ECONOMICS

Documenting decline in U.S. economic mobility

Median incomes stagnate as inequality increases

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Economists and other social scientists have long studied intergenerational income mobility, but consistent data linking adult incomes of children and their parents at similar ages over many generations have been unavailable, which thwarted attempts to study long-term trends. Chetty et al.’s study in this issue of Science (1) is therefore a tour de force for producing historically comparable estimates of absolute income mobility—the fraction of individuals in a birth cohort who earn, at age 30, more than their parents did at roughly the same age—over the post–World War II period. Their striking conclusion is that there has been a large decline in the rate of upward mobility across successive U.S. birth cohorts, from 92% of children born in 1940 earning more than their parents to only half of children born in 1984. Although Chetty et al. find that the slowdown in Gross Domestic Product growth has played a role, they conclude that faster economic growth is insufficient to restore mobility to its immediate postwar level in light of increased income inequality—a critical insight for policy and research.

Chetty et al. combine parent-child linked income information derived from Internal Revenue Service administrative tax data for recent cohorts with cross-sectional income data on representative samples of parents and children from Census Bureau household surveys for earlier cohorts, adjusting for consumer-price inflation. Their key methodological innovation is to combine information on the marginal income distributions of children and parents with plausible, empirically based assumptions about the stability of the joint distribution of parents’ and children’s income ranks (the copula) to generate estimates of intergenerational mobility even in years when longitudinal linked parent-child income data are unavailable. Their data and approach provide the most compelling evidence to date that U.S. intergenerational absolute income mobility has declined substantially.

Although this dramatic decline is startling, the results fit well with what has previously been established regarding rising U.S. income inequality and stagnating real median earnings. The chart below makes this clear by displaying Chetty et al’s estimate of absolute mobility and the difference between real median income of children and parents, both around age 30, for the 1940 to 1984 birth cohorts. The two series essentially move in parallel [correlation coefficient (r) = 0.995 (2)]. A $10,000 decline in real median income of the children’s generation relative to their parents’ generation is associated with a 9.3 percentage point decline in absolute income mobility (3). Our inference from the chart is that the well-documented stagnant growth in U.S. real median household income beginning in the mid-1970s is central to the decline in absolute mobility. As the change in median income reflects changes in economic growth and inequality (the median is resilient to increased skewness in the right-tail of the distribution), it makes intuitive sense that median income growth across generations closely tracks income mobility, if the copula of parent and child income ranks stays stable.

An alternative concept of mobility is to change the reference group from one’s own parents to the median parent in the parent’s generation. Chetty et al. show that the share of children earning more than the median parent declined from 92% in the 1940 birth cohort to 45% in the 1984 cohort (4). The two mobility measures (earning more than one’s own parent versus the median parent) move almost identically across cohorts (r = 0.998).

STAGNANT WAGES, POLICY OPTIONS

Why have real median earnings stagnated or fallen? One important factor involves slower growth of human capital investment, especially for children from low-income families. Growth of educational attainment has slowed across generations (7). Children born in the early 1940s had slightly over two more years of schooling, on average, at age 30 than individuals in their parents’ generation, as compared with only 0.75 more years of schooling for children born in the early 1980s (8, 9). The declining educational advantage across generations has slowed income growth, and slower growth of the supply of more educated workers has been a key factor in rising wage inequality, the major factor in the decline in mobility documented by Chetty et al. (7, 10). The United States has gone from leading the world in educational attainment for those born in the mid-20th century to being in the middle of the pack for rich nations for those born since the 1970s (7). The rise in college completion rates in recent decades has been concentrated among families in the top half of the income distribution (11), making it difficult for children from low-income families to restore mobility to its immediate postwar level in light of increased income inequality—a critical insight for policy and research.
families to surpass their parents’ economic performance. Economic returns remain high for increased access to public colleges for less-advantaged students (12).

Labor demand shifts against middle-skill jobs in manufacturing, management, and clerical work—driven by information technology and globalization—have polarized the U.S. labor market and contributed to earnings declines for non–college-educated workers (13, 14). Increased domestic outsourcing and use of independent contractors have eroded traditional pathways of upward mobility through stable jobs with high-wage employers, as has the decline of unions (15, 16). Rising U.S. income inequality has been associated with rising residential segregation, reinforcing reduced economic mobility, given evidence of neighborhood effects on child long-run economic outcomes (17, 18). Declining U.S. geographic mobility contributes to reduced income mobility, as does the decline of connectedness in two-parent families (19). Mobility and child-parent income gap, linked over time

The share of children in a cohort earning more than the median parent can be computed from table S7 (J) by using the rank in the child income distribution required to earn more than the 50th percentile of the parental income distribution (equation 1 in SM). The $44,000 decline in the child-parent difference in median real income from the 1946 to the 1984 cohort predicts a 41% drop in absolute mobility, close to the actual decline documented by Chetty et al. (21).

Growing U.S. economic residential segregation has increased the concentration of low-income families in high-poverty neighborhoods, which motivates attempts at place-based policies, such as Empowerment Zones (22). Evidence of long-run improvements in educational attainment, earnings, and tax payments for children who move from high-poverty to low-poverty areas at young ages suggests the value of expanding access to housing vouchers and assistance for low-income families with young children to move to higher-opportunity neighborhoods (17).

It is important for researchers to document impacts of the changing U.S. income distribution on societal well-being and economic opportunity, as Chetty et al. do in their excellent study. It is also imperative for researchers to provide scientific evidence on interventions that are likely to raise living standards and enhance economic mobility.

REFERENCES AND NOTES
2. The cohort series of absolute mobility moves equally closely with the proportional gap (log ratio) of child-to-parent median real incomes (r = 0.996) (see the supplementary materials (SM)). This scale-free measure could be a useful proxy for mobility across time periods and groups with different levels of income.
3. Result of bivariate ordinary least squares regression (see SM). The $44,000 decline in the child-parent difference in median real income from the 1946 to the 1984 cohort predicts a 41% drop in absolute mobility, close to the actual decline documented by Chetty et al.
4. Progressive tax and transfer policies have potential to improve living standards and mobility. The Earned Income Tax Credit (EITC), for example, supplements after-tax disposable income for low-income families, and increased generosity of the EITC overall, particularly for the neglected group of low-income workers without dependent children, could help make work pay for young workers.

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