

Mobility & Inequality in the United States

Business and Politics Conference

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Gary Becker & The American Dream

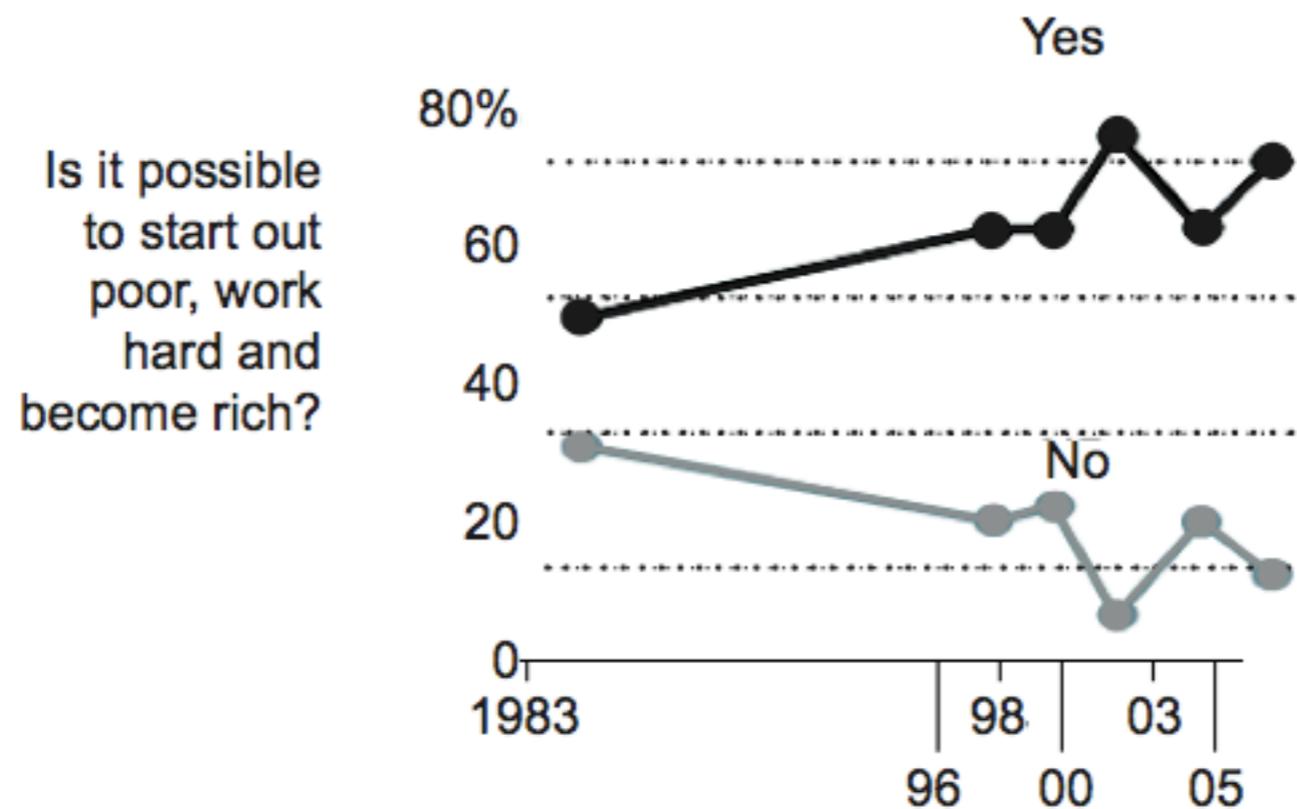
- Took the moment of his presidential speech to the American Economic Association to claim that, “Low earnings as well as high earnings are not strongly transmitted from fathers to sons”
- A powerful moment for economics (1988), wherein, through economic and political policies the American dream was a scientific reality.

Intergenerational Elasticity of Earnings

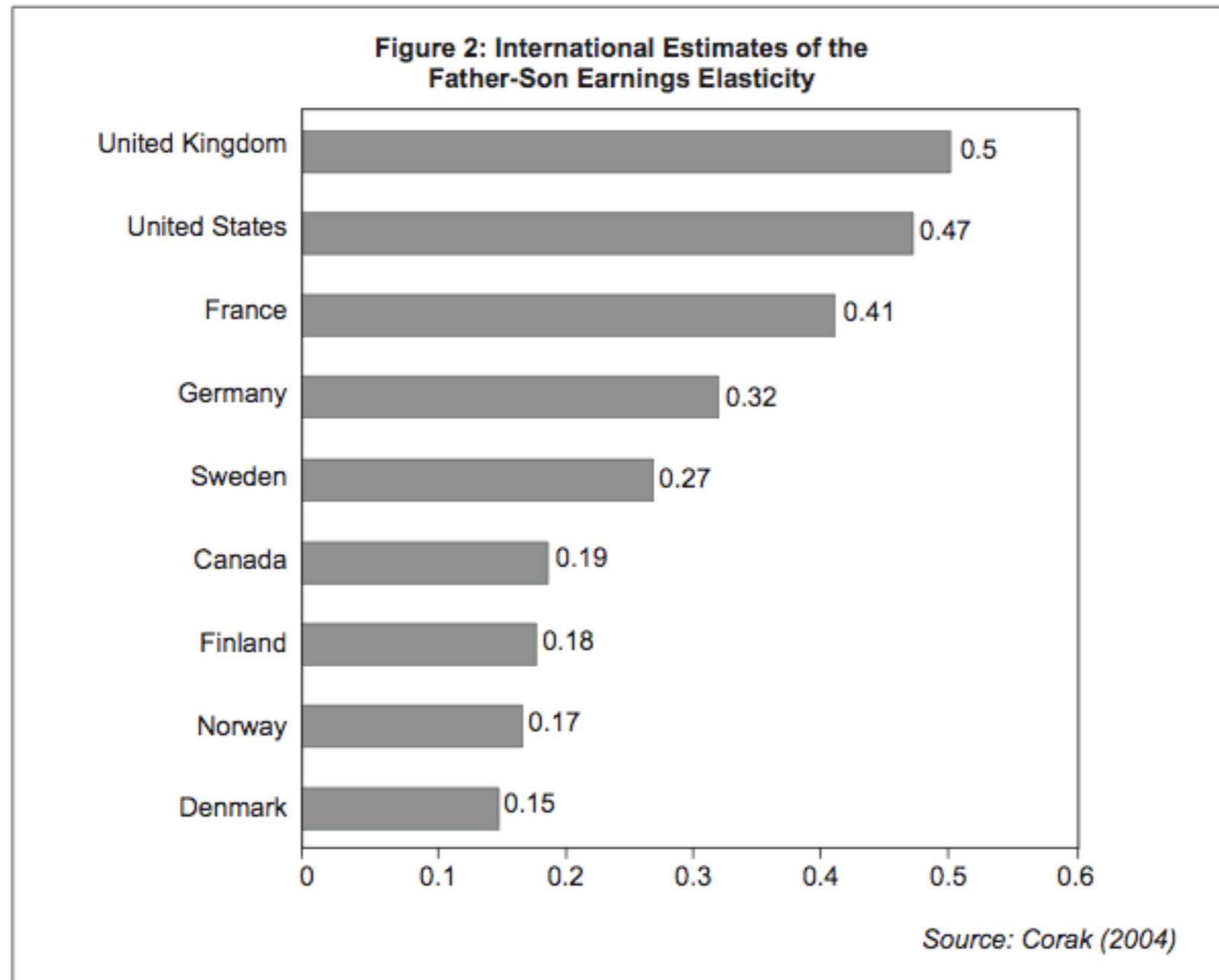
- The metric Becker relied upon
- Looks at how much of the difference in children's earnings can be explained by the difference in their parents' earnings
- A value of "0" means that children inherit neither advantages or disadvantages
- A value of "1" means children directly inherit their parents' fortunes

Americans increasingly believe Becker was right

Figure 1: Survey Data on Attitudes Regarding Upward Mobility



But if we look at the data, we see the myth of American Mobility



Gini

34

45

32.7

27

23

32.1

29.5

25

29

A sense of the numbers

- Assume a family at the poverty threshold (75% below national average). How long will it take their descendants to be within 5% of the national average?
- Value of 0.2 (what Becker found) means it should take less than two generations
- Value of 0.4 (what Solon found) means that it will take about three generations.
- Value of 0.6 (what Mazumder finds) means that it will take about six generations.
- My estimates put the value at around 0.5-0.6. So we're talking about five to six generations for the descendants of the poor to reach the middle class -- or 125-150 years.
- Extrapolating today's conditions, the poor of 1861 would just now see the progeny entering to within 5% of the middle class.

Findings in Context

- Children from low-income families have a 1% chance of reading the top 5% of the income distribution; children of high-income families have a 22% chance
- Children born into the middle quintile have equal chances of moving up or down a quintile (29.5% down; 36.5% up). But they only have a 1.8% chance of moving into the top 5%.
- African Americans born into the bottom quartile are twice as likely to remain there as white children with the same background. They are also four times less likely to attain the top quartile. (This race effect is persistent)
- Intergenerational mobility in the US is lower than it is in France, Germany, Sweden, Canada, Finland, Norway, and Denmark. Only the UK is worse (and these findings are questionable).

More Context

Over the long term, as inequality has increased, mobility has declined. This is because the fortunes of the rich have increased

- And hard work doesn't seem to pay off as much. Among households whose members worked more than 40 hours/week for two years in a row, compared to those households that didn't:
 - 1990-91: These households were more mobile
 - 1997-98: These households were more mobile
 - 2003-04: These households were NOT more mobile
- Working longer hours on a consistent basis no longer means one can reap the rewards of moving up. More and more, it is family fortunes that matter.

Declines in Mobility?

- A consistent and important finding: **Rises in inequality have NOT be offset by increased mobility.**
- The comparatively high levels of mobility in the 1950s & 1960s have not been persistent through the 70s, 80s, & 90s. In short, we have seen a decline in mobility in the US over the last 40 years. And we are mostly an outlier here (data problems).
- Further, mobility at the bottom has worsened over time. Particularly Black families, whose mobility decreased between the 1970s and 1990s.
- From 1967-2004, families later year incomes increasingly depended on their starting place, and the distributions of incomes became less equal (Bradbury and Katz).

Inequality by design

- These processes have not just “happened”
- Started in the 1970s, under a democratic congress and president. Both parties are involved
- Undoing of progressive tax policies and regulation, creating a bias in distribution toward the top
- Victory of business over labor (1/3 of in the increase in inequality can be explained by declines in unionization)

Lessons

- Business influence upon political life has been central to increasing inequality
- That increasing inequality is explained by richer Americans claiming a larger and larger share of the national wealth
- That increasing inequality has meant the decline of mobility in America, and if it continues, could lead to the death of the American dream.