Social Mobility in the United States.

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Abstract

In this piece the authors discuss social mobility in the United States, including the intergenerational income elasticity (IGE) measure, changes in social mobility over time, how the U.S. compares to other wealthy countries, and the "Great Gatsby Curve."

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Introduction

In recent years there has been increased attention given to opportunity gaps in American society, and for good reason. Only 48 percent of poor children are meeting key benchmarks in early childhood, compared to 78 percent of wealthy children—a gap that widens across the life course (Sawhill et. al. 2012:7). The gaps between the social classes in parenting abilities, single parenthood rates, and college graduation rates have been rapidly widening in recent decades (Putnam 2015). The poorest Americans live much shorter lives than the richest (Chetty et. al. 2016a). Even within the same communities, children's likelihood of college graduation, marriage, upward mobility, and incarceration varies considerably from one neighborhood to the next (Opportunity Insights 2021). And substantial racial and gender inequalities persist (Blau & Kahn 2017; Eppard et. al. 2020).

Another important dimension of opportunity that has received a lot of attention is social mobility. In terms of absolute mobility, research suggests that the expectation that each generation will earn more than their parents' generation may soon be a thing of the past (Chetty et. al. 2016b). And in terms of relative mobility, research suggests that the U.S. ranks poorly compared to a number of wealthy countries (Corak 2016).

The following discussion focuses on a number of issues related to the state of social mobility in the U.S. today.

Social Mobility and IGE Measure

Lawrence Eppard (LE): Let's start by talking a little bit about where the United States was mid-century on measures of social mobility compared to where we are today.

Bhashkar Mazumder (BM): In the post-WWII period up until the early 1970s, the U.S. was in a golden age. Economic growth was strong and inequality had come down from the sharp increase in the 1920s and was fairly stable. For intergenerational mobility and opportunity, it was likewise a very positive period. The association between children's income and their parents' incomes was probably lower than it was in the previous century and seemed to be pretty stable from around the end of WWII to about 1980.

Around 1980 we hit a point where opportunity started to decline at the same time that inequality rose.[i] After 1980, I think you see an increase in that association between children's incomes and their parents' incomes, and this likely reflects reduced opportunity.

It is difficult to obtain micro data on individual income before 1940 so it isn't clear what the IGE was going farther back in time. When you look at a consistent data series, you see that there has been an increase in the IGE and a decline in mobility. If I were to guess, I would say the IGE would have been around 0.30 in the U.S. for people born around the 1940s and 1950s, and that increased to about 0.50 or possibly higher for people who were born in the 1960s and later who entered the labor market after the big rise in inequality around 1980. Using different data, more recently I get estimates higher than 0.60 even.[ii]

LE: For the general reader unacquainted with the field of economics, can you explain what the IGE is and why it is a good measure of opportunity?

Miles Corak (MC): The IGE helps us understand to what extent a child's adult economic outcomes are foreshadowed by their parents' income. The IGE is a way of measuring that and helps tell us how close that relationship is. More technically, it refers to the percentage change in a child's income if their parents' income were to increase or decrease. So if the IGE was say 0.50, that is the same thing as saying that if my parents' income were to double, my income would be 50 percent higher. This intergenerational stickiness in income is one signal of the impact of family origins on children's outcomes. The IGE is not the only measure we could talk about in terms of opportunity, but it is a good starting point.

LE: Why is this such a good indicator of the amount of opportunity that exists in a given society?

BM: What is nice about the IGE is that it is a single number and you can use it to make cross-country comparisons. You can illustrate the measure by making a comparison of two families. Say there is an income gap between two families of 10 percent, and you want to estimate what the gap would be between their children a generation later. A number like 0.60 would tell you that about 60 percent of that gap would remain a generation later. So the IGE is a nice summary measure of how differences between families persist over a generation.

LE: A 0.50 or 0.60 IGE, where does that put the U.S. relative to other wealthy countries?

BM: A 0.60 would put us at the lowest mobility among rich countries. At the other end would be countries like Norway, Finland, and Denmark. Those countries would have IGEs around 0.20 or sometimes even lower. In the middle you would have countries like Italy, Germany, and the U.K. in the 0.40 range.

MC: Teams of researchers have produced IGEs for a variety of countries.[iii] The data requirements are pretty strong. We need to know what the parents' incomes were when they were raising their children, and then you need to follow people over decades to determine their adult incomes. And when you make comparisons you have to be careful to pay attention to methodological differences and differences in definitions and things like that.

Some less affluent countries have higher elasticities than the U.S., countries like Brazil and South Africa. But if you focus on the rich countries, the U.S. is at the high end of intergenerational stickiness. At the other extreme, many of the Nordic countries, like Norway and Denmark, have elasticities of 0.20 or less. In those countries, there may be a relationship between your income and your parents' income, but it will be harder to detect any statistical relationship between your income and your grandparents' income. And that's not the case in the U.S.

LE: From your point of view, why is the U.S. so much worse off than these other countries? Is it racism and racial inequality? Segregation? Social policy? What's your perspective?[iv]

BM: I think race is a huge part of the story. If you look separately at Black[v] Americans, the patterns are particularly striking.[vi] Their likelihood of moving up the income distribution is far lower than it is for Whites. Their probability of staying high in the income distribution is also lower, there is a lot of downward mobility from the top for Black Americans. This fact is not always appreciated, because when we think about opportunity we are often thinking about opportunity to move up. But the opportunity to move down is also a significant problem in terms of race in the U.S. I suspect that various forms of segregation play an important role.

The formation of skills early in childhood is important. Early childhood investments in education, investments in health and the ability to have access to quality healthcare, these things are important factors and are unequally distributed.[vii] The disparities in educational and healthcare access for children in the U.S. are worse, and that is an important factor.

MC: A good example is to compare the U.S. to Canada.[viii] The IGE in Canada is about half of what it is in the U.S. Two key differences which may account for this are the legacy of racism in the U.S. toward the Black population and how this has created inequality of opportunity across racial lines, and a higher level of inequality in labor markets in the U.S. and how public policies deal with that.

In the large swath of the South in the U.S. there are clusters of low-mobility areas.[ix] Canada has areas like that, but it is a smaller proportion of the population, and tends to be areas with isolated labor markets and low levels of human capital investments in the schooling and healthcare of children. These areas have high levels of aboriginal people, and dealing with this inequality is a big challenge in Canadian public policy. In the U.S., you see the legacy of racism and discrimination and the challenges Black Americans have faced. The Black/White differences are so strong. In fact, if you look at the IGE of the White population in the U.S., it isn't all that different from other wealthy countries. But it is different for the Black population.

The U.S. is also different in the amount of inequality in labor markets. The stakes are higher for families raising children. The inequality in the labor markets permeates into how institutions and how families function. There are more bottlenecks that limit access for those who come from less-privileged families.

When you think about how policies address this, if you take a look at Canadian children at the bottom of the income distribution, poor Canadian children aren't nearly as poor as poor American children. Poor Canadian children tend to look like lower-middle-income American children. Income support policies directed to low-income families with children play an important, and I think the literature has demonstrated, causal role.[x] How transfers are made matters as well. Public policy plays an important role in supporting both parents in employment, in helping them with supports and flexibility so that they can work and also be successful parents.

LE: Do different economists produce different IGEs?

BM: I would say the consensus view is that the IGE in family income is 0.50 or higher. My estimates are higher, I would argue, because I am using a longer time span covering much more of the lifecycle of parents and measuring children's income in their prime earning years and thereby eliminating considerable measurement error.

LE: In the U.S., income is "stickier" at the top and bottom. Can you explain this?

BM: A commonly observed pattern in many previous studies using transition matrices that look at the probability of moving across quintiles of the income distribution is there is a fair amount of mobility in the middle of the distribution.[xi] A lot of the persistence or "stickiness" is at the two ends of the distribution—those who start out poor stay poor, and those who start out rich stay rich.

From the point of view of economic theory, it may be that poorer parents don't have access to the funds necessary to invest optimally in their children, making it harder to move out of poverty. At the high end, simply inheriting economic resources could make it harder to fall down the hierarchy. And you might imagine all sorts of other advantages that are passed down. For example, there has been some work examining the likelihood of working in the same firm as your father, and the likelihood is much higher if your father had higher income. That isn't necessarily the smoking gun, but it is certainly a piece of the puzzle.

MC: The last paper that the famous economist Gary Becker published, it was published after he passed away, addressed this theme. There is a great deal of fluidity in child outcomes for the wide swath of families in the middle. For families in the middle of the income distribution, it is hard to make a statistical guess about where their children will go. They could down as well as up.

The differences between countries is what is happening at the tails. There are intergenerational cycles of poverty at the very bottom, and there are intergenerational cycles of privilege at the top in many countries, but it is much more so in the U.S. If you are raised in the bottom 10 percent in the U.S., you are much more likely to become an adult in the bottom 10 percent. Similarly, if you are born in the top 10 percent, your chances of staying there as an adult are much better in the U.S. These nonlinear patterns are important to understand, there are different dynamics going on at the top and bottom that require different policy responses. This is an area of important research and public policy concern.

If you look at fathers and sons, there is a great deal of transmission of employers across generations at the top. There is a strong tendency of the son to be employed at some point with the very same employer as their father—and if they don't, they are more likely to fall out of the top one percent.

LE: We are not a completely open society for sure, but life is also not completely determined by your social position at birth either.[xii] Can you explain from your perspective how we should think about the impact of social position of birth, and what we might do about it?

BM: I think the research suggests that we probably don't have the amount of opportunity that we would like in the U.S. What we do about this fact is not necessarily obvious and deserves considerable thought and perhaps some nuanced policies.

I just taught a class yesterday on intergenerational mobility. We discussed how most of us would not want our position in the income distribution to be exactly that of our parents so that we completely reproduce the social structure. On the other hand, I don't think we would want our position in the income distribution to be completely random, where parents have no control over their children's fate. If you want to read to your children and help them improve their vocabulary and their analytical skills, as a society we should not discourage that. These are important questions that the measurement side of the research can't really answer.

On the other hand, I think there is some low-hanging fruit when it comes to social policies that can have profound intergenerational benefits. I'm hopeful that research on the impacts of government interventions and the causal effects on the next generation are starting to change the debate about how we think about costs and benefits of these policies, whether it is food stamps or Head Start or Medicaid. Research that shows how these programs impact long-term outcomes when these children become adults. Even though these programs are costly, the returns are actually quite substantial and make sense from a cost-benefit perspective.

LE: Why would income inequality be associated with social mobility?

MC: That's the important question, isn't it? You certainly can't simplistically claim causality in a bivariate way when looking at "The Great Gatsby Curve." [xiii]

Family plays a critical role in sending children on their journey into adulthood, supporting them in the many transitions they have to make on their way to becoming self-sufficient and successful adults. The early years and readiness to learn matter. Navigating the school system matters. Influencing the choices that children make as they go through school and then try to get a foothold in the labor market. The strength of family, the decisions they make for children, and the investments that they make in children are crucial.

But families don't exist in isolation, they interact with labor markets. Inequalities in labor markets are an important determinant of a country's position in the curve. Insecurity in family incomes has a role to play—a parent being laid off, for instance, can impact children decades down the road. Overt discrimination has direct bearing on inequality of opportunity.[xiv] Even labor markets that are open and offer much higher returns to human capital compared to others will also cast a shadow on families. Families and labor markets act together.

Differences between countries may reflect fundamentally different value systems[xv] and different choices that societies make. To some degree a country's position in the curve reflects policy choices. Policies can buffer families from labor market insecurities or they can reinforce them. Policies of course also compliment the human capital investments that families make. Policies which give more advantages to the disadvantaged end up enhancing mobility.

So the interaction of families, labor markets, and public policy choices are very important, and come together in different ways in different countries. And a country's position in the curve may suggest that they may want to make different public policy choices to help get their citizens to where they want to be.

LE: Miles, I believe it was Alan Krueger who first labeled the relationship between income inequality and social mobility outlined in your work as "The Great Gatsby Curve."[xvi]

MC: Yes. Alan Krueger gave a speech in January of 2012. At the time he was the chair of the Council of Economic Advisors, an advisor to President Obama. I had been in correspondence with Alan in the months preceding the speech discussing the data with him. I offered him a graph that I had developed in conversations with colleagues and in conversation with the existing literature. The graph ranked countries along two dimensions. Horizontally, they were ranked from the most equal to the least equal. Vertically, they were ranked according to their IGE. And the graph shows that countries with higher inequality tend to be countries with more intergenerational stickiness in income, or less mobility. And other researchers have replicated this relationship with even more countries, one analysis I think had something like 70 countries and the relationship was still there.[xvii]

When Alan saw the graph and the data I had shared, he recognized the important policy lesson, which is that inequality may have the potential to erode equality of opportunity, that it threatens the future prospects of children from low-income backgrounds. So in this speech in 2012 he used this graph and gave it the name, "The Great Gatsby Curve."

LE: What did you think when you first heard it called that?

MC: I thought of it as a very effective communication device. I think he took evidence that was well-grounded in empirical data and theory and gave it a megaphone in a way that academics don't do often enough. I would be uncomfortable if the research was somehow second place, but I don't think it was in this case. The name helped to make people more aware of the research and got people thinking about these issues, so I was a fan of it.

LE: Are there any lessons about the health of our society that we might take away from a measure like the IGE, the Gini coefficient, or from the Gatsby Curve?

MC: I think this is a question at the very heart of why we do this work. What many ultimately care about is equality of opportunity, that a child can ultimately become what she or he can be without regard to family background. It is a sense of fairness that I think a majority of people accept. And we are trying to use statistics to speak to that. The IGE takes a step in that direction, even if it doesn't fully capture what equality of opportunity is. There are a whole host of other measures we use as well. To the extent that these statistics speak to how much equality of opportunity exists, they are telling us something about ourselves. They tell us that as a society, we still have a ways to go to become the kind of fair country that we dream about and that many citizens expect.

It also takes us into a conversation about economic growth and what inclusive growth is. Economic growth that benefits all of us, that we all can take advantage of.

LE: Is there anything about your research that you wish the public would better understand, or that you wish was framed differently in political debates?

BM: I think there is a pretty good recognition now of some of the myths about opportunity in the U.S., I think a lot of the "rags to riches" myths have been tempered. It is pretty clear that the U.S. today is not the land of opportunity that many thought it was. I think that message has been received.[xviii] Raj Chetty and Nathan Hendren's work, for example, has received enormous attention.[xix] I think now we are moving to the next level and thinking about the factors responsible—is it early childhood, or is it the labor market itself and not the skills you bring with you into the labor market?

One thing I think would be important would be for people to think about payoffs of government programs in the next generation. To reevaluate the Great Society programs of the 1960s. In the 1970s and 1980s the conventional wisdom was they were not as effective as they should have been, since there were still many pockets of poverty. But research is now showing they had tremendous effects. I think communicating that to the public is really important.

LE: Some Americans think about freedom as freedom from government. Others think about it as freedom to pursue the life you want, which often requires government interventions to create the appropriate conditions to allow for this. What is your conceptualization of freedom?

MC: There is great work on this from Isaiah Berlin and Amartya Sen. I am a fan of Sen's Development as Freedom. Sen sees freedom as both ends and means. When you ask Canadians and Americans whether government helps or hinders you in living the good life, Americans are more likely to see the government as a hindrance. But that may not just be about libertarian values, they may not have anything against government in principle, but see their own government as inefficient or corrupt. Maybe you think government ends up wasting your tax money. Or maybe Americans see the rich controlling government for their own benefit, so they are less inclined to see it as a tool that can help ordinary people. So the challenge may be to create a different perception, to have people see public policy as an efficient tool to solve collective problems.

BM: From the lens of a parent you obviously think about the future you want your children to have. Most parents would probably want it to be the case that, no matter what neighborhood they raised their children in, or which school their child attended, that there was a sufficient chance for them to pursue the kind of life that they wanted. This is one important aspect of freedom, freedom to have opportunity.

Today, if you have the means, there is an almost unlimited amount of activities you can purchase for your children and there's a tremendous feeling of freedom and opportunity when you can afford to do that. But of course, this is a problem for families with limited means. So a major challenge is how we can make these opportunities and freedoms more widely available.

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[i] You can explore historical income and wealth inequality trends here: https://wid.world/country/usa/.
[ii] For more on this: https://www.chicagofed.org/publications/working-papers/2015/wp2015-04.
[iii] For more on this: http://ftp.iza.org/dp9929.pdf.

[iv] Lawrence Eppard's work provides a good overview of some important dimensions of racial inequality: https://workingclassstudiesjournal.files.wordpress.com/2020/10/jwcs-vol-5-issue-2-october-2020-eppard-nelson-cox-bonilla-silva.pdf.

[v] We capitalize Black as a sign of respect. We also capitalize White, in the words of Eve L. Ewing, to avoid giving Whiteness power by allowing it to remain supposedly neutral and invisible, to avoid "reinforcing the dangerous myth that White people in America do not have a racial identity. . . Whiteness is not only an absence. . . Rather, it is a specific social category that confers identifiable and measureable social benefits" (Ewing 2020). There is considerable debate about capitalization, and this is certainly not the only manner in which to handle this use of language. We do not make this language choice lightly, and our choice is not authoritative.

[vi] The Pew Charitable Trusts provide excellent data on these patterns: https://www.pewtrusts.org/~/media/legacy/uploadedfiles/wwwpewtrustsorg/reports/economic_mobility/pursuingamericandreampdf.pdf.

[vii] James Heckman's work on the positive impact of early childhood investments is valuable: https://heckmanequation.org/.

[viii] For more on this, explore Miles Corak's work: https://stonecenter.gc.cuny.edu/people/corak-miles/.

[ix] Lawrence Eppard's work illustrates this geographic distribution of opportunity: https://www.researchgate.net/publication/347433887_Inequality_of_place_and_social_mobility_in_the_United States_Low-and_high-opportunity_states

[x] David Brady's work is illuminating on this topic: https://global.oup.com/academic/product/rich-democracies-poor-people-9780195385878?cc=us&lang=en&.

[xi] This is illustrated in the work of Tom Hertz: https://www.researchgate.net/figure/10-Decile-Transition-Matrix-for the-Pooled-Income-Distribution-Percentages-Income_tbl4_297477793.

[xii] Lawrence Eppard's gauntlet metaphor is useful for conceptualizing the impact of one's starting position on their life chances: https://workingclassstudiesjournal.files.wordpress.com/2020/07/jwcs-vol-5-issue-1-june-2020-eppard-chomsky.pdf.

[xiii] For more on Miles Corak's "Great Gatsby Curve": https://milescorak.com/2016/12/04/how-the-great-gatsby-curve-got-its-name/.

[xiv] Some of the best work on racial discrimination was done by Devah Pager and her colleagues: https://youtu.be/nUZqvsF_Wt0.

[xv] For more on this: https://rowman.com/ISBN/9781611462340/Rugged-Individualism-and-the-Misunderstanding-of-American-Inequality.

[xvi] For more on this: https://www.brookings.edu/blog/social-mobility-memos/2015/05/19/the-great-utility-of-the-great-gatsby-curve/.

[xvii] Lawrence Eppard's analysis includes 66 countries: https://workingclassstudiesjournal.files.wordpress.com/2020/10/jwcs-vol-5-issue-2-october-2020-eppard-nelson-cox-bonilla-silva.pdf.

[xviii] For more on this see https://global.oup.com/academic/product/poorly-understood-9780190881382?cc=us&lang=en& and https://www.theguardian.com/commentisfree/2021/mar/13/american-dream-broken-upward-mobility-us.

[xix] For more on their work: https://opportunityinsights.org/wp-content/uploads/2018/03/mobility_geo.pdf.