this presentation.

The American Dream



Surveys show Americans believe:*

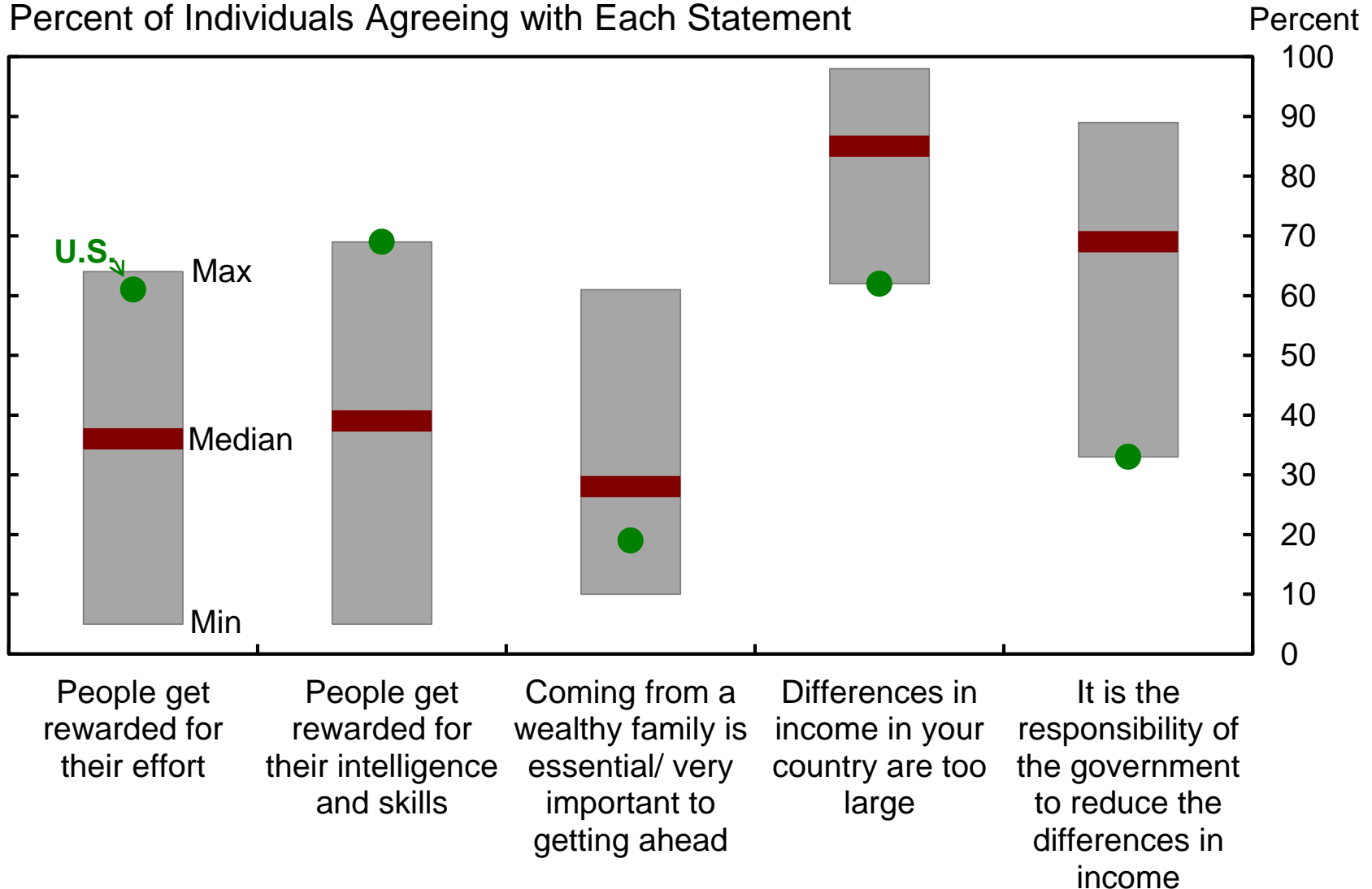
- **Each generation does better than the last**
- **Hard work, talent, and effort create success**
- **Birthright plays only a small role**

***Pew Charitable Trust Survey of American Attitudes.**

American Beliefs Stand Out

Cross Country Perceptions of Mobility

Percent of Individuals Agreeing with Each Statement



Source: Sawhill, I., and Morton, J., "Economic Mobility: Is the American Dream Alive and Well?" The Brookings Institution, May 2007.

Plan of Talk



- **Economic Mobility Primer**
- **U.S. Mobility and Its Determinants**
- **The American Dream Revisited**

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

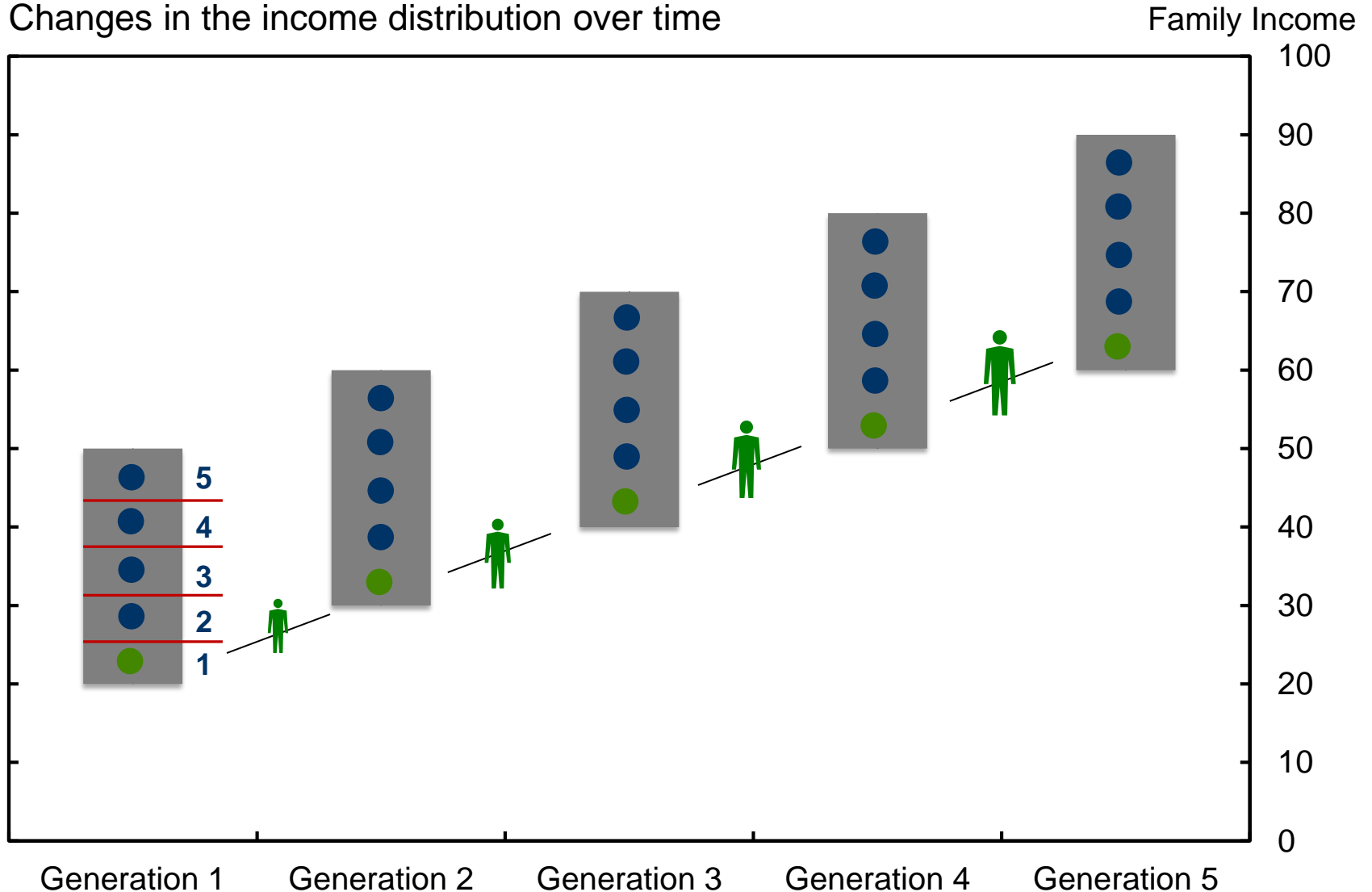
Mobility can be measured over:

- 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 Primer

Economic mobility describes:

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

Two types of economic mobility:

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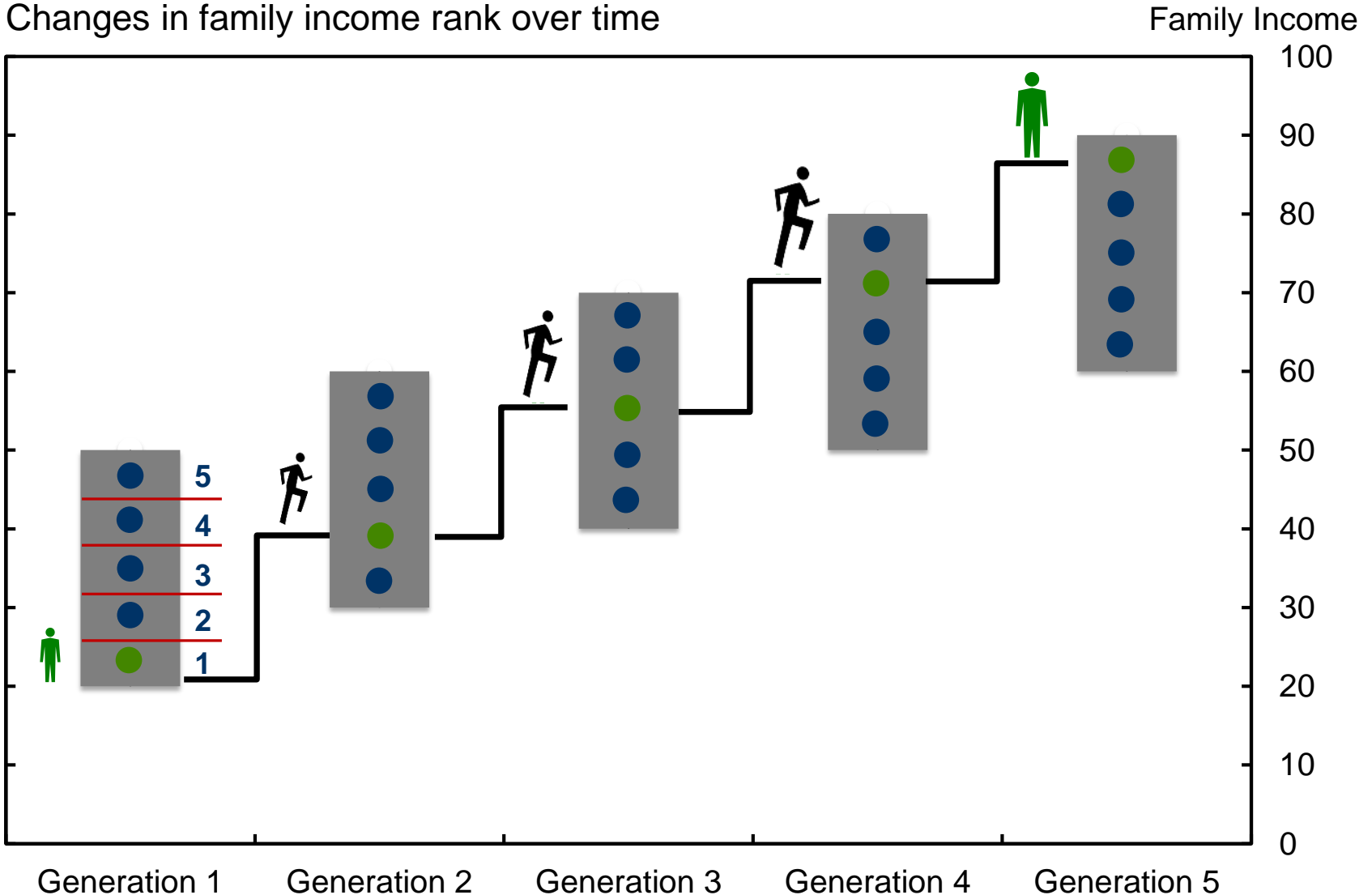
Mobility can be measured over:

- Individual lifetimes
- Successive generations (**focus of talk**)

Relative: Walking Up Escalator

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

Mobility can be measured over:

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- Successive generations (**focus of talk**)

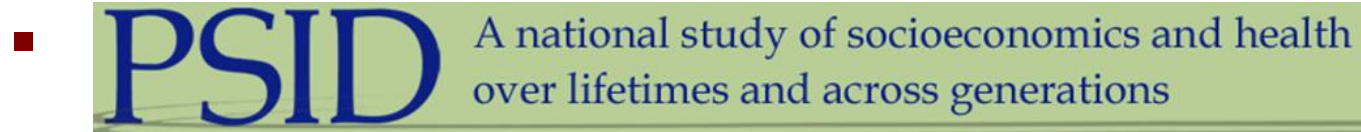
Plan of Talk



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Tracking Economic Mobility

- Need data that tracks families over time



- Data: Parents (30-50) to Children (30-50)

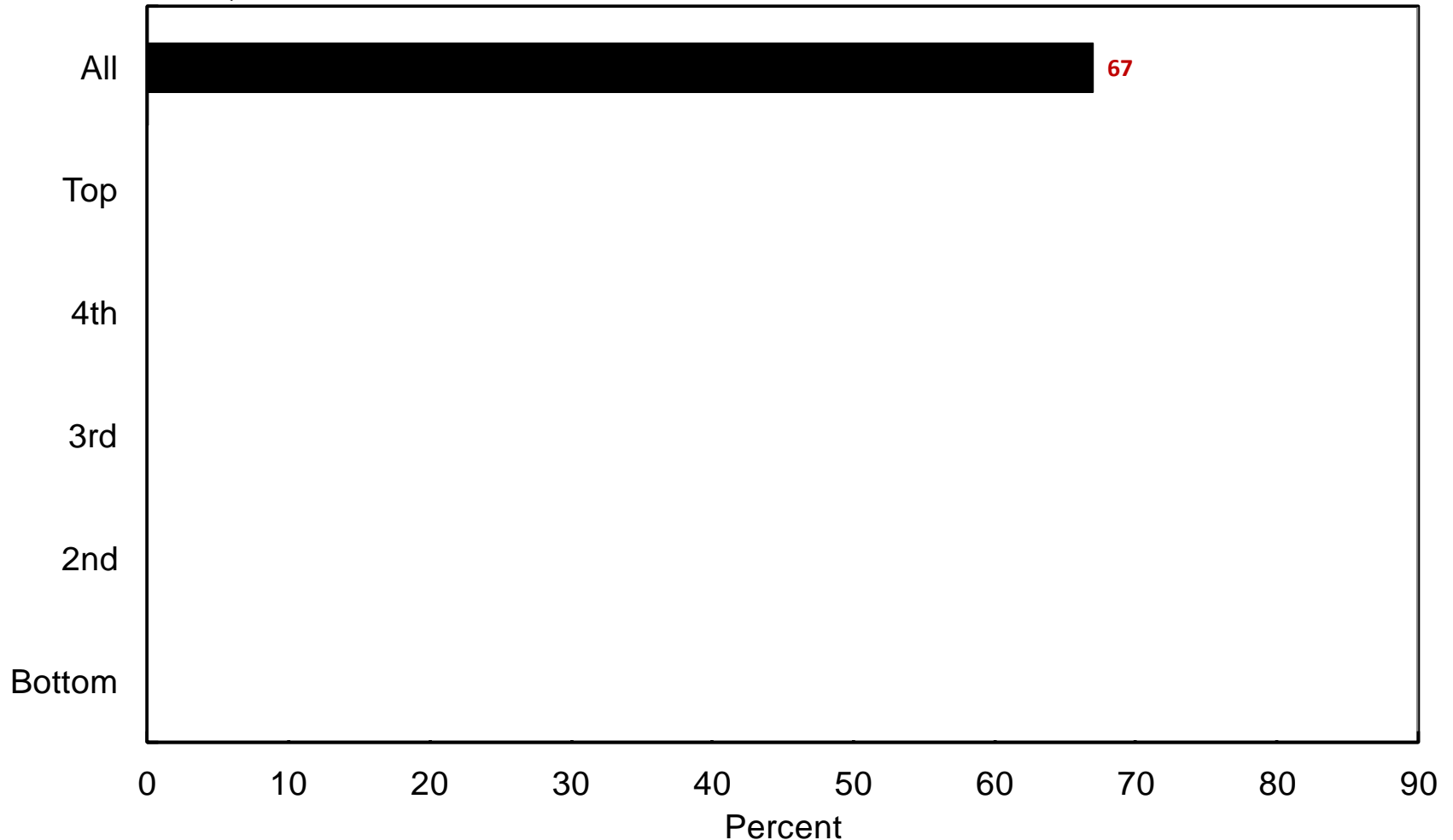
- **Absolute Mobility:** compare real \$\$\$ value of parent's income at age **x** to the real \$\$\$ value of adult child's income at age **x**
- **Relative Mobility:** compare parent's income rank when child was born (**birth income quintile**) to income rank when child is an adult (**working-age quintile**)

Absolute Mobility is High

Absolute Generational Mobility

Percent of Children with Family Income > Parents'

Birth Income Quintile



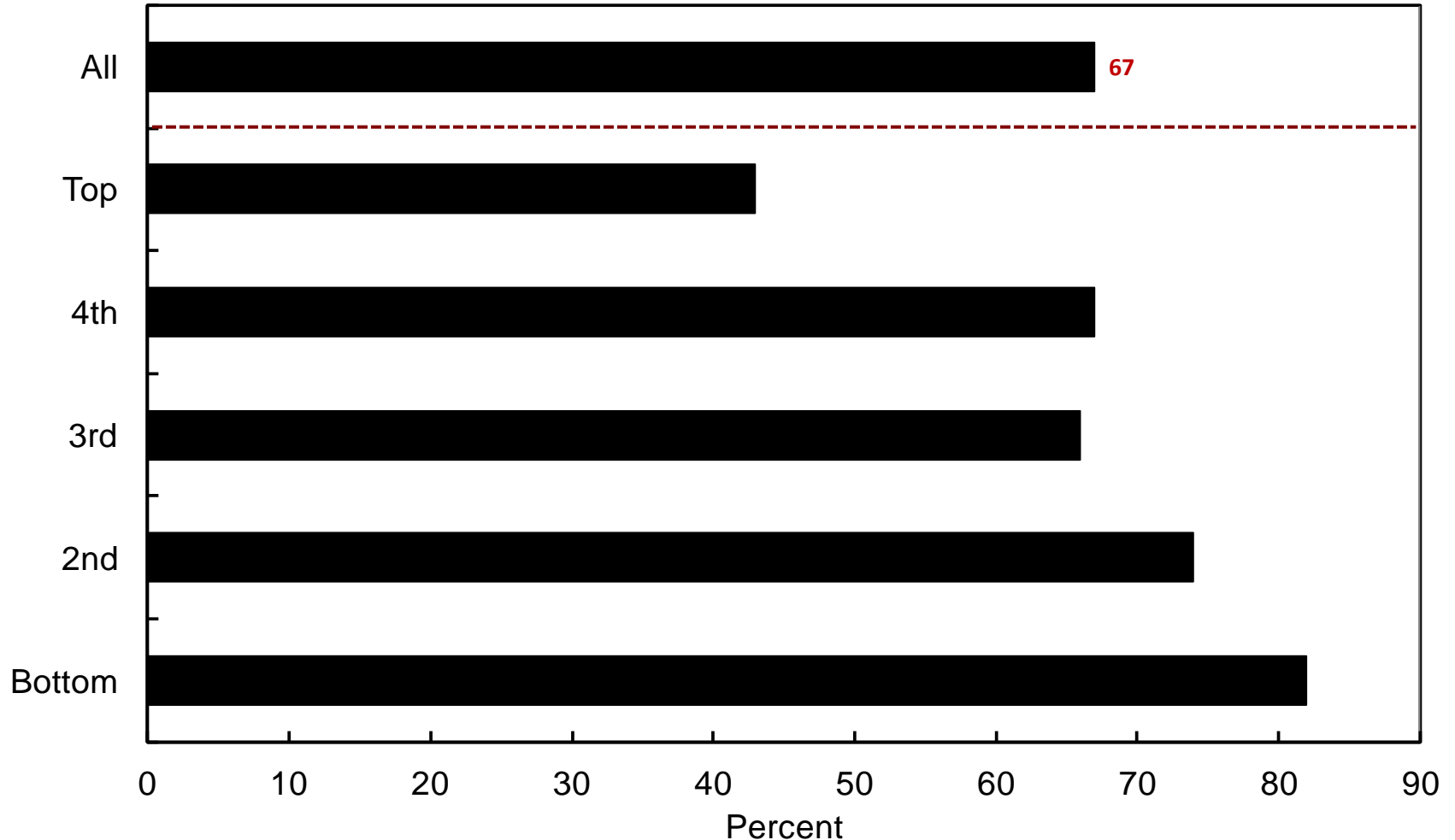
Source: Isaacs, J., "Economic Mobility of Families Across Generations," Economic Mobility Project, an initiative of The Pew Charitable Trusts, November 2007.

Holds for all Birth Quintiles

Absolute Generational Mobility

Percent of Children with Family Income > Parents'

Birth Income Quintile



Source: Isaacs, J., "Economic Mobility of Families Across Generations," Economic Mobility Project, an initiative of The Pew Charitable Trusts, November 2007.

Relative Mobility is Less Clear

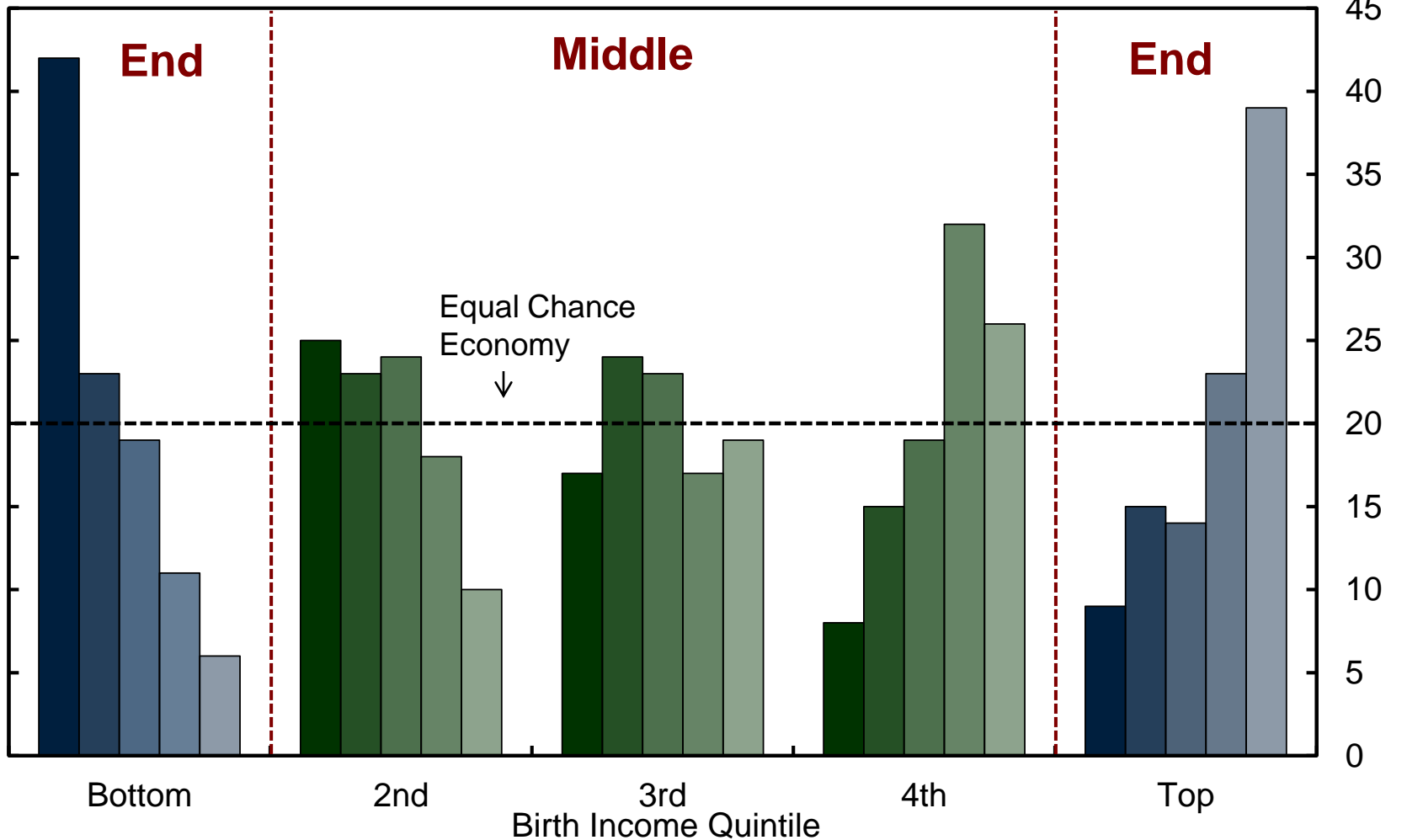
For one, no obvious benchmark or metric

- **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

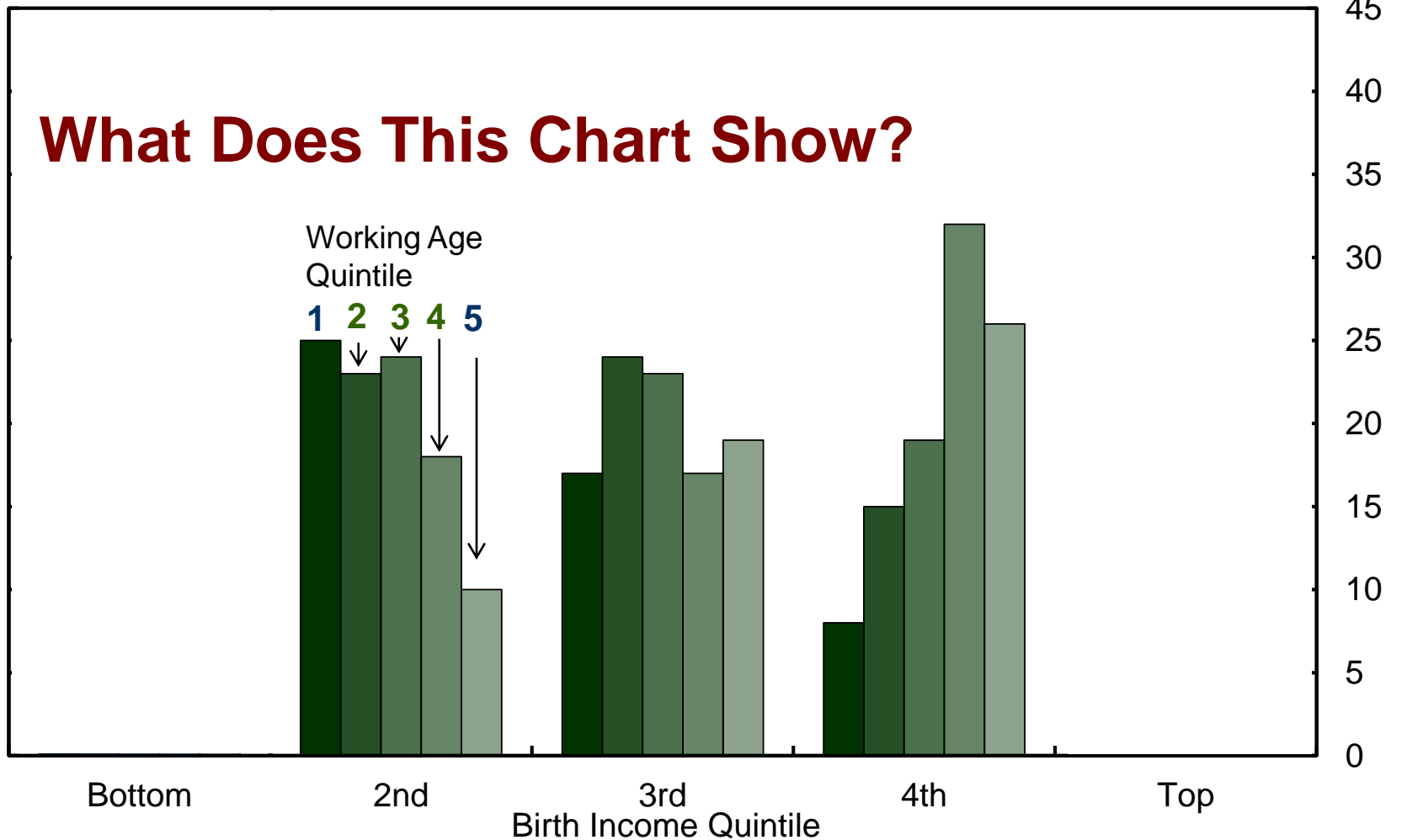


Source: Isaacs, J., "Economic Mobility of Families Across Generations," Economic Mobility Project, an initiative of The Pew Charitable Trusts, November 2007.

Relative Mobility in the U.S.

Relative Generational Mobility

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

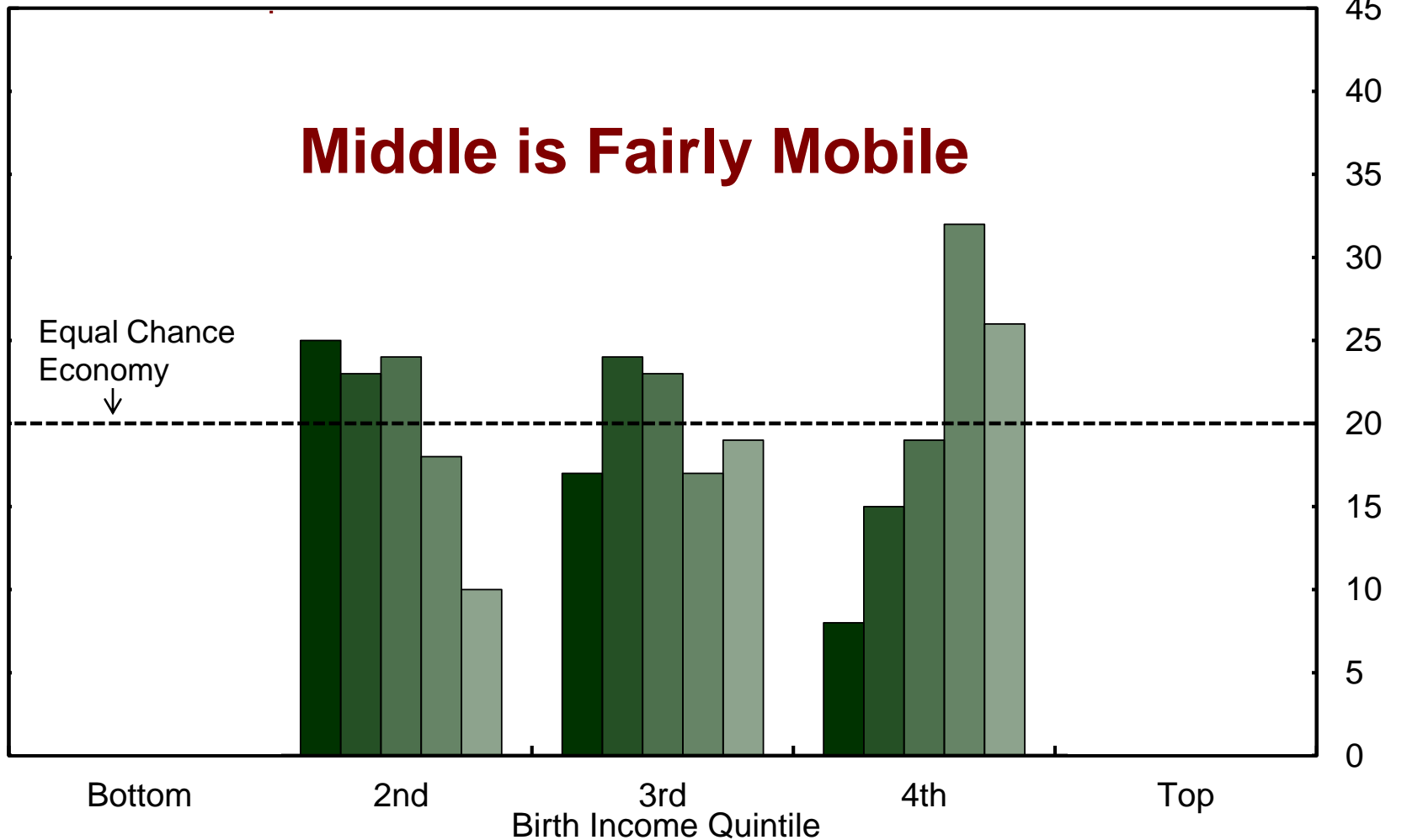


Source: Isaacs, J., "Economic Mobility of Families Across Generations," Economic Mobility Project, an initiative of The Pew Charitable Trusts, November 2007.

Relative Mobility in the U.S.

Relative Generational Mobility

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

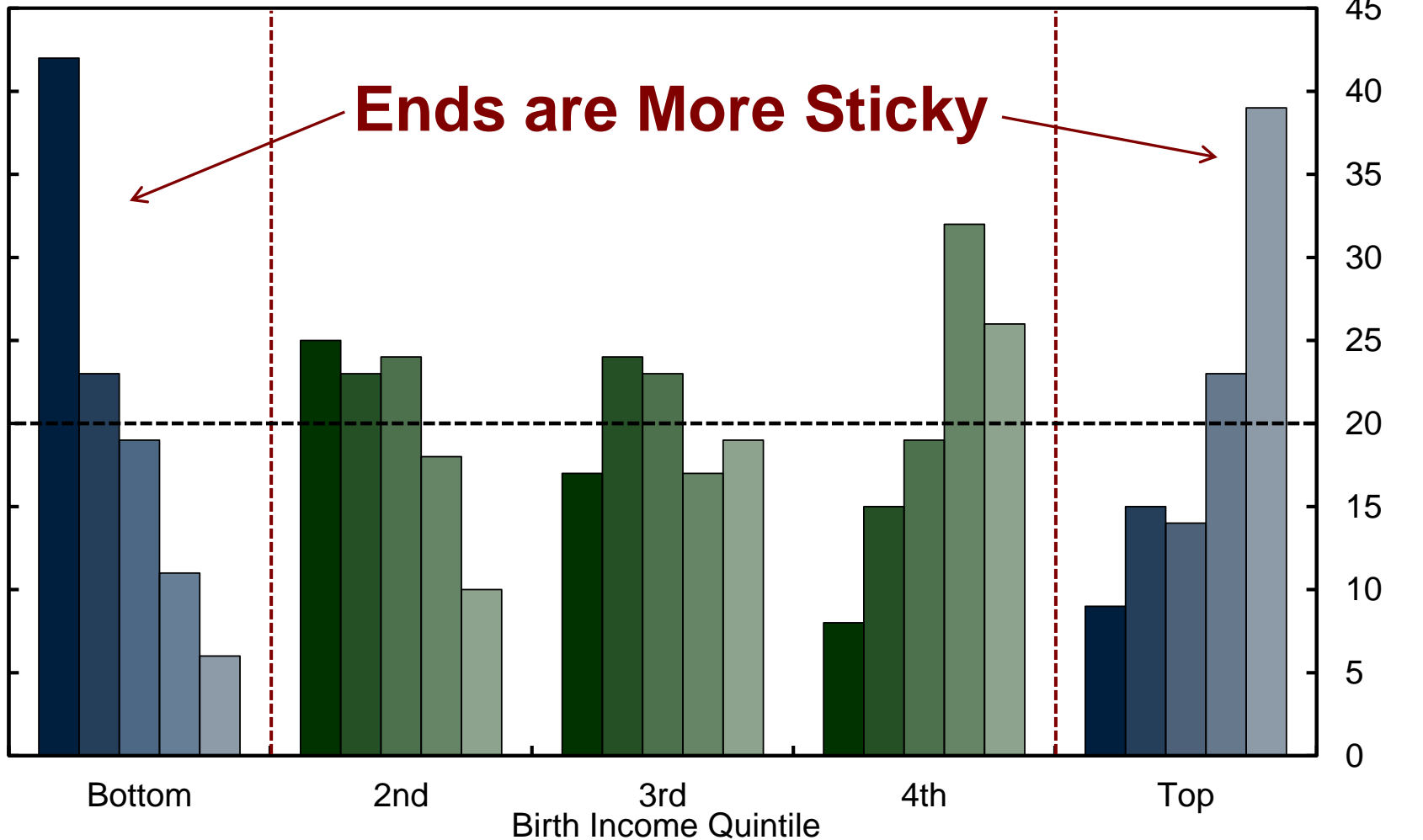


Source: Isaacs, J., "Economic Mobility of Families Across Generations," Economic Mobility Project, an initiative of The Pew Charitable Trusts, November 2007.

Relative Mobility in the U.S.

Relative Generational Mobility

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

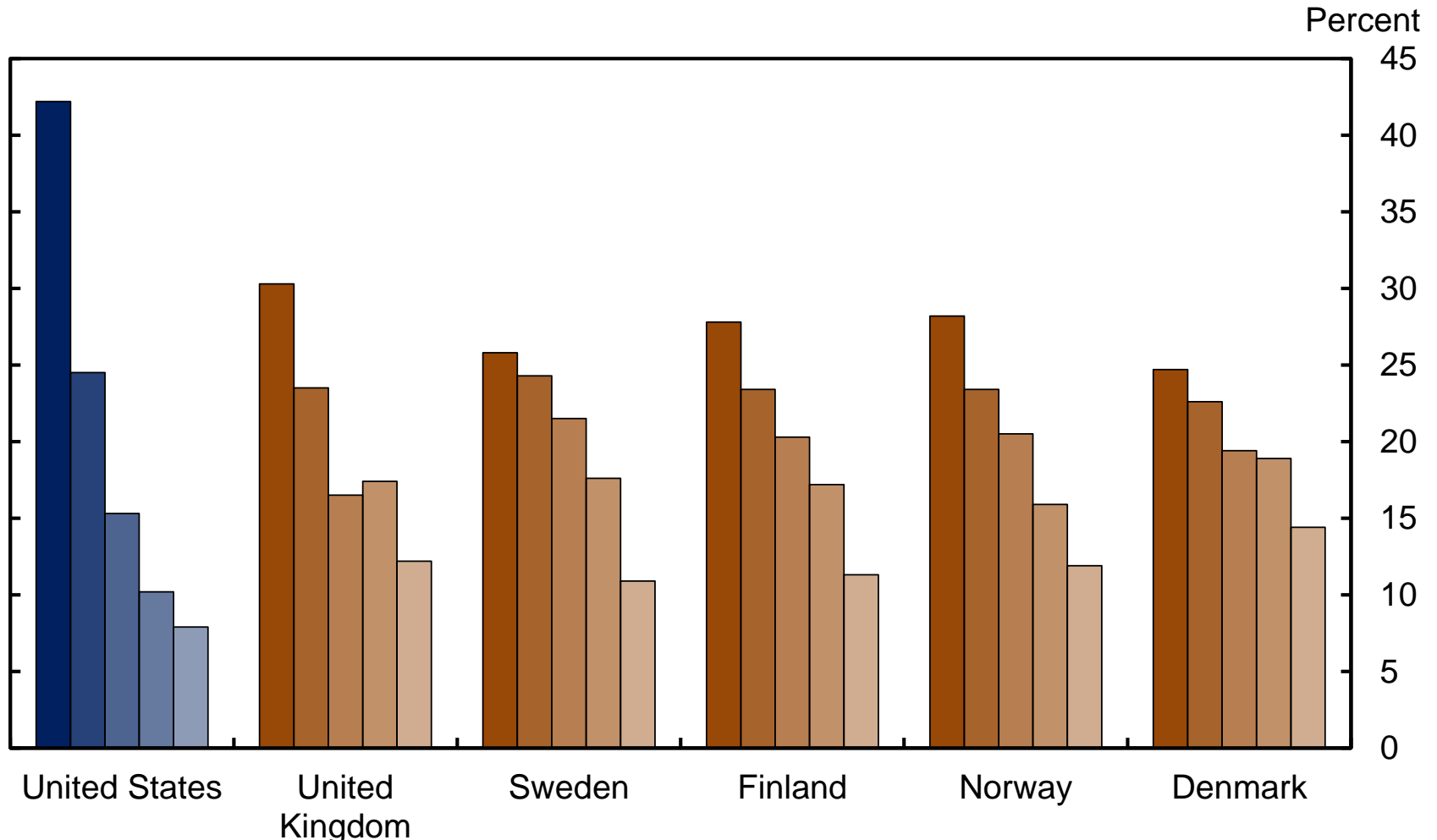


Source: Isaacs, J., "Economic Mobility of Families Across Generations," Economic Mobility Project, an initiative of The Pew Charitable Trusts, November 2007.

Parental Penalty High in U.S.

Relative Generational Mobility

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

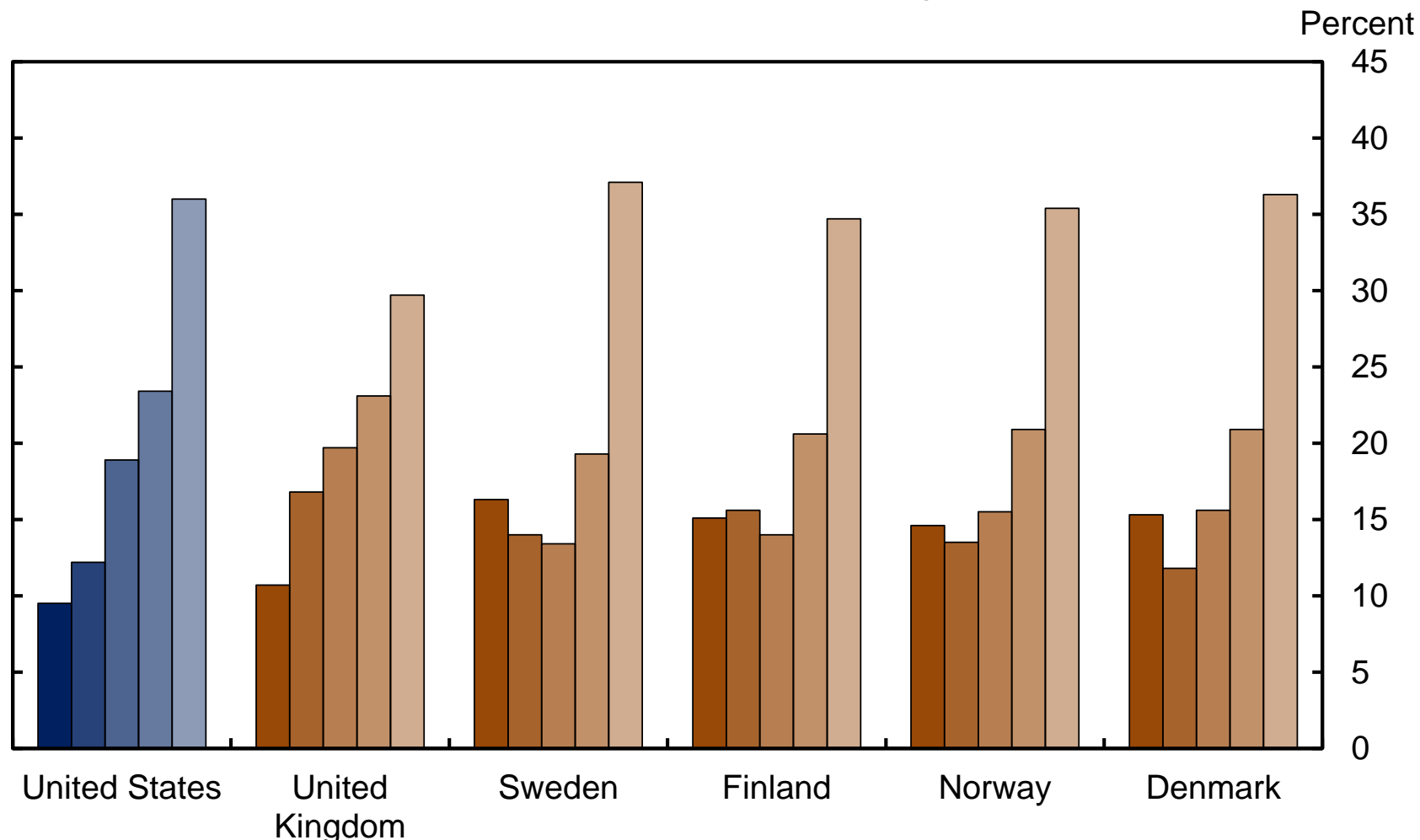


Source: Jäntti, M., Bratsberg, B., Roed, K., Raaum, O., Naylor, R., Osterbacka, E., Bjorklund, A., and T. Eriksson, "American Exceptionalism in a New Light: A Comparison of Intergenerational Earnings Mobility in the Nordic Countries, the United Kingdom and the United States," IZA Discussion Paper No.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

Parental Advantage is Universal

Relative Generational Mobility

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

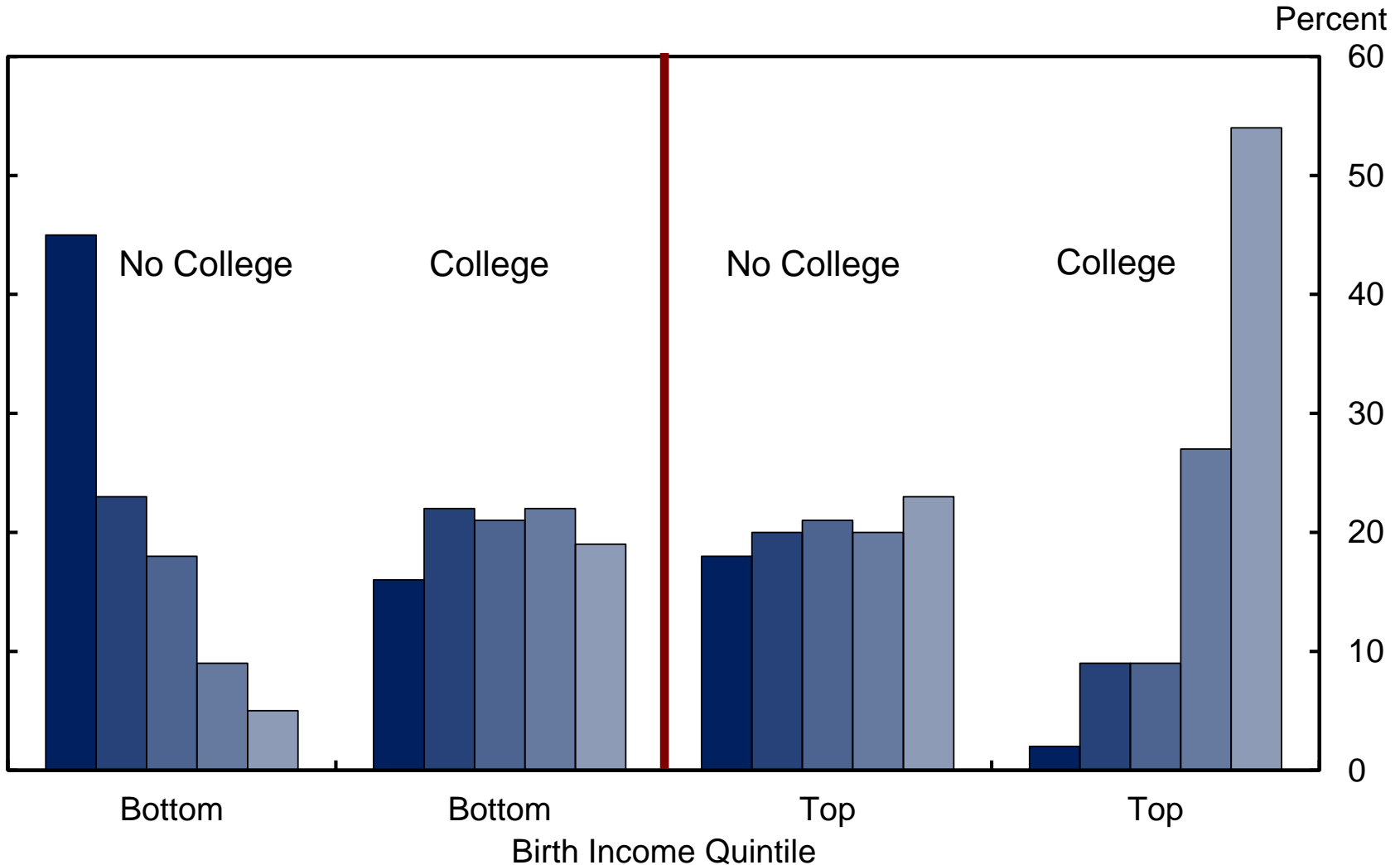


Source: Jäntti, M., Bratsberg, B., Roed, K., Raaum, O., Naylor, R., Osterbacka, E., Bjorklund, A., and T. Eriksson, "American Exceptionalism in a New Light: A Comparison of Intergenerational Earnings Mobility in the Nordic Countries, the United Kingdom and the United States," IZA Discussion Paper No.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

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

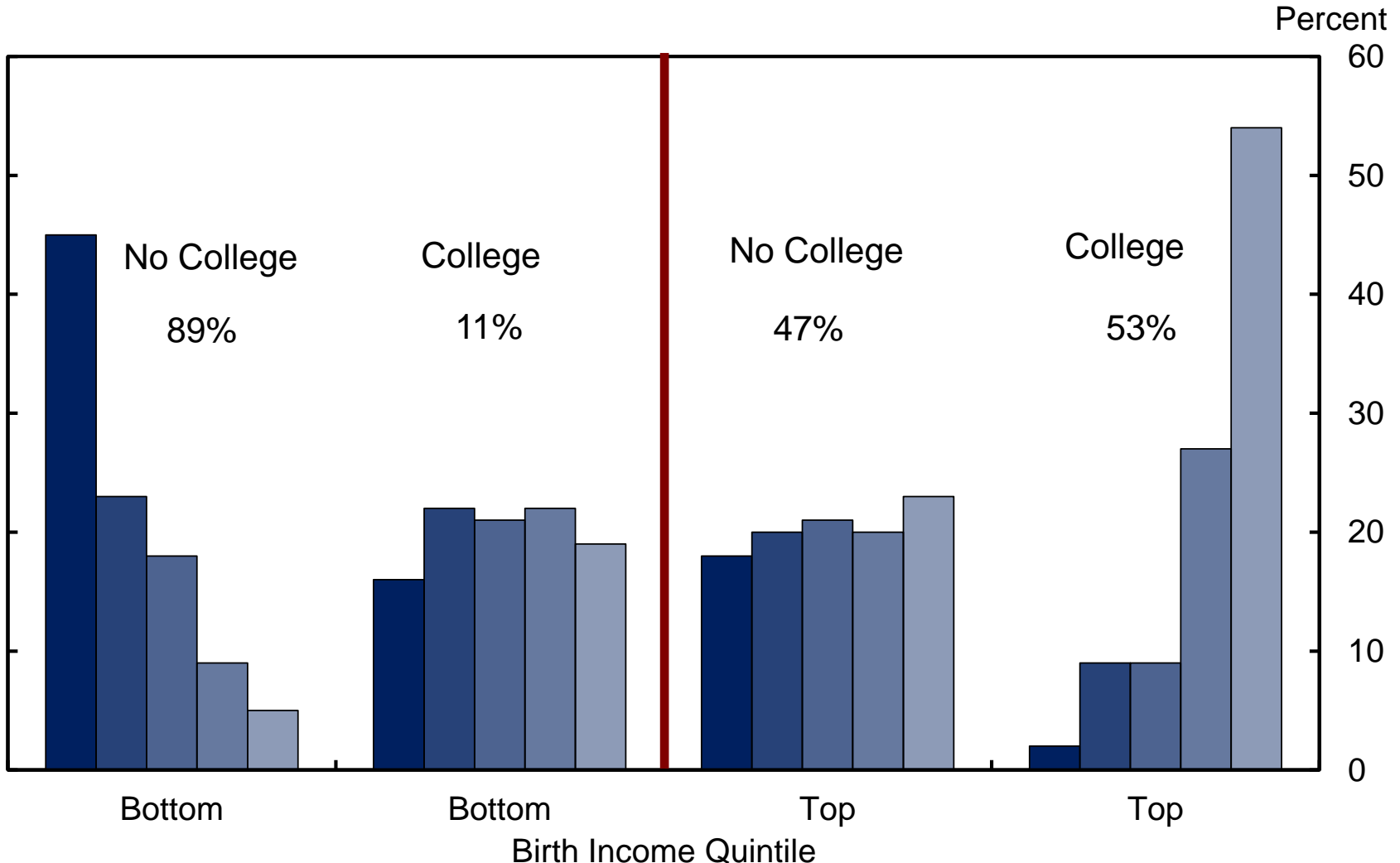


Source: Haskins, R., "Education and Economic Mobility," Economic Mobility Project, an initiative of The Pew Charitable Trusts,

But Not Equally Distributed

Education and Relative Generational Mobility

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

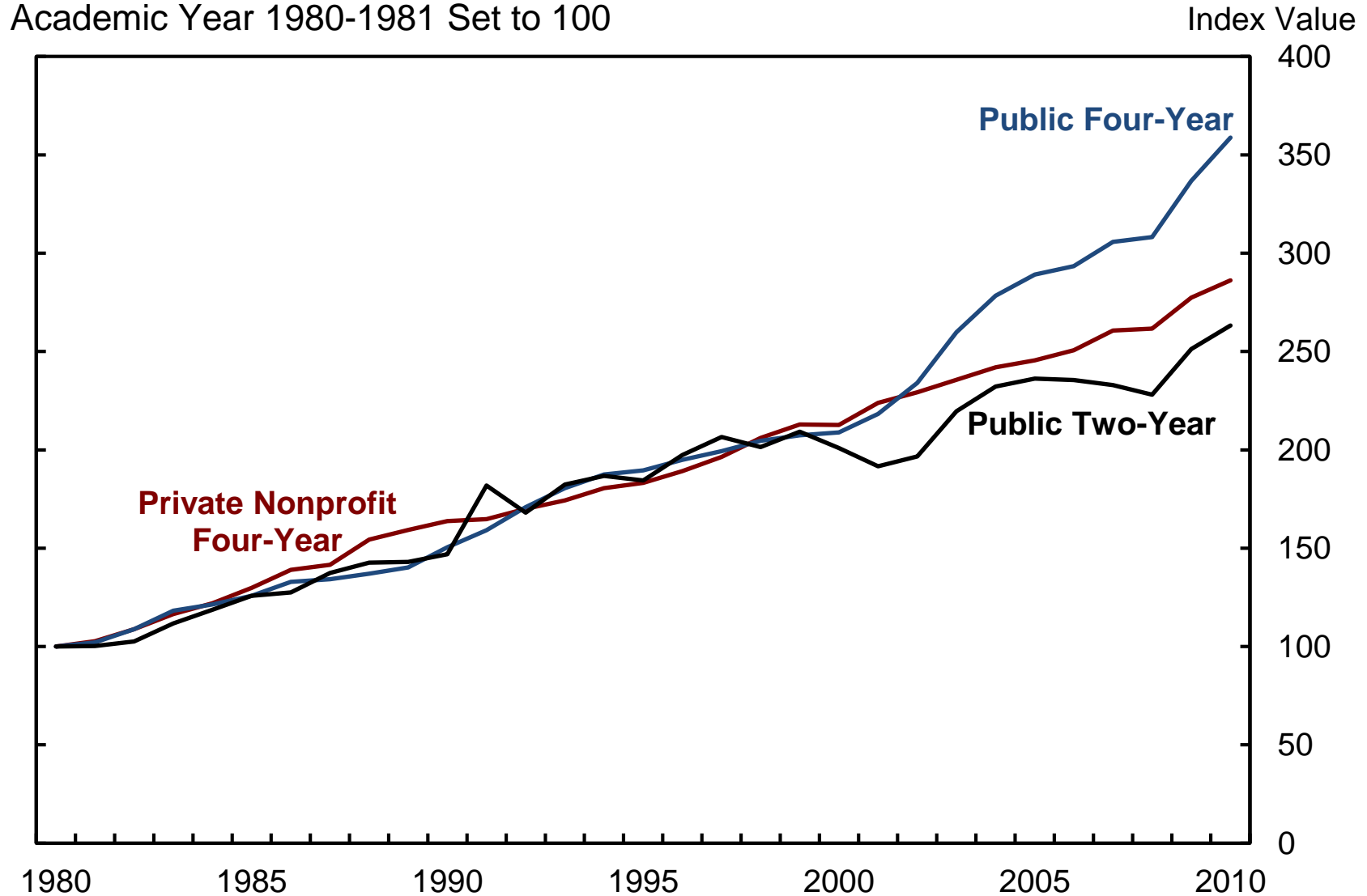


Source: Haskins, R., "Education and Economic Mobility," Economic Mobility Project, an initiative of The Pew Charitable Trusts,

One Reason is Rising Cost

Change in Cost of College Education

Academic Year 1980-1981 Set to 100



Source: The College Board, Trends in College Pricing 2010.





Plan of Talk



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Do the Data Match Our Beliefs?

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%**

*Pew Charitable Trust Survey of American Attitudes 2011.

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
- New York Times economic mobility visualization tool:
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.
- 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.

