

REACHING FOR THE PRIZE

The Limits on Economic Mobility

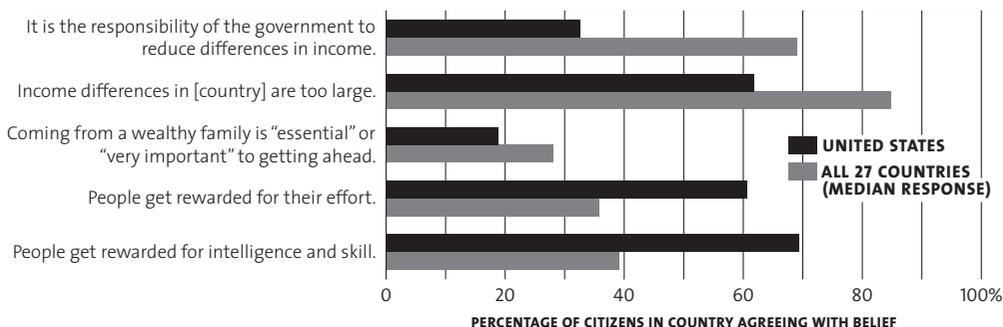
By Julia Isaacs and Isabel Sawhill

It's hardly news that the American economy has performed reasonably well in recent decades. Productivity growth has averaged just a shade less than 2 percent annually since 1970, doubling total output. Nor is it news that most of the gain has gone to Americans at the very top of the ladder, leaving us with more inequality in both income and wealth than we have seen since the late 1920s. What should surprise, though, is that the public has hardly blinked at the dramatic widening of the gap between middle- and upper-income groups. Even liberal politicians who identify with the aspirations of Americans in the bottom half seem unwilling to call for serious redistribution measures.



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PERCEPTIONS OF MOBILITY AND INEQUALITY IN 27 COUNTRIES



SOURCE: Brookings tabulations of data from the International Social Survey Program, 1998-2001

One reason, we suspect, is the widespread belief in America that what matters is not equality of outcomes but the opportunity to move up the ladder based on one's own talents and hard work. And by this yardstick, the argument goes, the system is working. If you are rich, it is because you deserve to be rich; if you are poor, the fault probably lies in your failure to take advantage of abundant opportunities for self-improvement. Moreover, any attempt to redistribute income by taxing the rich and providing benefits to the poor or the middle class would undermine people's incentives to reach for the brass ring.

Does this faith bear scrutiny? Are we the land of opportunity celebrated in a thousand grade-school textbooks, or have we become a more-stratified society than many would find acceptable? The answer is less clear than either critics or true believers have been willing to acknowledge.

FAITH IN THE DREAM

Americans are believers. In a 1999 survey of 27 middle- and high-income countries, some 69 percent of Americans agreed with the

statement that "people get rewarded for intelligence and skill," compared with a typical response of just 39 percent from all the countries. What's more, just 18 percent of Americans think that being born to wealth is very important in getting ahead, compared with 28 percent among all nationalities polled. It follows that Americans are more accepting of economic inequality: just one-third believe that the government should take responsibility for reducing income disparities, compared with more than two-thirds in the other countries surveyed.

JUST THE FACTS

Americans would rather talk about sex than about money, and they would much rather talk about money than class. Yet economic success is partly determined by the socioeconomic circumstances of the family in which one is born. For example, 42 percent of the children of families in the bottom fifth of the distribution end up in the bottom fifth as adults – twice as many as would be expected by chance alone. And it's no fun getting stuck in the lower rung: incomes in this group were not much higher in the late 1990s (below \$40,300 in 2006 dollars) than they were in the late 1960s (below \$33,800 in 2006 dollars).

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The data also show that rags-to-riches outcomes are uncommon. Just 6 percent of poor Americans move from the bottom fifth to the top fifth of the income distribution (above \$116,700 in 2006 dollars) in one generation. Individuals born to middle-income parents have decent prospects: 19 percent climb from the middle-fifth (between \$48,800 and \$65,100 in 2006 dollars) to the top fifth. But to paraphrase Billie Holiday, America still blesses the child that's got his own: individuals whose parents were in the top fifth have a 39 percent chance of staying there.

America, then, is not a rigidly class-stratified society, but neither is it immune to the influences of class. As noted above, 42 percent of those born into the bottom fifth of the income distribution stay put. Still, the remaining 58 percent move to a higher income quintile. Thus, there is significant mobility. The more-relevant question is whether there should be even more mobility.

These statistics do not tell us why mobility is less than perfectly random, with each child throwing the metaphoric dice. Parents at the top may buy success for their children through their command of economic resources – access to good schools, safe neighborhoods and old-boy-network job referrals. Or the underlying personal characteristics shared between successful parents and their children (like strong verbal or mathematical skills, a winning smile or a strong work ethic) may be at work. Or, more likely, both. Whatever the explanation, though, some relationship between the economic circumstances of parents and their children is inevitable.

It is thus difficult to say whether the mobility glass is half full or half empty. But one

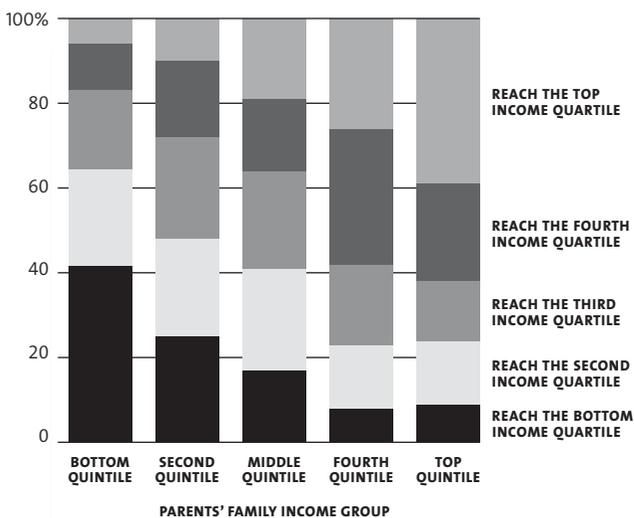
can ask how the American experience compares with other affluent democracies.

COMPARING COUNTRIES

By this benchmark, America comes up short: there is less mobility from the bottom in the United States than in some other advanced countries.

To make these comparisons, researchers used data on the earnings of sons compared to their fathers. In the United States, the pattern is very similar to the more-comprehen-

CHILDREN'S CHANCES OF GETTING AHEAD OR FALLING BEHIND, BY PARENTS' FAMILY INCOME
PERCENTAGE OF CHILDREN WHO REACH INCOME GROUP AS ADULTS



SOURCE: PSID data tabulations of family income arranged over several years and reported in 2006 dollars

sive mobility statistics presented above: 42 percent of American sons whose fathers had earnings in the lowest quintile remained stuck at the bottom. In contrast, the comparable percentages ranged from 25 to 30 percent in Denmark, Finland, Sweden, Norway and the United Kingdom. What's more, a slightly smaller fraction of American sons rise from the very bottom to the very top.

ECONOMIC MOBILITY

MOBILITY OUTCOMES FOR MEN WHOSE FATHERS ARE AT THE BOTTOM AND TOP OF THE EARNING DISTRIBUTION

PERCENTAGE OF MEN WHOSE FATHERS WERE IN THE BOTTOM FIFTH OF THE EARNINGS DISTRIBUTION:

	REMAINED IN BOTTOM FIFTH LIKE FATHER	CLIMBED ONE TO THREE STEPS	CLIMBED TO TOP FIFTH
Denmark	25%	61%	14%
Finland	28	61	11
Norway	28	60	12
Sweden	26	63	11
United Kingdom	30	57	12
United States	42	50	8

PERCENTAGE OF MEN WHOSE FATHERS WERE IN THE TOP FIFTH OF THE EARNINGS DISTRIBUTION:

	DROPPED TO BOTTOM FIFTH	DROPPED ONE TO THREE STEPS	REMAINED IN TOP FIFTH LIKE FATHER
Denmark	15%	48%	36%
Finland	15	50	35
Norway	15	50	35
Sweden	16	47	37
United Kingdom	11	60	30
United States	10	55	36

NOTE: Sons in all six countries were born around 1958, and earnings of both fathers and sons were observed near age 40. Sons' earnings are generally measured between 1992 and 2002.

SOURCE: Jäntti et al., "American Exceptionalism in a New Light," Discussion Paper 1938. Institute for the Study of Labor (Bonn, Germany), 2006.

Mobility patterns of middle- and upper-income wage earners, however, were quite similar across the six countries. Middle-income workers were fairly mobile in each nation, and stickiness at the top of the earnings ladder was the rule. Some 35 to 37 percent of those whose fathers had high earnings ended up in the top fifth of the earnings distribution in most countries.

Other comparative studies, moreover, tell much the same story, finding less mobility in the United States than in other rich countries, including Canada, Germany and to a lesser extent, France, as well as the Nordic countries. Poor Americans, then, do have some chance

of moving up through hard work (and luck). But the idea that equality of opportunity is a distinctly American strength is a myth.

COMPARING GENERATIONS

Comparisons of mobility across time face even more daunting data challenges than comparisons between countries. Many of the surveys do not go back far enough to track earlier generations. Moreover, we can't know whether mobility has gone up or down in the last few decades because children born since the early 1980s are not yet old enough for us to track their adult careers.

But we do know that relatively young workers are facing greater challenges than earlier generations. In the past, a growing economy ensured that each generation was better off than the previous one, creating an effective engine of upward mobility for many families. From 1947 to 1973, the typical family's income roughly doubled in real terms. Since 1973, however, growth in family incomes has averaged a relatively paltry 20 percent. And all of that gain for families comes from the addition of second (almost always, women) earners. Men in their 30s actually earned less in real terms in 2004 than men in their fathers' generation earned, on average, at the same age.

With the rising economic tide plainly failing to carry all families, the issue of mobility becomes all the more important. Indeed, in the absence of robust and broadly shared growth, movement up the income ladder has become pretty much the only way to live better than one's parents. To be sure, mobility works both ways: in the absence of economic growth, for every family that moves up in the ranks, another must move down. Still, the chance to improve one's lot matters to most people. And, in the eyes of some, an increase in relative mobility would help to offset the

near-stagnation and growing inequality of family incomes.

Sadly, though, hopes that increased social fluidity have worked to counter the effects of slower growth and less-equal incomes are not supported by the evidence. Some researchers, among them Gary Solon of Michigan State, have concluded that the rate of relative mobility has not changed significantly since the 1970s. Others, including Bhaskar Mazumder of the Federal Reserve Bank of Chicago, have actually found a decline in mobility. Perhaps most troubling, some research suggests that there is a link between a high degree of inequality in a society and low mobility: if the rungs of the ladder are far apart, it may be harder to climb from one rung to another. One could also argue in this context that, with greater inequality, the prizes for success and the penalties for failure are bigger, making it even more important that the process determining where people end up is fair and open.

COMPARING GROUPS

While the broad picture is important, what's happening within subgroups defined by gender, race and country of birth may have more impact on social stability and the perception of social justice.

We found very few differences in relative mobility by gender. For both men and women there is an additional source of upward mobility beyond earning a good income – namely, marrying well. If women marry men whose economic prospects are similar to those of their own fathers, marriage becomes another vehicle, along with success in the labor market, for transmitting economic status across generations. And the data show that both sons' and daughters' family incomes resemble

that of their parents to a similar degree.

In contrast, mobility differences between black and white families are striking. Some 54 percent of blacks born to parents in the bottom fifth of the income distribution remained in the bottom fifth as adults, compared to 31 percent of whites. Thus a disproportionate source of the stickiness at the bottom, the 42 percent of all low-income



children who remain in the bottom fifth as adults, is largely driven by the experiences of African-American families.

In addition, whereas 37 percent of the children of white middle-income families moved up relative to their parents, only 17 percent of black children born to middle-income parents moved up. More disturbing still, 45 percent of black children whose parents were in the middle in the late 1960s ended up falling to the bottom fifth, compared to only 16 percent of white children.

If America has been seen as “the land of

ECONOMIC MOBILITY

opportunity,” one reason is because so many immigrants have been able to improve their lot by coming here. That’s still true. Although Mexican-born workers earn relatively low wages in the United States, they earn far more than they could back home. This reality is largely ignored in the mobility research reported here because we lack data on immigrants’ parents. Yet immigrants are an important part of the mobility story, with 1.5 million immigrants entering the country legally each year, and with most of them able to improve their economic status by doing so.

Moreover, the children of immigrants are likely to do even better than their parents. George Borjas of Harvard compared first-generation immigrants in 1970 to second-generation immigrants in 2000 and found significant evidence of economic assimilation. Second-generation Americans tend to earn wages halfway between those of immigrants and those of the native-born. Thus, in contrast to the experience of lower-income native-born Americans – and especially African-Americans – immigrants find that America remains a land of economic opportunity.

WHY FAMILY BACKGROUND MATTERS

There is no country or period of history in which family background has not played a significant role in who gets ahead and who falls behind. Why is this relationship so strong?

Three possible answers have been suggested. One is biology: the children of successful parents have a genetic advantage in traits ranging from intelligence to height to health. This view is rooted in the work of behavioral geneticists, who have studied the extent to which twins or siblings reared apart still share many of the same traits.

A second possibility is that more-successful parents have the material resources to give

their children everything from good schools and safe neighborhoods to good medical care and the downpayment for a first house. Although there is a strong correlation between parental income and children’s success, economists have had difficulty separating the impact of material resources from that of culture and genes. However, the research does suggest that once a family has enough money to secure the basic necessities, more income alone has only a modest impact on children’s prospects.

A third possibility is that early home environment and parenting practices play a large role in economic outcomes. The inference follows from data showing very large differences by socioeconomic status in the extent to which parents talk to their children, read to their children, and encourage their development in other ways. A striking example is the fact that the vocabulary of a 5-year old from a professional family, on average, exceeds the vocabulary of an adult mother on welfare. More generally, research shows that, other circumstances equal, children generally fare better when they are raised by well-educated parents in two-parent families, and when families are not suffering from economic misfortune or psychological stress.

Most likely all of these factors – genes, material resources and home environment – play some role in the transmission of economic status. But what about the ability of extra-family institutions – schools in particular – to compensate for these family-based differences?

WHERE EDUCATION FITS

Education is the quintessential means of breaking the link between family background and a child’s prospects. But it often falls short, perpetuating economic status rather than compensating for disadvantages. The reasons are three-fold. First, the kindergarten to 12th

grade education system is simply not very strong; American students across the socioeconomic range perform poorly compared to students in other affluent countries. Colleges can repair the damage with remedial classes – but only for students who get that far.

Second, because K-12 education is financed largely at the state and local level, the funds devoted to it are closely linked to the

State-financed preschools are now proliferating, typically serving 4-year-old children – though some states also enroll 3-year-olds. About two-thirds of children are served in public schools, but most states also finance private pre-kindergarten programs as well as child-care agencies and Head Start centers. Some programs are exclusively for low-income children, while others are open to all.

The highest priority in education should be preparing very young children from poor families for formal schooling. The most important determinants of success appear to be early intervention and high program quality.

wealth of the locality. For this (and other) reasons, poor children tend to go to lower-quality schools than their middle- and upper-income peers do. Finally, access to a quality education at both the preschool and college level continues to depend heavily on family resources.

Preschool Education. Skills beget skills, and each stage of education builds on capacities acquired earlier. Hence, the highest priority in education should be preparing very young children from poor families for formal schooling. Some intensive high-quality early-education programs have generated impressive long-term results, as measured by rates of high school graduation and college attendance.

But the catch here is the issue of quality: success depends on well-paid teachers, a high ratio of faculty to students, and (arguably) participation from a very early age. The quality of Head Start and other early-care arrangements used by lower-income families is not as high as either the most successful demonstration programs or some of the programs available to more-affluent parents.

These more-universal programs are expensive because they cover the costs of children whose parents would have sent them to preschool even without state financing. But they have obvious advantages in garnering public support. Still, the most important determinants of success appear to be early intervention and high program quality. Recent evaluations of state-sponsored preschools are showing very promising results, though none are as dramatic as those of the best model programs.

Elementary and Secondary Education. In contrast to most other countries, paying for education is largely a state and local responsibility in the United States. Spending varies widely. New York, for example, allocated \$11,000 per pupil in the 1999-2000 year, while Mississippi spent just \$5,400.

Although more money hardly guarantees more learning, it does allow schools to hire more-qualified teachers and to reduce class size – two concrete measures that have been shown to improve educational outcomes. And since poor states generally spend less than

ECONOMIC MOBILITY

richer ones, the disparities tend to reduce economic mobility.

The federal No Child Left Behind law requires states to establish standards, test what children learn, and make steady progress toward achieving the standards. Although one goal is to reduce the test-score gap between children from more- and less-advantaged families, little has been accomplished on this front so far.

One likely reason is that the standards are set at the state and not the national level. Experts, notably Diane Ravitch of New York University, have documented huge differences in math and reading proficiency as measured on state exams and proficiency measured on the National Assessment of Educational Progress – the gold standard for such tests. States are under pressure to show progress, and the easiest way to do that is to set the bar low. But not requiring schools to meet higher standards is, in the long run, a problematic strategy if the goal is to promote economic mobility.

Research consistently shows that teaching quality is critical in determining outcomes. But good teachers are in short supply. Worse, good teachers are hard to identify before they enter the classroom. One alternative to traditional licensing requirements is to open the profession to a wider range of prospective teachers and to judge them on the learning gains they produce in students once they are in the classroom.

The major public program designed to increase educational opportunities for children from less-advantaged families is Title I of the Elementary and Secondary Education Act. But Title I money has not been well targeted to the children needing the most help or to the programs with a documented record of success. Indeed, it has become little more than

an extra source of funds for hard-pressed school districts. It would be more effective to require states and local school districts to spend the money on carefully evaluated, successful programs of basic instruction.

Another much-discussed, politically charged approach to improving education in general and the opportunities of low-income children in particular would be to increase choice (and competition) by offering school vouchers or expanding charter schools. But the evidence on the impact of choice is mixed; it would be premature to call for wholesale reform along these lines.

Higher Education. Access to college has become ever more critical to economic mobility. Yet disparities in college attendance by socioeconomic status are large and growing. Some 82 percent of high school graduates from families in the highest income quartile enroll in college, compared to only 54 percent of those from the lowest income quartile. In the nation's top-ranking 25 percent of colleges, 74 percent of students are from the highest socioeconomic quartile, while only 3 percent are from the lowest quartile.

The quality and quantity gaps are, of course, related to differences in preparation. But better preparation alone would not eliminate the disparities unless more financial aid were available to less-affluent families. Government assistance has not kept pace with rising tuition, especially at private four-year colleges. And even at public institutions, demands on state budgets are beginning to crowd out spending on higher education.

Two changes in higher-education policy should be considered. One is an increase in federal means-tested Pell grants, which research suggests can increase college enrollment among low-income youth. The other is a simplification of the process for applying for aid, along the lines suggested by Susan



Dynarski of Harvard in the third quarter 2008 issue of the *Milken Institute Review*.

MAKING THE BEST OF IT

A host of factors – technological change, globalization, immigration, tax cuts, waning union power, the rise of “winner-take-all” salary determination in industries ranging from entertainment to law – have all helped to increase inequality in income and wealth. But the public has little stomach for reversing these trends. And in any case, the government’s capacity to alter market outcomes without slowing economic growth is limited.

Americans seem to care more about fairness – equality of opportunity – than about equality of outcomes. But America doesn’t do particularly well on this score: class-ridden “old Europe” does better on critical measures of economic mobility. Boosting mobility, then, ought to be a high priority.

There’s no magic bullet here – indeed, we don’t really understand the myriad cultural, technological and economic forces that influence mobility. But there is good reason to be-

lieve that education is one key. And, in any event, we know that the payoff for better education is high by other measures, notably in raising labor productivity and buttressing public tolerance of diversity and public support for democratic institutions.

That said, improving education is no easy matter – if it were, the job would have already been done. But we think that the biggest bang for a buck is in better-targeted pre-kindergarten intervention. K-12 education would also benefit from a focus on national standards and more-equal funding of school districts, as well as a more-pragmatic approach to rewarding teachers who deliver better results. By the same token, we know that while there are many reasons low-income students are less likely to go to college – and less likely to get the best education if they do go – putting more scholarship money into their hands would make a big difference.

Americans disagree about so much. It would be a pity if policymakers fumbled the opportunity to invest in the one arena in which there is a near-consensus. **M**